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A Framework for Performance Evaluation of Channel Partners in Distribution Relationships

Introduction

In the management literature, organizational performance is an important construct which is defined as the degree of success in achieving organization's objectives (Gaski and Nevin, 1985; Olson et al., 2005). Highlighting the importance of the performance construct, Furrer et al., (2008) found that one third of the studies in the strategy management literature (last twenty six years) are centered on the performance construct. They also emphasized that accurate evaluation of performance is a crucial step towards enhancing and effectively managing organizational performance.

This research focuses on the performance evaluation of channel partners in distribution relationships. A channel partner is an independent firm that partners with a manufacturer or supplier to market and sell the manufacturer's products or services. Channel partners may be distributors, vendors, retailers, agents, value-added resellers (VARs) and other such organizations. Appropriate evaluation of channel partners' performance is critical for maintaining successful distribution relationships, for three primary reasons:

1) *Control and Communication*: the performance metrics that are used for evaluating channel partners, point towards the performance dimensions that are most valued by the focal firm.

When used effectively, performance metrics can act as a successful control tool that can guide channel partners' resource (and efforts) allocation towards attainment of the firm's objectives (Waal and Kourtit, 2013; Celly and Frazier, 1996). Furthermore, suitable performance metrics can be used as an effective communication tool that the firm can use to reduce channel

partners' perceived 'goal ambiguity', thereby enhancing overall channel performance (Chun and Rainey, 2005).

2) *Improvement*: An appropriate performance evaluation system will also help the firms in identifying the channel partners that truly contribute towards their overall success. This can help in building a strong and sustainable network of channel partners that can ensure long-term success of the firm (Melnyk et al., 2004), and

(3) *Motivation*: appropriate evaluation of channel partners' performance can assist in equitable distribution of rewards, thereby enhancing the perceived 'distributive justice' in the distribution channel relationship (Deutsch, 1975; Forsyth, 2014). This will provide a positive inducement to the performing channel partners and keep them positively motivated for future performance (Cohen-Charash and Spector, 2001; Karriker and Williams, 2009).

Firms can evaluate the channel partners' performance through various metrics, covering multiple performance dimensions (Mouchamps, 2014). It is argued that the choice of appropriate performance metrics for evaluating channel partners is central to maintaining successful distribution relationships (Waal and Kourtit, 2013; Kumar et al., 1992). Although distribution literature acknowledges that channel partner's performance is a multidimensional construct (Richard et. al., 2008; Matsuno and Mentzer, 2000), it provides no clear framework or guidelines that can indicate what those key performance dimensions are. For example, the channel partner's performance has been evaluated through multiple measures ranging from behavioral measures, such as esprit de corps, cooperation, and commitment (Shoham et al., 2008) to operations measures, such as inventory control and inventory cost (Chang, 2009), and accounting and financial measures, such as ROI, percentage growth, market share, sales revenue, and profit margins (Chang and Wang, 2008; Lumpkin and Dess, 1996). Furthermore, the channel partner's performance has been classified into various types, such as strategic,

selling and economic performance (Bello and Gilliland, 1997), tactical performance (Lubieniecki and Desrocher, 2003), subjective and objective performance (Ambler and Kokkinaki, 1997).

Although previous research provides valuable insights into various metrics for evaluating the channel partner's performance it fails to provide a framework to assist in a structured analysis of the channel partner's performance. The literature proposes a large number of measures for performance evaluation of channel partners that can not only overwhelm managers (Teeratansirikool et al., 2013) but also paralyses their choice while selecting appropriate performance measures (Clark, 1999; Melnyk et al., 2004). Consequently, the performance measures that are more 'available' to the channel managers (for example profitability, sales volume, sales growth, ROI, market share, etc.) often get over emphasized in the performance evaluation of channel partners (Heide and John, 1988; Spriggs, 1994). For example, sales volume has been traditionally considered as the single most important factor in evaluating and monitoring channel partners' performance (Anderson and Oliver, 1987) to the neglect of other relevant dimensions of performance, such as customer relationship efforts, managerial resources and skills, and cooperation and compliance offered by channel partners (Penna, 2011). Financial performance measures are commonly used because perhaps these measures are also simple to understand and easy to use (Anderson and Oliver, 1987). Performance evaluation of channel partner through "financial output measures" alone is not only simplistic but also incomplete (Cooper and Slagmulder, 2004; Jaworski, 1988) that can lead to lopsided performance of channel partners on the emphasized measures at the cost of performance on other dimensions which may be essential for realizing firms' varying business objectives and strategy (Teeratansirikool et al., 2013; Langfield-Smith, 2007).

In our review of the literature, we found that the research on appropriate performance evaluation of channel partners is rather limited (Choong, 2014). As a primary research gap, a conceptual or theoretical framework that can indicate relevant dimensions of channel partners' performance is missing in the literature. Therefore, the key purpose of this article is to contribute towards a better understanding of performance evaluation of channel partners in distribution relationships. In this research, we contribute to performance management literature by, (1) developing a conceptual framework for performance evaluation of channel partners based on theoretical support from salesforce control and distribution channel literature, (2) identifying and describing key dimensions of downstream channel partner's performance, (3) developing a measurement scale for measuring the identified dimensions of channel partner's performance. The proposed framework provides a suitable means for operationalizing future empirical research in the area and generate deeper insights. The valid and reliable measures of performance dimensions further contribute to the legitimacy and development of the research in performance evaluation of downstream channel partners and other external partners in general.

We organize the remainder of this article as follows: In the next section, we review the literature on organizational performance and conceptualize the construct of channel partners' performance. Next, we review the literature on control systems and develop a conceptual framework for performance evaluation of channel partners. We identify and describe three primary dimensions, i.e. output, activity, and capability dimensions of channel partner's performance. The corresponding scale for the three dimensions is developed next. The evidence for the dimensionality, reliability and validity of the proposed scale is presented in the subsequent section. We conclude this article with a discussion on the limitations and the theoretical and practical implications of the proposed framework.

Conceptualization of Channel Partners' Performance

Performance is an important construct in the management literature (Boulding and Staelin, 1995; Furrer et al., 2008) that helps in measuring organizational progress and achieving their business objectives (Mouchamps, 2014). Previous research in the management literature adopted distinct conceptual approaches to performance evaluation. However, the basis for the choice of performance measures is often defined ambiguously (Boulding and Staelin, 1995; Styles, 1998). For example, literature in organization theory posited *effectiveness* (degree to which the desired organizational goals are achieved), *efficiency* (the ratio of organizational resource inputs consumed to produce goal outcomes) and *adaptability* (how the business responds to the changing conditions and opportunities in the environment) as three dimensions of performance (Vorhies and Morgan, 2003; Walker and Ruekert, 1987). However, the guidelines on appropriate use of these dimensions are unclear. For example, it is indicated that these dimensions may not converge and firms may need to make trade-off decisions in emphasizing individual dimensions in performance evaluation (Morgan et al., 2002).

Supply chain management literature proposes discrete choice analysis (DCA) to evaluate suppliers and develop long-term relationships with them. DCA is used to assess the relative weights that a firm must place on various measures of suppliers' performance, i.e. price, quality, delivery, flexibility, and other value-added features while evaluating them (Kumar, Clemens, and Keller, 2014). Although the DCA model indicates various performance measures, it fails to identify the broad dimensions of a supplier's overall evaluation.

The organizational stakeholder model in strategy literature suggests that channel partners would exist if they can create enough value and acceptable outcomes for the primary stakeholder, i.e. the focal firm (Sirgy, 2002). The firm would evaluate the performance of its channel partners based on how well they help the firm in meeting its specific goals. However, the appropriateness of performance measures will depend on whether the firm is focused on short or long term goals (Walker and Ruekert, 1987). Appropriateness of performance measures may also depend on a firm's changing goals across time and different markets that a firm may target (Kaplan and Norton, 1992; Melnyk et al., 2004). Unfortunately, the stakeholder model does not account for varying goals of the stakeholders in performance evaluation and, therefore, is constrained (Atkinson et. al., 1997).

Broadly, three conceptual approaches are identified in the management literature for defining performance (1) 'process approach', that defines performance in terms of the behavior of organizational participants (Joshi, 2009; Kabadayi et al. 2007), (2) 'systems resource approach', that defines performance in terms of a firm's ability to secure scarce and valued resources (Yuchtman and Seashore, 1967; Kroeger and Weber, 2014; Amirkhanyan et al., 2014) and, (3) 'goal approach', that defines performance in terms of the degree to which an organization achieves its goals (Etzioni, 1964; Jung, 2011). The 'goal approach' posits that firms pursue ultimate and identifiable goals, and the extent of "success" can be defined by the proximity of achievement of those goals (Etzioni, 1964).

In the context of distribution channels, firms develop and maintain channel relationships in order to achieve their organizational goals. Therefore, adopting the 'goal approach' a channel partner's performance can be evaluated by the degree to which a channel relationship contributes towards fulfillment of the firm's organizational goals (Gaski and Nevin, 1985).

Alternatively, channel partners' performance "should be viewed in the context of the firm's objectives" (Olson et al., 2005, p.55). For example, Chang and Wang (2008) conceptualized channel performance as the 'net result' of the interactions between the firm and the channel partner, i.e. the net contributions made by the channel partners towards achievement of the firm's objectives.

Measurement of Channel partner's Performance

Appropriate evaluation of channel partners' performance is critical for successful distribution channel relationships (Celly and Frazier, 1996; Chang and Wang, 2008). The choice of performance metrics signals the relative weight that the firm places on different dimensions of the channel partner's performance (Celly and Frazier, 1996). In doing so, firms can achieve an overall control on their channel partners' activities and direct them to achieve the firm's overall goals (Snell, 1992). This is consistent with agency theory, which suggests that the 'principal' uses the performance metrics to 'tell the agent what to do' (Baker, 1992).

Furthermore, the performance metrics can help firms in identifying and rewarding equitably the contributing channel partners so that it can motivate their future performance and help the firm in maintaining successful channel relationships. However, in order to use effectively the performance evaluation process for developing successful channel relationships and steering the channel partner's efforts towards the achievement of its goals and objectives, a firm must have a clear understanding of the broad dimensions of its channel partners' performance.

Insert Table – 1 about here

Although previous studies provide a large number of performance metrics for evaluating channel partners' (Table-1), there is no clarity on the underlying dimensions of channel partner's performance. While these studies provide valuable insights based on varied theoretical perspectives and organizational contexts, they also result in an unnecessary proliferation of performance metrics. This is managerially problematic and constrains heavily the managerial choice of suitable performance metrics for evaluating channel partners (Clark, 1999). An analysis of the previous studies indicates the following limitations: Firstly, the performance metrics used in many of the earlier channel studies are restricted narrowly to their specific research context which limits their applicability to other channel contexts (Boulding and Staelin, 1995; Styles, 1998). Secondly, performance evaluation in most of these channel studies was based on an observational or a measurement level rather than on a theoretical level (Kumar et al., 1992). This indicates that the choice of performance measures is primarily driven by the 'availability' of data (Boulding and Staelin, 1995; Styles, 1998) rather than any theoretical underpinnings (Spriggs, 1994).

Insert Table – 2 about here

As a result, more 'observable' financial performance measures (for examples, profitability, sales volume, sales growth, ROI, market share, etc.) are generally emphasized in performance evaluations of channel partners (Heide and John, 1988; Spriggs, 1994) in spite of being touted as 'incomplete' in performance evaluation (Jaworski, 1988). Ouchi (1979, p. 839) asserted that "there is no accounting measurement which fully captures the underlying performance ... since many of the dimensions of performance defy measurement". Financial performance measures are commonly used in distribution channel studies, perhaps because these measures are simple to understand and easily available (Anderson and Oliver, 1987).

In the absence of a conceptual framework for evaluation of channel partners' performance, managers often rely almost exclusively on the most easily available performance measures, i.e. financial measures (such as profit, sales, ROI) while neglecting other relevant dimensions of performance, such as dealer cooperation, information sharing, initiatives taken, promotional effort, dealer loyalty etc. This leads to an inaccurate and incomplete performance evaluation, wherein a specific dimension of performance (generally, financial performance) is overemphasized and is presumed to be the only dimension for channel partner's performance evaluation. Evaluation of performance based on limited dimensions while failing to recognize other relevant dimensions is a serious drawback (Kumar et al., 1992). Therefore, it is argued that there is a pressing need for a comprehensive framework for performance measures with better reliability (Clark, 1999; Mouchamps, 2014).

Spriggs (1994, p. 328) states that "literature lacks a comprehensive understanding of the dealer performance construct as well as valid scales for performance measurement". Unfortunately, a conceptual framework that can organize various performance measures under meaningful categories is missing in the performance management literature (Melnyk et al., 2004). Amongst the few notable studies that target performance evaluation, Clark (1999) highlighted three broad trends in marketing performance measures, i.e. 1) movement from financial to non-financial output performance measures, 2) expansion from measuring only outputs to measuring inputs as well for performance evaluation, and 3) the evolution from one-dimensional to multidimensional measures of performance. Melnyk et al., (2004) stressed the importance and the need for more research on performance metrics with a view to develop robust frameworks for performance measurement to deal with the 'metrics maze'.

To address this gap in performance measurement literature, we focus this research on developing a conceptual framework for performance evaluation of channel partners in distribution channel relationships. We discuss various dimensions of the channel partners' performance and propose a three-dimensional framework for their performance evaluation.

Dimensions of Channel Partners' Performance

The construct of performance is fairly rich and complex to be completely captured by a single item or limited domains of performance measures (Richard et. al., 2008, Matsuno and Mentzer, 2000, Bello and Gilliland, 1997). Clark (1999, p. 720) asserted that “a multidimensional model of performance is likely to be more "true" in that it will capture multiple facets of performance than any single dimension can”. Limiting the evaluation of performance to outcomes only or to a single item or measure, would fail to capture many important facets of performance (Madsen, 1987). Acceptance of the ‘Balanced Score Card’ (Kaplan and Norton, 1992) and the ‘Performance Prism’ (Neely, 2004) in the management literature further indicates the multidimensionality of the performance construct.

Multidimensionality of the performance construct presents the challenge of choosing the most appropriate set of metrics to best capture performance. Unfortunately, there is little consensus in performance literature on “which dimensions of success to include and how to set about measuring these dimensions” (Hart, 1993, p. 24).

We draw on the literature in management control systems to identify relevant dimensions of channel partners' performance and to develop a conceptual framework for performance evaluation in distribution channel relationships (Anderson and Oliver, 1987; Bergen et al., 1992; Eisenhardt, 1989). Control systems are fundamental to intra-organizational coordination

efforts (Bello and Gilliland, 1997; Celly and Frazier, 1996). Several typologies for organizational control systems are proposed in the management literature, such as market, bureaucracy and clan (Ouchi, 1979), formal (i.e. input, process and output) and informal (self, social and cultural) controls (Jaworski, 1988), high-low controls and bureaucratic-clan controls (Jaworski et al., 1993), output controls, process controls and flexibility (Bello and Gilliland 1997), output, activity and capability controls (Challagalla and Shervani, 1996) (see table-3).

Insert Table – 3 about here

Most control systems have two major dimensions to them, i.e. (1) informational dimension (i.e. monitoring, goal setting and feedback) and (2) reinforcement dimension (i.e. performance evaluation, contingent administering of rewards and punishments) (Challagalla and Shervani, 1996). Although the two dimensions are interrelated, they differ in terms of the timing of intervention. Informational dimensions highlight ex-ante suggestions and guidelines that firms offer to influence actions and behaviors. Conversely, reinforcement dimension refers to ex-post evaluation and assessment of compliance with pre-established measures in order to achieve management control. The ex-post reinforcement dimension of control systems is more relevant for the current study, as it is related to performance evaluation of channel partners.

Simply providing information may not induce channel partners to align their actions and behavior with the firm (Challagalla and Shervani, 1996) until it is reinforced with the firm's authority to administer rewards and punishments. Formal authority in channel relationships varies on a continuum from the highest in franchisee and administered distribution channels to

the lowest in independent distributors' network. Although formal authority over independent channel partners may be limited (Celly and Frazier, 1996), channel managers can indirectly exercise 'reinforcement control' through measures such as varying the share of allotted business, selective stocking of products, sharing critical business information, terminating the dealership, and emphasizing specific performance measures. Reinforcement is an important dimension of control and in this study we focus on ex-post performance evaluation and subsequent administering of reward and punishment to channel partners as an effective tool to achieve management control in channel relationships (Tatikonda and Tatikonda, 1998).

These control systems have been applied in widely distinct organizational contexts. For example, controlling sales force efforts (Anderson and Oliver, 1987), study of the marketing personnel behaviors (Jaworski, 1988; Jaworski and MacInnis, 1989; Jaworski et al., 1993) and sales force management (Challagalla and Shervani, 1996; Oliver and Anderson, 1994; Cravens et al., 1993; Anderson and Oliver, 1987). However, a few studies that use it in distribution channels are, managing distribution channels (Celly and Frazier, 1996), and international distribution channels (Bello and Gilliland, 1997). A study by Merchant (1998) in the finance literature identified three types of management control systems (MCSs), i.e. Action Controls, Result Controls and Personnel Control.

At the theoretical level, these apparently distinct typologies of control systems (table-3) condense into three broad categories of controls, i.e. (1) *output controls* based on measurement of output, (2) *behavioral/process controls* based on personal surveillance and (3) *input/capability control* based on the skills and resources (Challagalla and Shervani, 1996; Joshi, 2009; Ouchi and Maguire, 1975; etc.). Drawing an analogy from the control literature we argue that the crucial dimensions of channel partners' performance are (1) 'objective'

results and outputs generated by the channel partners, (2) the activities performed by the channel partners and their adherence to the processes laid by the firm, and (3) the capabilities of the channel partners in terms of their skills, expertise and resources.

Performance metrics should not only be comprehensive but must also be simple to understand and use. Schroeder et al., (1985) argued that performance measures should be understandable by all concerned parties and should offer a minimum opportunity for manipulation. Consistent with this perspective, we propose the three-dimensional framework for performance evaluation of channel partners in distribution relationships. The proposed framework integrates three key dimensions of performance under a single framework and provides a conceptual structure in contrast to the loosely held performance measures in the distribution channel literature.

The Three-Dimensional Framework

Based on the theoretical perspective found in the control literature (Anderson and Oliver, 1987; Challagalla and Shervani, 1996; Joshi, 2009; Ouchi and Maguire, 1975) and prior channel research (Bello and Gilliland, 1997; Celly and Frazier, 1996), we propose the *Three-Dimensional Framework* for channel partners' performance evaluation (Figure-1). We identified three key dimensions of channel partners' performance in channel relationships, i.e. (1) *Output performance*, the outputs generated by the channel partners in the form of financial results and other objective measures, (2) *Activity performance*, the level of compliance with the processes in performing the required activities and (3) *Capability performance*, the resources and capabilities of the channel partners that facilitate overall firm performance.

Insert Figure – 1 about here

The proposed framework brings together three distinct dimensions of channel partners' performance under a conceptual framework. This framework can provide guidelines for selecting the relevant performance measures for evaluating channel partners. Furthermore, the framework also guards against the managerial sub-optimization that can result due to the neglect of certain dimensions of performance. It highlights the important dimensions of channel partners' performance in distribution relationships and draws managerial attention to them.

Output measures of performance. The output performance of channel partners is evaluated in terms of the 'objective' results or outputs generated by them. Usually, output measures are financially oriented (Jaworski, 1988; Merchant, 1985). The literature is replete with studies that evaluate channel performance by financial output measures, such as profit contribution, sales generated, revenue, cash flow, return on assets, and ROI. (Gaski and Nevin, 1985; Lusch and Serpkenci, 1990; etc). Financial performance measures are widely used, perhaps because these measures are relatively more 'objective' and 'visible' compared with other measures of performance (Langfield-Smith, 1997).

Although financial output measures are important indicators of performance (Kaplan and Norton, 1992) these measures are found to be limited in scope and application (Jaworski, 1988; Kaplan and Norton, 1992). It is widely accepted that organizational success is not confined to financial performance alone: "while financial return is one of the easily quantifiable industrial performance yardsticks, it is far from the only important one" (Maidique and Zirger, 1985, p. 305). Critics of financial measures state that financial performance is a result of resource and capabilities of firms and financial success should be

the logical consequence of doing the fundamentals well (Kaplan and Norton, 1992). Financial measures have been criticized for their several inadequacies, for example, their backward-looking focus, and their inability to reflect contemporary value-creating actions (Kaplan and Norton, 1992), their short-term focus (Aaker, 1988), and simply being ‘myopic’ (Valos and Vocino, 2006, p.19).

A strong need for performance measures beyond financial output measures has been admitted in distribution channel literature (Kumar et al., 1992; Langfield-Smith, 1997). For example, hinting at the need for ‘capacity measures of performance’ Chakravarthy (1986, p.444) argued that, "accounting-measure of performance record only the history of a firm. Monitoring a firm's strategy requires measures that can also capture its potential for performance in the future". It is inadequate to use only one-dimensional financial performance measure for evaluating channel partners and there is a need to consider other, ‘less objective’ dimensions of performance as well (Maidique and Zirger, 1985).

Activity measures of performance. The activity performance of channel partners is intended to include the tenets of process controls (Grewal et. al. 2013) or behavioral controls (Celly and Frazier 1996) used in earlier studies in distribution relationships. Activity performance of channel partners is evaluated based on their activities in channel relationships and their degree of compliance with firms’ operating procedures, rules and organizational policies (both, formal and informal). Activity performance can be assessed based on the attitude and activities of channel partners in channel relationship, such as the degree of cooperation offered, adaptability and flexibility of channel partners, initiatives undertaken, and self-marketing efforts put in by the channel partners. Additionally, the ‘softer’ aspects of channel

partners' behavior and their attitude towards the channel relationship can also be used for evaluating their overall activity performance.

Channel partners must display certain behaviors and comply with certain processes for the overall success of the channel relationship. Snell (1992, p. 292) noted, "advocates of the behavioral perspective posit that different strategies require different behaviors." The relevance of the channel partners' activity performance in a channel relationship also depends on several contextual factors, such as the firm's strategy, organizational structure or the external task environment (Langfield-Smith, 2007). For example, behavior-based coordination efforts are found to be more effective under a highly uncertain environment (Celly and Frazier, 1996).

A major limitation of activity-based performance evaluation of channel partners is that it is an expensive endeavor that needs a high amount of resources for monitoring and information gathering (Bello and Gilliland, 1997). Nevertheless, an activity measure of performance is crucial for holistic evaluation of channel partners' performance.

Capability measures of performance. Capability measures of performance, i.e. the resources and skills of channel partners, capture their long-term commitment to the firm and their potential (or capability) to generate superior performance for the firm. Capability measures of channel partners' performance, such as the marketing assets of channel partners, their knowledge and experience of the product, the level of capital invested in the business, channel partner's access to skilled human resources and physical resources (like, store size and location), their inventory systems, the RSIs (relationship specific investments) made by the channel partners, etc. indicates towards the long-term performance-generating-potential of the

channel partner (Palmatier et al., 2007). The capability measures can indirectly support and facilitate channel partners in achieving superior overall performance through enabling higher performance on output as well as on activity performance dimensions (Joshi, 2009).

Most firms generally analyze the capabilities of prospective channel partners before inducting them into a new distribution relationship. However, the channel partners' changing capabilities are often not included in their subsequent performance evaluations, possibly because of difficulties in realizing the indirect and long-term consequences of channel partners' capabilities on the firms' overall performance. Furthermore, channel partners may be reluctant to invest resources in developing their capabilities due to under-appreciation by the firm and the associated uncertainty with the realized payoffs. By emphasizing capability measures in performance evaluation, firms can encourage channel partners to develop capabilities for superior long-term performance, rather than narrowly focusing on short-term results alone.

Scale Development: Performance Evaluation of Automobile Dealers in India

Based on the proposed three-dimensional framework, we developed a performance measurement scale for the channel partners (or dealers) in automobile distribution channels in India. One of the fundamental premises of this study is that 'performance measurement' can be used as a control mechanism in distribution relationships (Snell 1992) and for performance measurement to be meaningful it is essential that there is a flow of authority from the automobile supplier to the channel partners. The automobile industry has been selected for our study for several reasons.

Firstly, in the Indian automobile industry, an exclusive dealership is practiced. This presents a dyadic relationship context where the manufacturer or the automobile supplier is the channel leader and has the administrative authority to evaluate the dealer's performance on a periodic basis (Etgar 1978). Therefore, the channel partner's performance evaluation would be much more formal and structured in this setting. Additionally, performance evaluation of channel partners is streamlined in the Indian automobile industry with dedicated performance measurement departments. Controls are tighter and the automobile supplier firms are closely engaged with their channel partners.

Secondly, performance evaluation in distribution relationships is a resource intensive exercise (Celly and Frazier 1996). Most of the automobile firms in India are large and have the required resources and personnel to pursue a detailed performance measurement of channel partners on a regular basis. All participating automobile firms in this study are well established in the market with adequate resources to have dedicated departments for channel member's performance evaluation and management. Lastly, automobile companies in India operate through a nationwide network of dealers, who operate in widely diverse markets across the country. This research context is likely to yield high variability in the data and presents a promising context for developing a performance evaluation scale for downstream channel partners.

Furthermore, the automobile sector in India is one of the key sectors of the economy that has extensive backward and forward linkages with other key sectors of the economy. It contributes about 5% to India's industrial production and 4% to India's Gross Domestic Product (GDP). While Indian automobile companies are impacting markets worldwide, international automobile companies are eyeing India for their top line growth. The country

also remains a favored outsourcing hub for many automotive multinationals, not just for lower-cost manufacturing, but increasingly as a source of higher value innovation and R&D. With expanding population, favorable demographics (1.2 billion people; ~60% below 30 years of age), low vehicle penetration (15 for every 1000 people) and abundant availability of skilled talent, the automobile industry is slated to play an even larger role in the development of the Indian economy.

The performance measurement scale was developed following the three stage protocol for scale development (Slavec and Drnovsek, 2012), i.e. (1) operationalization of the three performance dimensions by identifying the appropriate items that purported to measure them; (2) checking the validity of the draft instrument through semi-structured interviews conducted with experienced channel managers in the relevant industry and academicians working in the field of distribution channel research, and incorporating necessary modifications in the draft based on feedbacks received; and (3) conducting formal pre-test of the modified draft instrument by administering it to a new set of channel managers working in the relevant industry. We followed this protocol in the development of the measurement scales for the dimensions of channel partners' performance i.e. output, activity and capability performance.

Insert Figure – 2 about here

Phase 1: Scale Item Generation

We surveyed the leads available in the distribution channel literature and literature in the supplier relationship context to generate an inventory of items used for performance evaluation of business partners in inter-firm relationships. We further added to the items list from discussions with the multiple channel managers to generate a final list of sixty

performance measures. Based on the generated items list, we framed the first draft of the questionnaire for the qualitative pre-testing with subject experts.

Phase 2: Qualitative Pre-Testing

A panel of eight experienced senior managers working in automobile distribution channels and five senior academicians from management schools were selected to participate in the interview as subject experts. The interviewees were selected through a convenience sampling procedure with selection criteria being minimum ten years of distribution experience for practitioners and minimum two publications in distribution relationships for academicians. All the selected senior managers had worked in automobile distribution channels for more than ten years with an average experience of 17 years. The selected academicians had worked extensively in distribution channels and have published their research in leading journals in the area. The interviews were unstructured and lasted about 40-60 minutes.

We begin the interviews by broadly explaining the three dimensions of channel partners' performance (*output, activity and capability*) to the interviewees. The rest of the interview was open ended and aimed at gathering additional information on the different items under each performance dimension. We conducted a qualitative pre-test of the measurement scale through these discussions, which indicated that the generated items are valid in the context of our research. Based on the feedbacks received in these interviews we revised the items for greater clarity and eliminated the items which were consistently found redundant by a majority of interviewees. Additionally, we created a few new items to capture the performance dimensions even more comprehensively. We incorporated the modifications in the performance items list based on the responses and formulated the final draft of the performance scale. Finally, we had a total of 27 scale items corresponding to the proposed

three dimensions (9 items each) of channel partner's performance. The scale items are listed in the appendix-1.

Phase 3: Quantitative Pre-Testing and Data Collection

We pre-tested the draft questionnaire with a sample of 28 automobile distribution managers, working across different parts of India. The pre-test respondents were randomly selected from the pool of respondents who were to be targeted for the main study. The targeted channel managers work closely with the channel partners and are directly responsible for their performance evaluation on a periodic basis. In order to ensure that the respondents have requisite experience in dealer performance evaluation, we selected only those managers who had a minimum five years' experience in dealer evaluation roles with a minimum of two years in the current organization.

The quantitative pre-test was conducted through an online questionnaire survey with prior intimation and consent of the respondents. Besides other relevant measures, the respondents were primarily asked to indicate their perception of the importance of each of the scale items for evaluating the performance of their channel partners. Perceptual measures were used in this research as these measures have been found to be reliable and valid (Mason 2009, Dess and Robinson, 1984) and are frequently used in distribution channel research (Kumar et al., 1992; Matsuno and Mentzer, 2000). Previous studies have found a strong correlation between perceptual measures and their objective counterparts (Dess and Robinson 1984). For example, Venkatraman and Ramanujam (1987, p.117-18) compared sales growth, net income growth, and profitability using perceptual assessments of senior managers and secondary data sources and concluded that "perceptual data . . . can be employed as acceptable operationalization of

BEP (Business Economic Performance)”. Therefore, we used perceptual measures for measuring channel partner’s performance in this research.

Subsequent to providing the demographic details the respondents were asked to suggest modifications to the questionnaire and the scale items, if any. Finally, the respondents were thanked for their participation before closing the survey. Based on the suggestions received in pre-testing, we modified the scale items and drafted the final questionnaire for the main study.

Following the same procedure used for pre-testing, we targeted the final questionnaire at 683 qualifying channel managers working in automobile distribution channels. The cover letter for the survey was mailed to the target respondents as part of the mail text along with the online link for the questionnaire. The cover letter explained the objective of the research, mentioned the expected information and detailed the section wise structure of the questionnaire and expected time needed to complete the survey. To elicit a higher response rate, we also stressed the confidentiality of the respondents and the pure academic purpose of the research.

A reminder was sent to the non-respondents after a gap of two weeks. A total of 252 usable responses were received over a period of four weeks with an overall response rate of 36.9 percent. No significant differences were found in the mean value of key measures across the early and late respondents, indicating that there was no non-response bias (Armstrong and Overton 1977) in the sample. The data thus obtained were used to test the reliability and validity of the measurement scale. The pre-test responses were not included in the final analysis and the pre-test respondents were not re-approached for the final study.

Scale Validation

The standard protocol for scale validation was followed, which involves checking for internal consistency and reliability of the scale along with checking for content, discriminant and convergent validity of the constructs (Slavec and Drnovsek, 2012). Consistent with the guidelines of Anderson and Gerbing (1988), we used a two-step approach to examine psychographic properties of the measures. Both EFA and CFA were used to allow a rigorous assessment of the dimensionality of the newly developed scale measures (Hair et. al., 2006).

In the first step, we performed an exploratory factor analysis (EFA) for the measurement scale as a test to evaluate the questionnaire items and assess whether the proposed constructs would be reflected in the items' factor loadings (Slavec and Drnovšek, 2012). As EFA permits cross-loadings, we selected the scale items with higher factor loadings ($>.3$) in a factor. The scale was modified and the factor structure was drawn based on the results of EFA.

Subsequently, we conducted CFA by setting a priori factor relationships in the model where cross-loadings were not permitted. The results of CFA were used to evaluate whether the hypothesized factor model fits the data or not and to further assess the unidimensionality and the construct validity of the scales (Netemeyer et al., 2003). CFA was used to examine the significance of the indicators and to further establish the dimensionality, reliability and validity of each performance scale. See table-4 for the results of EFA and CFA analyses.

Insert Table – 4 about here

Exploratory factor analysis (EFA). The measures of sampling adequacy, i.e. Kaiser-Meyer-Olkin (KMO = 0.851) and the Bartlett's test (sig. at $p = .00$) are within the acceptable range (Meyers et al., 2006) and indicate good factorability of the sample. EFA was conducted through principal factor analysis procedure followed by Varimax rotation (Hair et al., 1998). EFA provided four factors with Eigen value greater than one that account for 88.93 % of total variance. However, to ensure that true discriminant validity is established among the factors, we eliminated the items that correlated high with more than one factor and lacked theoretical support. Subsequently, Kaiser's criterion was used for deciding which factors to eliminate (Bryman and Cramer, 1994). The three factors that emerged, comprised a theoretically meaningful combination of the scale items and were purported to measure the three dimensions of performance. We obtained an 18-item measurement scale for the channel partners' performance, i.e. output, activity, and capability performance (6 items each). The retained scale items and their factor loadings are listed in table-4.

Confirmatory factor analysis (CFA). We conducted the confirmatory factor analysis (CFA) for assessing the overall fit of the measurement model with the sample data. All items with poor loadings were eliminated (Boles et al., 2000) and the CFA model was run to estimate the fit indexes. The fit indexes (chi-square = 60.96, with 24 degrees of freedom ($p = 0.00$); GFI=0.94, CFI=.945, PCFI=0.592, and RMSEA= 0.067) show that the model has good overall fit with the sample data. Although GFI and CFI are slightly less than the threshold value (0.95) it still is within the acceptable range and indicate an overall good fit with the data.

Reliability and Validity of the Scale

For the performance scales, we tested the three key dimensions of validity, i.e. (i) internal consistency and reliability, (ii) convergent validity, and (iii) discriminant validity. In the first step, we tested the reliability of the individual item of the scales. Convergent validity was measured using Fornell and Larcker's (1981) measure of internal consistency, which is found to be superior to Cronbach's Alpha as it uses the item loadings obtained within the nomological network.

Reliability of the scales. We used three separate tests to measure the reliability of the scales, i.e. the Cronbach's alpha, composite reliability (C.R.) and average variance extracted (AVE). The result of the tests affirms the high reliability of the scales. The values of Cronbach's alpha and composite reliability were above the critical value of 0.7 (Bagozzi et al., 1992; Hair et al., 2006; Nunnally, 1978). Additionally, the average variance extracted (AVE) level for each of the scales was also within the acceptable range of 0.5 (Fornell and Larcker, 1981), except for the capability scale. As the AVE is less than .50 for the capability performance scale (0.49) it indicates that the convergent validity of the scale is not sufficient. There could be the following reasons for insufficient convergent validity of the capability performance scale, i.e. (1) the items in capability performance scale do not correlate well with other items in the scale, and (2) variance due to measurement error is greater than the variance due to the capability scale.

As the capability scale is a 'first-time' model with newly developed measures, it is suggested that the AVE value within a few points of .50 may not be fatal (Ping, 2009). However, Ping (2009) further suggests that lower values of AVE can be accepted only if it does not produce major discriminant validity problems. As the results of our study indicate sufficient

discriminant validity (see table - 6) the AVE value of 0.49 for capability performance scale can be accepted as ‘provisional’ and in need of replication.

Overall, the results of these tests display high internal consistency among the items in the developed performance evaluation scales (Table-5).

Insert Table – 5 about here

Assessment of scales’ validity. The key aspect of validity that guided this research was construct validity, i.e. the degree to which a construct achieves empirical and theoretical meaning (Bagozzi, 1980; Hair et al., 2006). Content validity of all three performance scales were ensured through a rigorous evaluation process that involved multi-stage interviews with five experienced academicians and four senior practitioners. The interviews lasted for 30-45 minutes. All the interviews strongly affirmed the construct validity of the derived scales.

Convergent validity (i.e. the degree to which an item is correlated with other items that it is theoretically predicted to correlate with) must be supported by item reliability, construct reliability, and average variance extracted (Hair et al., 1998). Based on the sample, we found that the three performance dimensions scales exhibit convergent validity as the construct reliability of the scales was within the acceptable range (Anderson and Gerbing, 1988).

Discriminant validity (i.e. the degree to which the items of a scale do not correlate with other items of the scale that they theoretically should not be correlated with) was tested using the ‘shared variance’ test, wherein the average variance extracted (square root of the AVE value) of each construct should be larger than the variance it shares with other latent constructs to

establish constructs discriminant validity (Fornell and Larcker, 1981). As detailed in table-6, the square root AVE (diagonal values) is greater than all the off-diagonal elements in the corresponding rows and columns, which indicates that all the scales measure different constructs.

Insert Table – 6 about here

Overall, the data analysis results indicated that the measurement scales corresponding to the performance dimensions have high reliability and validity. The 18-item measurement scales thus obtained can be successfully used to measure the performance of channel partners operating in automobile distribution channels. As the scale items correspond to the fundamental principle of downstream channel partners' (distributors/dealers) performance, these items can be used to reflect performance of channel partners in multiple distribution contexts that are similar to the researched context, for example, distributors of white goods, electronics, etc.

Discussion

Earlier research has recognized the need for more 'inclusive' evaluation of the channel partners' performance (Clark, 1999; Kumar et al., 1992; Spriggs, 1994) but an integrated conceptual framework for evaluating channel partners' performance is found missing in the distribution channel literature. Drawing from the salesforce control literature and prior distribution channel literature we developed a three-dimensional framework for performance evaluation of downstream channel partners. The three dimensions of channel partners' performance as adopted from salesforce control literature are, *output performance*, the outputs generated by the channel partners in the form of financial results and other objective

measures, *activity performance*, the level of compliance with the processes and performing the required activities, and *capability performance*, the resources and capabilities of the channel partners that facilitate overall firm performance.

Additionally, based on the proposed framework, in this research we developed a multi-item measurement scale for performance evaluation of channel partners. Following the three stages protocol for scale development (Slavec and Drnovsek, 2012) we generated a list of 27 scale items to represent the three performance-dimensions. To test the reliability and validity of the scale and to further purify scale items, we collected field data from 252 channel managers working in automobile distribution channels in India. Based on the statistical tests, we derived an 18-items measurement scale to evaluate the proposed dimensions of channel partners' performance.

Appropriate evaluation of the channel partners' performance is critical for successful distribution channel relationships (Liu et al., 2014) for three major reasons, (1) performance measurement is one of the control tools which sends out signals to channel members (dealers/distributors) about what is being valued by the firm. This helps the channel partners to target their efforts and resources appropriately and contribute to building superior channel relationships (Celly and Frazier 1996), (2) a robust performance measurement system helps in identifying channel partners with superior performance. This can help the firm in building stronger and sustainable distribution relationships with the valued channel partners that can ensure long-term success of the firm, and (3) identifying high-performing channel partners can also help in equitable distribution of rewards to the deserving channel partners. This can give a positive inducement to the channel partners and strengthen distribution relationships further (Kumar, Stern and Achrol, 1992).

The three-dimensional framework proposed in this study has several implications for practice and future research on channel partners' performance in distribution relationships. The framework conceptualizes the three key dimensions of channel partners' performance that can assist firms in exercising a focused approach to performance management in distribution channel relationships. The performance-dimensions that are stressed in the channel partner's evaluation indicate the critical focus areas that are most important to the firm. This serves two crucial functions in channel management, 1) this can act as an effective control tool that elicits desired behavior and actions from the channel partners (Waal and Kourtit, 2013), and 2) this can also act as a communication tool that reduces the channel partner's perceived 'goal ambiguity', and thereby enhances their performance levels (Chun and Rainey, 2005). As an effective control and communication tool, the framework can also help firms in aligning their channel partners' resources and efforts with their business objectives.

The proposed three-dimensional framework is hugely valuable to firms when they use it to align their channel partners' resources and activities with their own channel objectives and distribution strategies. For example, a firm focused on creating a brand image may be very particular about the customer service activities and processes that channel partners perform rather than their output levels. The firm should stress the activity performance while evaluating their channel partners.

Although the tenets of three-dimensional framework proposed in this research were developed for the performance evaluation of downstream channel partners, we believe that the framework can also be useful in performance evaluation of partnering firms in other inter-firm relationship contexts, such as firm's suppliers. Big retailers, such as Walmart, Target, Tesco

etc. often deal with multiple suppliers in many product categories. Supplier relationships are crucial for the retailers' success and it is not uncommon for the big retailers to actively manage suppliers' performance (Ferreira et al., 2012). Accurate evaluation of suppliers' performance is an essential first step for effective management of these relationships. The proposed performance-dimensions framework apply across a broad spectrum of inter-firm relationships. Therefore, it provides the basic structure for evaluating the performance of partnering firms in several inter-firm contexts. The basic structure, when necessary can be extended or adapted to fit the needs of any specific research needs of a particular context.

The measurement scale for the performance-dimensions, developed in this research, is a concise multi-item scale with good reliability and validity that channel managers can use to better understand the expectations and perceptions of channel partners and as a result improve their performance. The scale can be used to assess a given channel partner's performance along each of the three dimensions. At the aggregate channel-network level, this analysis can also indicate the performance status of the entire distribution channel in the form of the average scores on the three dimensions. This individual level and network level performance analysis can have a variety of potential applications, right from helping the firm in managing their day-to-day channel activities to steering its overall channel strategy.

One potential application of the instrument is its use in categorizing a channel partner into several performance groups (e.g., high-output, low-activity, low-capability, high-overall, etc.) on the basis of their individual scores on the three performance-dimensions. These segments can then be analyzed on the basis of channel partners' (1) age in the relationship, (2) prior experience, (3) relative size of operations, (4) the market segment in which they operate, etc. For example, a channel manager found that a large number of channel partners in rural areas

are ‘low-output’, ‘low-activity’, and ‘high-capability’ performance group. Suppose further that it is known that the rural markets have high demand potential, albeit also have a high need for customer education. With these data, the channel managers would understand better what needs to be done to enhance channel partners’ output performance – i.e. focus on the channel partners’ processes and customer activities rather than their capabilities. Such analysis can have multiple uses in channel management. For example, this analysis can help firms in identifying and rewarding suitably the channel relationships that are most valuable to the firm and keep them motivated for future performance (Karriker and Williams, 2009). A firm can also use the three-dimensional performance measurement scale to assess the performance of its channel partners relative to its principal competitors’. Furthermore, the framework draws managerial attention to the three key dimensions of performance, thereby guarding against managerial sub-optimization and over-reliance on few limited performance measures.

Another application of the measurement scale is to use it for longitudinal analysis of channel partner’s scores on the three performance-dimension. This analysis can highlight the change or shift over time in the channel partners’ focus from one performance-dimension to others. With this analysis, channel managers will understand better what corrective actions (for example, emphasizing a performance dimension) need to be adopted for individual channel partners and what needs to be done to elicit the desired behavior from them. Further, this analysis can also highlight the effectiveness of various interventions, such as change in incentive plans, sales promotion programs, channel policies and practices, and other initiatives that channel managers undertake to manage channel activities and distribution relationships with channel partners.

The individual scores on the three performance-dimensions can also be interpreted as the coordinates for the performance level of channel partners represented on a three-dimensional coordinate axis. Each of the coordinate axis represents one performance-dimension (i.e. output, activity and capability) and the individual coordinates represents what we theorize as the '*performance vector*' for the channel partners. The channel partners' performance represented as performance vector is amenable for a variety of rigorous performance analyses, both at the level of individual channel partners and at the level of the distribution channel network as a whole. This representation can leverage the principles of vectors analysis and vector calculus to evaluate the channel partners' performance in a highly visual and intuitive way.

Additionally, the proposed framework extends the sales-force control literature to distribution channel context and draws important insights for performance management of channel partners. For example, this research introduces the dimension of capability performance to channel partners' performance evaluation in addition to the output and activity performance-dimension. This extension is consistent with the 'superorganization' perspective of distribution channels (Reve and Stern, 1979) and opens up avenues for future application of relevant perspectives from salesforce control research to study distribution channel relationships and vice versa. Furthermore, this research addresses the repeated call in literature for a theoretically supported framework for performance evaluation of channel partners in distribution relationships. The performance-dimension scale developed in this research provides a reliable and valid measurement tool for the three proposed performance-dimensions. This will provide an impetus to the further development of robust performance measures for channel partners in distribution relationships.

The three dimensions espoused in the proposed framework, aim to present a comprehensive categorization of the channel partner's performance, however, all three dimensions may not be equally relevant in every context. The suitability of these dimensions for performance evaluation may differ based on several channel factors, such as channel structure, distribution strategy, product characteristics, product life-cycle stage, and external environment. It would be interesting to examine the influence of such extraneous factors on the appropriate use of these dimensions for accurate performance evaluation. Insights on the implications of placing differential emphasis on each dimension in performance evaluation can be hugely valuable in managing distribution relationships in various organizational contexts. This is a fruitful area for future research.

The ideal research design to explore a new theoretical framework for performance evaluation would have been a combination of qualitative and quantitative methodologies. However, given the challenges involved in data collection in emerging economies like India and the limitations of qualitative data, we decided to limit the study to quantitative data. Future research may draw from qualitative and quantitative data to advance the research on channel partners' performance.

The derived scale may have limited generalizability across different industries because the data for testing scale reliability and validity was collected from one single industry (i.e. automobiles). The scale needs further validation across other industries through future research. Additionally, the unit of analysis for our study was the channel manager – dealer dyads in administered exclusive distribution channels. We suspect that other performance items that are relevant in other distribution formats (such as franchise) may not have been

captured in our scale. Future research must target other distribution formats and expand the applicability of the proposed framework.

Conclusion:

The paper proposes a three-dimensional framework for performance evaluation of channel partners in distribution channel relationships. The three performance-dimensions, i.e. output, activity and capability of channel partners' performance are grounded in the sales force control theory and organizational performance literature. Additionally, we develop an 18-item measurement scale for performance evaluation of channel partners based on the data from 252 firm-channel partner dyads in the Indian automobile industry.

The paper contributes to performance management research by providing the three key dimensions of performance for evaluating external partnering firms. The proposed performance-dimensions can be useful for organizations in operationalizing performance measures for other partnering firms, such as suppliers, retailers, independent agents, etc. apart from the distribution channel partners. The proposed framework can also help in guarding against managerial sub-optimization and narrow focus while evaluating the performance of partnering firms. Additionally, the paper provides a reliable and valid scale for the proposed performance-dimensions that can contribute towards a more appropriate evaluation of external partners' performance in several inter-firm contexts. The paper provides a suitable resource for advancing future empirical research in the area.

There are several research limitations of this study. Firstly, the proposed scale may have limited generalizability as it is developed based on the data from a single industry. Secondly,

the three proposed performance-dimensions do not directly encapsulate all the other performance measures used in earlier performance management studies. Nevertheless, the proposed three dimensions may be instrumental in capturing other performance measures. For example, a capability performance measure can be either strategic or tactical based on the targeted use, objective or subjective based on the manner in which the performance measurement is being taken, internal or external performance measure based on whose perspective is adopted, etc. Lastly, the measurement scale for the capability performance-dimension must be regarded as 'provisional' and in need of replication because the AVE value for the capability scale (i.e. 0.49) was found to be less than 0.5 (Fornell and Larcker, 1981; Ping 2009).

The study also opens several areas for future research. A potent area for future research would be to examine the influence of extraneous factors, such as external environment, organizational strategy, and structure on relative importance of the three dimensions for appropriate evaluation of external partner's performance. Additionally, future research is needed to test the framework in various industries and organizational contexts to provide it further validity and wider generalizability. Expanding the proposed framework for performance evaluation of other up-stream (suppliers) and down-stream partners (retailers, agents, other vendors VARs, etc.) can also be a fruitful area for future research.

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Appendixes

1. The items corresponding to the three dimensions of channel partners' performance

a. Output Performance (O1 to O9):

1. Number of units sold by the dealer
2. 'Market Share' achieved by the dealer in its assigned territory.
3. 'Market Coverage' achieved by the dealer in its assigned territory.
4. The level of 'Return on Investment (ROI)' generated by the dealer.
5. 'Percentage Growth' achieved by the dealer in the previous year.
6. Number of 'sales initiation drives' conducted by the dealer.
7. Percentage penetration of 'related products' sold by the dealer.
8. The 'Committed Sales Volume' by the dealer.
9. Level of sales generated by the dealer in related and upstream businesses.

b. Activity Performance (A1 to A9):

1. The 'Amount of Time and Attention' devoted by the dealer-principal.
2. The 'Accuracy and Timeliness' of the mandated information provided by the dealer.
3. The 'Self Market Initiatives' taken by the dealer to increase sales.
4. The degree of 'Cooperation and Support' offered by the dealer
5. The degree of 'Commitment and Focus' of dealer towards the firm.
6. Quality of 'Purchase and Service Experience' provided to the customer by the dealer.
E.g. Quality of ingenious delivery
7. The number of 'Customer Complaints' against the dealer (negatively coded)
8. The level of dealer's 'Compliance' with the firm's policies and guidelines
9. The 'Financial Discipline' shown by the dealer. E.g. financial delays and defaults

c. Capability Performance (C1 to C9):

1. Infrastructure and facilities at the dealer's outlet and workshop
2. The level of inventory maintained by the dealer.
3. The number of 'Employees' with the dealer. (Adequacy of Sales and Service staff)
4. The 'Quality of Manpower' with the dealer (skilled and trained)
5. The level of 'Employee Retention' at the dealership
6. The amount of 'Investment in business development' done by the dealer
7. The level of 'Working Capital' maintained by the dealer.
8. The degree of 'Competence' of the dealer's sales team. E.g.: Product knowledge
9. The succession plans of the dealer for the dealership (Business continuity).

2. Three-Dimensional Scale for Performance Evaluation of Channel Partners (18-item scale)

1. Number of units sold by the dealer
2. The level of 'Return on Investment (ROI)' generated by the dealer.
3. Number of 'sales initiation drives' conducted by the dealer.
4. Percentage penetration of 'related products' sold by the dealer.
5. The 'Committed Sales Volume' by the dealer.
6. Level of sales generated by the dealer in related and upstream businesses.
7. The 'Accuracy and Timeliness' of the mandated information provided by the dealer.
8. The 'Self Market Initiatives' taken by the dealer to increase sales.
9. The degree of 'Commitment and Focus' of dealer towards the firm.
10. Quality of 'Purchase and Service Experience' provided to the customer by the dealer.
E.g. Quality of ingenious delivery
11. The number of 'Customer Complaints' against the dealer (negatively coded)

12. The level of dealer's 'Compliance' with the firm's policies and guidelines
13. Infrastructure and facilities at the dealer's outlet and workshop
14. The level of inventory maintained by the dealer.
15. The number of 'Employees' with the dealer. (Adequacy of Sales and Service staff)
16. The 'Quality of Manpower' with the dealer (skilled and trained)
17. The level of 'Working Capital' maintained by the dealer.
18. The degree of 'Competence' of the dealer's sales team. E.g.: Product knowledge

Tables

Table 1: Performance Measures Used in Earlier Studies

<i>S. No.</i>	<i>Studies</i>	<i>Performance Measures</i>	<i>Context</i>
1	Lumpkin and Dess (1996)	market share percentage, profitability, inventory level, and enterprise's reputation	Assessing influence of brand strategies on channel strategies
2	Chang (2009)	inventory control and inventory cost	Business performance (supply chain) of Taiwan industries.
3	Shoham et al. (2008)	behavioral (esprit de corps, cooperation, and commitment) and bottom-line dimensions (financial, strategic and satisfaction)	International channel relationships
4	Chang and Wang (2008)	<i>quantitative</i> (i.e. actual and forecast sales performance, inventory levels and cost and wastage rate) and <i>qualitative</i> measures (i.e. level of satisfaction, cooperation, contribution, commitment, service quality, and sales ability) of the dealer	International marketing channel performance

5	Xue et al. (2007)	customer efficiency of participation in the service co-production process	Service delivery channels
6	Bello and Gilliland (1997)	strategic, selling and economic performance measures	Export channels
7	Rosenbloom and Anderson (1985)	sales volume, sales potential, inventory level and the image of the dealer	Interface between distribution channel and sales management
8	Pegram (1965)	operating cost, selling price, market information feedback, channel control mechanisms, company image, and service ability	-

Table 2: Performance Metrics Typologies Used in Earlier Studies

<i>S. No.</i>	<i>Performance Metrics Typology</i>	<i>Studies</i>
1	Financial and Non-Financial	Frazier and Howell (1982); Buckley et al. (1988); Lassar and Kerr (1996); Hart (1993); Toole and Donaldson (2000)
2	Qualitative and Quantitative	Holzmann and Mendoza (1997); White (1986); Chang and Wang (2008)
3	External and Internal	Yeniyurt (2003)
4	Subjective and Objective	Govindarajan and Fisher (1990); Ambler and Kokkinaki (1997)
5	Short-term and Long-term	Valos and Vocino (2006); Dekimpe and Hanssens (1995)
6	Strategic and Tactical	Fiegenger (1994); Lubieniecki and Desrocher (2003)
7	Output and Input	Ambler, et. al. (2004); Clark (1999)
8	Frequent and Infrequent	White (1986)
9	Tangible and Intangible	Kaplan and Norton (2001)
10	Behavioral and Outcome	Shoham et al. (2008); Krafft (1999)
11	Accounting and Non-accounting	Ambler et al., (2004); Frazier and Howell (1982); Buckley et al. (1988)
12	Strategic and Economic	Cavusgil and Zou (1994)

Table 3: Types of Control Systems Used in Earlier Studies

<i>S. No.</i>	<i>Types of Control</i>	<i>Context</i>	<i>Study</i>
1	Output based Behavior based	Organizational controls	Ouchi and Maguire (1975)
2	Outcome based Behavior based	Sales-force evaluation	Anderson and Oliver (1987)
3	Input controls Output controls Process controls	Marketing control	Jaworski (1988)
4	Outcome-based Behavior-based	Distribution channels	Celly and Frazier (1996)
5	Output controls Process controls Flexibility	Export channels	Bello and Gilliland (1997)
6	Output controls Behavior controls Capability control	Supervisory controls	Challagalla and Shervani (1996)
7	Output controls Behavior controls Capability control	Manufacturer-supplier	Joshi (2009)

Table 4: Factor Loading and the Cronbach's Alphas for the Scales

Constructs	Items	Factor loading	Cronbach's Alpha
Performance Measures			
<i>Output Measures</i>	O1	0.426	0.760
	O4	0.543	
	O6	0.734	
	O7	0.691	
	O8	0.689	
	O9	0.695	
<i>Activity Measures</i>	A2	0.745	0.756
	A3	0.697	
	A5	0.645	
	A6	0.745	
	A7	0.560	
	A8	0.437	
<i>Capability Measures</i>	C1	0.635	0.728
	C2	0.647	
	C3	0.715	
	C4	0.651	
	C7	0.784	
	C8	0.552	

Table 5: Reliability, Cronbach's Alpha, Composite Reliability and AVE for the Scales

Constructs	Items	Items Reliability		Cronbach's Alpha	Composite Reliability	AVE
		<i>Std. Loading</i>	<i>Msmt. Error</i>			
Performance Measures						
<i>Output Measures</i>	O1	0.758	0.43	0.76	0.76	0.51
	O4	0.634	0.33			
	O6	0.724	0.41			
	O7	0.710	0.50			
	O8	0.712	0.49			
	O9	0.674	0.55			
<i>Activity Measures</i>	A2	0.734	0.45	0.76	0.76	0.52
	A3	0.789	0.38			
	A5	0.684	0.50			
	A6	0.692	0.48			
	A7	0.636	0.60			
	A8	0.724	0.48			
<i>Capability Measures</i>	C1	0.791	0.37	0.73	0.74	0.49
	C2	0.751	0.44			
	C3	0.693	0.42			
	C4	0.701	0.52			
	C7	0.668	0.55			
	C8	0.662	0.56			

Table 6: Descriptive Statistics and Zero-Order Correlation

Scales	Output	Activity	Capability
Performance Measures			
Output	.715	.105	.097
Activity		.721	.254*
Capability			.700
Mean	4.30	3.67	4.33
S.D.	0.75	0.93	0.69

N = 252; †*p* < .10; **p* < .05; ***p* < .01; one-tailed test

Square root of AVE as the diagonal elements

Figures

Figure 1: The Three-Dimensional Framework for Performance Evaluation

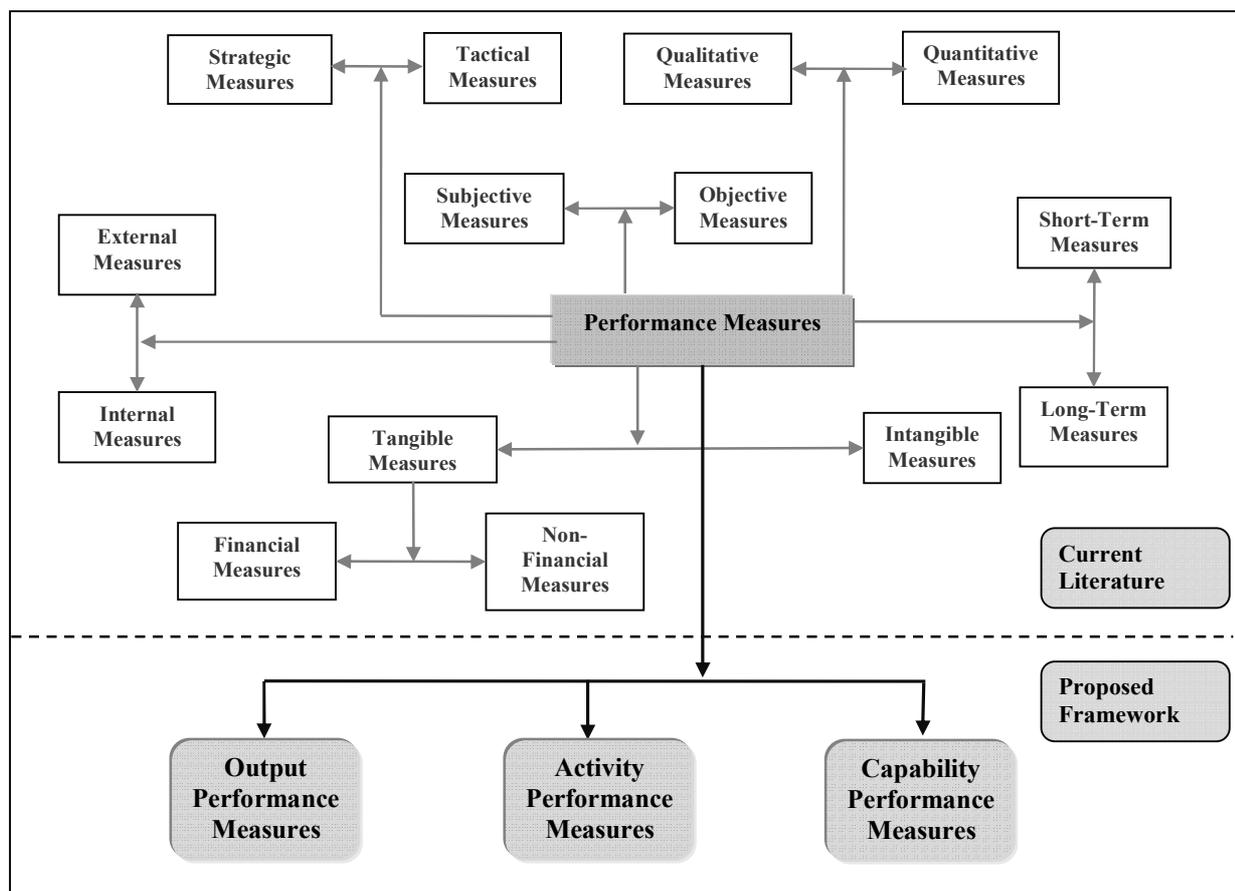


Figure 2: The Steps Adopted for Scale Development

