The Structure of Reseller Goals and Performance in Marketing Channels

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The typical view of a marketing channel is that of a manufacturer-designed and -controlled distribution system. However, today, marketing functions, as well as market power, are more evenly distributed in the channel. In organizing and managing the modern channel, it is important to understand the business circumstances and priorities confronting channel members. This article studies how reseller firms establish their goal hierarchies and how these goals are related to performance. It hypothesizes that goal priorities emerge in relation to the environmental imperatives faced by the firm. The article develops hypotheses that are tested on survey data collected from a sample of franchisee firms, using structural equation models. The results support all the hypotheses about the effects of primary goals on performance. The effects of secondary goals are not unequivocal but informative nevertheless. Overall, the study points to interesting theoretical and managerial conclusions.

Keywords: *reseller goals; channel market environment; reseller performance; franchising*

The conventional view of the marketing channel in the literature is that of a vertically coordinated system of exchange, that is, one in which channel strategy is devised and coordinated by a focal firm or channel captain (Arndt 1983; Frazier and Anita 1995; Stern and Reve 1980). Coordination is achieved by combinations of market power, bargaining, contract, social norms, and hierarchical integration (Cannon, Achrol, and Gundlach 2000). However, the benefits of vertical coordination are conditional and it can have contrary effects on channel outcomes (Buvik and John 2000; Lusch and Brown 1996).

In contrast to the manufacturer-controlled vertical channels of the mid-twentieth century, marketing strategy, functions, and adaptive responsibilities are more widely distributed in channels today. The distribution of functions is said to make marketing channels more innovative, flexible, and adaptable to dynamic markets (Achrol and Kotler 1999; Rindfleisch and Moorman 2001; Weitz and Jap 1995). It also means that channel power is more evenly distributed and coordination has to be via nonhierarchical means (Macneil 1980).

Today's channels balance the synergies of coordinated logistics and marketing with the flexibility and local adaptation of individual reseller firms. However, flexibility and dynamic markets can cause strategies and goals up and down the channel to vary in emphasis and/or perceptions of strategic importance. To advance our understanding of channel behavior in the contemporary environment, it is likely that we will need explanations of how the strategic goals of channel members evolve and change over time in response to market contingencies.

In this article, we study the strategic goals of reseller firms in franchise channels and how the goals are related to performance. It is theorized that channel member goals are influenced by characteristics of the task environment—specifically, environmental dynamism and munificence, and the stage of market evolution. Hypotheses are developed to show how channel members prioritize strategic

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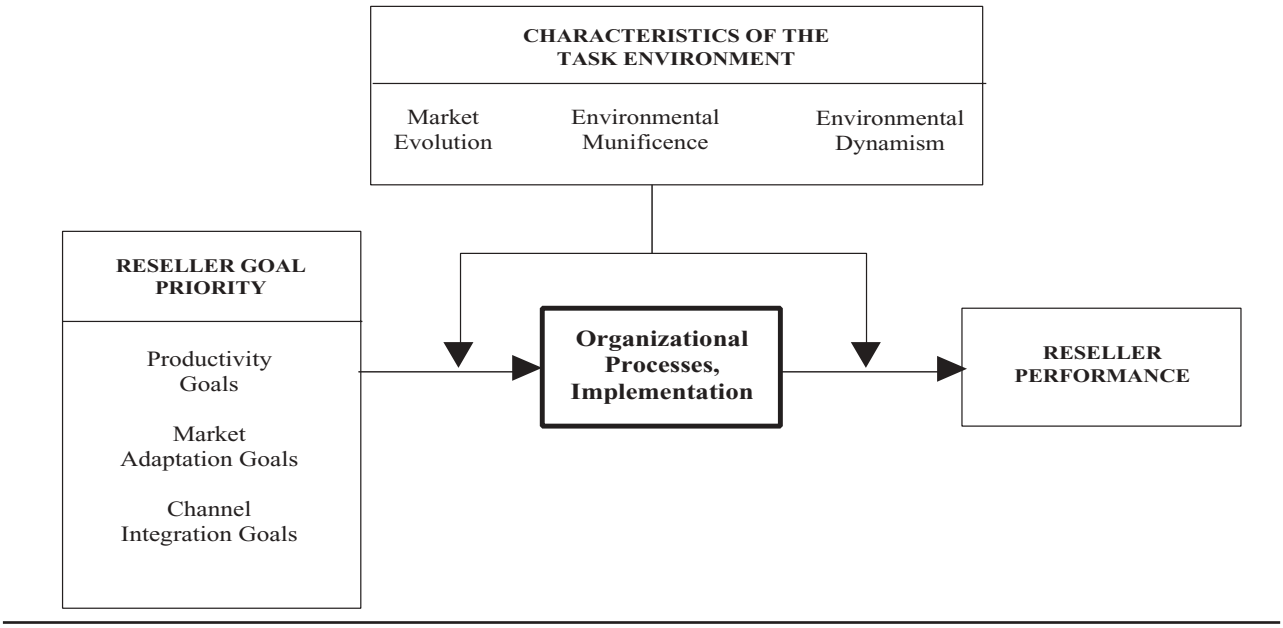
FIGURE 1
Conceptual Relationship Between Reseller Goals and Performance



goals given characteristics of their task environments. The hypotheses are tested via structural equation models relating strategic goals to performance. The data are collected from reseller firms sampled from a number of marketing channel franchises. The results are discussed and interpreted for their practical implications, theory development, and future research.

THEORETICAL FRAMEWORK

The past few decades have seen significant evolution in the distribution environment. The rate of change in product technology and resulting changes in customer needs and preferences, coupled with new retail formats such as specialty superstores and electronic marketing, are creating volatile channel environments. Corporate chains and value-added resellers have moved branding and marketing strategy closer to the output end of the channel. Assortments and strategies are more closely matched to regional market preferences and competition. Many are developing proprietary consumer databases and fine-tuning promotions to specific locations and consumers.

Along with these trends, concentration in retailing continues to increase, approaching oligarchy in regional and sometimes national markets. This has caused market power to shift from manufacturers to retailers in some channels, and some functions to shift backward in the channel. For example, vendor-managed inventories and liberal customer return policies have moved significant cost, as well as market risk, back in the channel. Many retailers do less product servicing (e.g., in consumer electronics) and are backed by manufacturer service centers.

Dynamic markets require channels that are less centralized in marketing strategies and more finely tuned to local preferences and contingencies. Decentralization and flexibility mean a less hierarchical culture and a coordination regime characterized by more balanced power relations. However, channels cannot dispense with a coordinating nexus. The focal organization (whether a powerful brand manufacturer such as Kraft, a franchiser such as McDonald's, or a mass merchandiser such as Wal-Mart) is increasingly focused on channel support and logistics and has to accommodate the semiautonomous strategies of its channel partners. Thus, focal organizations have to pay attention to the strategic goals that are salient to the member firms of the channel as they adapt to changing market circumstances.

There are a variety of forces in a reseller's task environment that create market opportunities and contingencies and define the context for adaptation (Dess and Beard 1984; Jurkovich 1974). In response to these environmental influences, firms prioritize and pursue specific strategic goals, such as growth, profit, survival, efficiency, and customer satisfaction. The first task in this article is to develop a conceptual framework for organizing the variety of reseller goals in theoretically meaningful ways. The next task is to derive hypotheses that explain how firms prioritize their goals in response to the characteristics of their market environments. Finally, there is the argument that the firm's bottom-line performance is enhanced by an appropriate alignment between its strategic goals and its

environment. The overall framework of relationships developed and tested in this article is depicted in Figure 1.

The figure portrays the reseller firm's performance to be contingent on the task environment, which affects the choice of goals as well as their eventual effect on performance. The task environment is described in terms of the three dimensions that have been especially salient in the research literature—stage of market evolution, munificence, and dynamism. Also depicted in the figure is a *black box* (boldface font) representing a variety of organizational processes, tactics, and implementation issues that, although not included in this study, are expected to mediate the effect of goals on actual performance. The relationship between the environment, goals, and performance is developed next.

Strategic Goals

Channel member goals have played a secondary role in marketing channel theory. The assumption often is that reseller goals are an extension of supplier firm marketing goals. In this way, channel members are assumed to share certain superordinate goals. Deviations from channel goals are cast as problems of channel conflict (Stern, El-Ansary, and Coughlan 1996:308) or opportunistic behavior (Wathne and Heide 2000). The empirical literature has focused on frequency of disagreement (see review by Gaski 1984) more than on defining and measuring divergence in goals. Channel members could have common goals yet disagree about strategies to achieve them or how best to implement a strategy (Eliashberg and Michie 1984). Furthermore, there are a variety of goals that may be important to a firm from time to time, such as cost minimization, survival, growth, delivered quality, customer service, meeting competition, customer satisfaction, market share, cash flow, supplier relations, and so on.

One purpose of this article is to develop a conceptual framework for classifying the strategic goals of reseller firms. A second purpose is to identify the market conditions that might favor one goal set being prioritized over another. In this way, a foundation can be laid for a theory of channel relations where goal divergence may be the norm that firms must learn to accommodate (via customized strategies and resource support), rather than a source of conflict that needs to be extinguished.

Firms articulate their strategic goals via the activities and functions they emphasize in decision making and the day-to-day management of operations (Mintzberg 1983). We define reseller firm goals as a *consistent* set of policies, strategies, and programs targeted by firm management because they are believed to be most salient to the success of the business at this period in time. Being a consistent set of targeted outcomes, they together define a strategic orientation. A number of conceptualizations of strategic orientation, with varying degrees of overlap, have been employed in the marketing, organization behavior, and strategic management literatures.[1] In this article, we adopt a conceptualization based on Parsons's (1959) "functional imperatives." It is most appropriate to our definition and to studying a channel of distribution (cf. Kumar, Stern, and Achrol 1992) because it includes an integration goal set in addition to efficiency and adaptation goals common to other perspectives. Parsons's functional imperatives are reflected in three models of organizational action, namely, the *rational system*, the *open system*, and the *internal process* models.[2]

Rational system theories correspond to what Parsons called the "goal attainment imperative." They view the organization as an objectively rational decision-making system (e.g., Gouldner 1959; March and Simon 1958). These models assume that decision making is based on criteria of cost minimization and profit maximization because such heuristics permit a clear preference ordering among alternatives (Scott 1987). The emphasis in assessment is on the elements of productivity and efficiency. For example, a reseller focusing on productivity may seek realignments and efficiencies in its supply sources and procedures. It may negotiate better credit terms and margins or look to improve its cash flow. It could examine its inventory policies or its service delivery mechanisms to eliminate waste or redundancies. Where relevant, it may scrutinize its production techniques and focus on things such as employee training and scheduling. In this article, we refer to these rational system goals as *productivity goals*, defined as the relative importance placed by firm management on policies for controlling operating costs and improving revenue flows of the business.

Open system theories encompass Parsons's "adaptation imperative." Organizations depend on their task environments for the flow of resources necessary to sustain them. To be successful over time, an organization must be open to its environment, be able to adapt to changing demands, and be flexible in its responses (Pfeffer and Salancik 1978; Thompson 1967; Yuchtman and Seashore 1967). The ability to exploit external resources depends on the degree of support the organization is able to generate from elements in its task environment. For a marketing channel firm, gaining or enhancing external support requires an emphasis on positioning its market offer and differentiating it from competitors. Some firms seek to establish their image as offering the lowest price or best value to customers. Others focus on offering superior selection, quality, location, or customer service. Adaptation also places a premium on programs designed to enhance customer satisfaction and loyalty (Miles 1982:250). In this article, these goals are referred to as *adaptation goals* and are defined as the relative importance placed by management on strategies to distinguish the firm from its competitors and to strengthen its customer focus.

Internal process theories address the mechanisms for integrating the many complex and interdependent parts

of modern organizations (corresponding to Parsons's *integration* and *pattern maintenance* imperatives). Integration is the capacity to communicate, control, coordinate, and motivate participation (March and Simon 1958; Swinth 1974). The means and mechanisms of cooperation and coordination have been a salient part of the research literature in marketing channels (Stern et al. 1996). Important mechanisms include open communication and information sharing, which not only facilitate seamless operations but also foster better understanding of one another's contingencies. Another way to integrate channel operations is via standardizing the quality of channel outputs. Integrated channels use standard operating procedures and training programs for assuring the quality of products and services. In addition, successful integration presumes organizations can induce the participation and commitment of their members by satisfying their individual goals and aspirations (Caplow 1953; March and Simon 1958; Perrow 1961). In this article, we refer to internal process goals as *integration goals*, defined as the relative importance placed by firm management on programs and policies for strengthening the structural and relational ties between their firm and the supplier firm.

Goals and Performance

Scholars have noted that the analytic value of firm goals is intertwined with the concept of organizational effectiveness (Etzioni 1964:8; Thompson and McEwen 1958). While theory seeks to explain how different goals come to be highlighted given the contingencies presented by a firm's task environment, the underlying assumption is that an appropriate alignment (or fit) leads to favorable performance consequences. In this study, we define performance as the financial performance of the reseller firm *relative* to other resellers in the channel system. We focus on two basic components of bottom-line performance—*revenue* and *return on investment* (ROI).[3] Accordingly, the hypotheses below about goal structures are framed with this concept of performance as the dependent effect.

HYPOTHESES

The Structure of Reseller Goals

Firms pursue or are confronted with multiple and occasionally conflicting goals. Since firms have limited resources (material and cognitive), a critical question is, How do firms reconcile or prioritize these goals? According to Mintzberg's (1983) studies, the choice of strategic goals is hierarchical. Mintzberg argues that organizations select one primary goal that they seek to maximize, treating all other goals as constraints that they satisfice.

It is assumed the primary goal is the one that maximizes firm performance in a given situation. However, it is also important to understand effects of the secondary goals that are satisficed. Sometimes these effects complement primary goals and enhance performance. In other situations, certain goals may have no visible bottom-line effects. It is useful to know when, so resources are not wasted on inert goals. And then there are circumstances in which decisions prompted by a secondary goal set contradict primary goals and can negatively affect performance. Such goals may best be tackled sequentially.

The argument in this article, reflecting a prominent theme in the organization literature (e.g., Pfeffer and Salancik 1978; Thompson and McEwen 1958), is that reseller firms select priority goals on the basis of the environmental contingencies facing them. The market environment consists of scarce resources that organizations share and compete for (Benson 1975). Various aspects of organizational structure, leadership, and the strategies a firm selects and pursues are determined in response to the environmental conditions it faces at a point in time (Dwyer and Welsh 1985; Etgar 1977).

How can we capture these environmental influences? An enduring argument in the marketing management literature is that distribution priorities change across the market life cycle. Thus, one environmental influence studied in this article is the stage of market evolution of the firm (Lambkin and Day 1989). Another likely factor is the favorableness or munificence of the environment—that is, does the reseller face a rich or a scarce market environment?[4] (Dwyer and Welsh 1985). Finally, a firm's strategic priorities are inevitably affected by the rate of change or dynamism in its market (Achrol and Stern 1988; Grewal, Comer, and Mehta 2001; McKee, Varadarajan, and Pride 1989) (see Note 3).

Market Evolution

Evolutionary effects have been shown to influence the goals, strategies, and structure of organizations in important ways (Kimberly and Miles 1980; Quinn and Cameron 1983). Likewise, in marketing channels, researchers have noted that reseller motivations, perceptions, attributions, and relationships with supplier firms are liable to change as the reseller's market develops, and management matures in confidence (Dwyer, Schurr, and Oh 1987; Knight 1986; Pettitt 1988). In this study, we distinguish between two stages of market evolution—the growth stage and the mature stage.

Key elements in the success of a reseller firm in the growth stage of market evolution include creating an operating system, learning to become viable, and producing sustainable results (Adizes 1979; Lippitt and Schmidt 1967). The firm is likely to focus on *rational* goals (Lyden 1975) such as productivity, cost efficiency, and the basic

elements of finance (like cash flow) that are closely tied to the survivability of the firm. In other words, the firm's strategic imperatives call for priority being given to productivity goals.

Productivity is the primary influence on performance in growth markets. However, a reseller firm is often part of a managed channel network, and its core technology is based on a relatively standardized business model (especially in franchised channels). Operational tasks, training, and managerial methods are often designed by the focal organization, especially in the early stages of development. Hence, resellers should benefit from closer integration with suppliers, and integration goals should have a positive secondary effect on performance.

In the theory of organizations, the conventional freestanding firm is expected to devote significant resources to adaptation as it seeks to establish and grow in a new market niche. The situation is different for a reseller firm in an organized channel of distribution. A channel member is nurtured under the strategic umbrella of the focal supplier firm, which is responsible for developing marketing strategy and creating the conditions for favorable adaptation. It can be argued that a reseller firm in the growth stage of a market is better off adhering to the scripted marketing strategy of the supplier and concentrating on internal operations. Consequently, adaptation goals are not expected to have a significant effect on performance in growth markets. Thus,

Hypothesis 1a: In the growth stage of market evolution, productivity goals are primary and are positively related to firm performance.

Hypothesis 1b: Channel integration complements productivity in growth markets, thus integration goals are secondary and also have a positive effect on performance.

Hypothesis 1c: Adaptation goals are unrelated to the performance of reseller firms in growth markets.[5]

Hypothesis 1d: It follows from Hypotheses 1a and 1b that in growth markets, productivity goals have a greater magnitude of effect on performance than integration goals.

Maturing markets exacerbate competition because the size of the pie has stabilized and growth comes at the expense of competitors. Firms are effective in meeting competition if they can differentiate their products and image and create a unique positioning in their target markets (Lippit and Schmidt 1967). At this stage, firms are most open to innovation, creative alternatives, and new product development. These strategies call for an emphasis on customer orientation, market positioning, and differentiation. In other words, market adaptation goals emerge to the fore in mature markets and are predicted to be the primary drivers of performance.

Market adaptation and differentiation call for sharing of information and enhanced cooperation and commitment among members of the channel. Lusch and Brown (1996) found that coordinated interaction in the channel permits better adaptation. Adaptation also highlights channel strategies such as quality assurance programs for enhancing customer satisfaction. Hence, integration goals complement adaptation in the mature stage of market evolution and are positively related to performance. Thus, integration goals are secondary in both growth markets and mature markets, but the motivation for integration comes from productivity and survival imperatives (learning the operating system and skills) in the former case versus the imperative for adaptation in the latter.

As the firm and its market mature, management becomes proficient in the way it conducts the business. Productivity concerns become relatively less critical at this stage. Indeed, a continued emphasis on productivity criteria in maturity can hurt firm performance by directing resources to ineffective uses. Furthermore, there is a tradeoff in internal versus external focus (McKee et al. 1989; Weick 1979). A productivity focus, because of its internal orientation, limits the firm's openness to its market and can hurt performance at a time when change and adaptation are increasingly important. We derive the following hypotheses:

Hypothesis 2a: In mature markets, adaptation goals become primary and have a positive effect on performance.

Hypothesis 2b: In mature markets, channel adaptation requires coordinated actions, hence integration goals are secondary and also positively related to performance.

Hypothesis 2c: Productivity goals cause an inappropriate focus on the firm's vision in mature markets and thus have a negative effect on performance.

Hypothesis 2d: It follows from Hypotheses 2a and 2b that adaptation goals have a greater magnitude of effect on performance in mature markets than integration goals.

Market evolution is one important characteristic of the task environment that is likely to shape the firm's goal hierarchy. Another characteristic is how favorable or munificent the environment is.

Environmental Munificence

Environmental munificence (Pfeffer and Salancik 1978) refers to the relative abundance or scarcity of resources available to an organization in its environment. A rich channel environment is characterized by favorable market conditions. With a plentiful flow of resources and strong prospects for growth, reseller firms are motivated to exploit opportunities and expand their domains. This calls

for expanding the firm's adaptive fit with its market, fine-tuning its positioning via optimizing product mixes and customer services, and so forth. Adaptation goals are predicted to be primary and positively related to performance in munificent environments.

Resellers are more motivated to integrate with suppliers when things are going well and less inclined when environments are lean (Dwyer and Oh 1987). Assael's (1969) study of automobile channels found that manufacturer policies that are acceptable in rich environments often cause conflict in periods of lagging sales. Rich environments imply that a supplier's marketing strategies are effective and foster a more cooperative spirit. Since rich environments also coincide with a greater emphasis by reseller firms on market adaptation, the integration should prove beneficial and be positively related to performance.

Rich environments allow the accumulation of slack resources, thus promoting organizational stability and survival (Cyert and March 1963). Productivity goals recede in importance in times of economic plenty, allowing the firm to focus on other aspects of its business such as market adaptation and diversification. In fact, a focus on productivity can adversely affect the firm's attention to external opportunities and thus cause a negative effect on bottom-line performance.

Hypothesis 3a: In rich environments, adaptation goals are primary and have a positive effect on performance.

Hypothesis 3b: Channel integration complements adaptation in rich environments, thus integration goals are secondary and also positively related to performance.

Hypothesis 3c: On the other hand, an emphasis on productivity goals in rich environments is negatively related to performance.

Hypothesis 3d: It follows from Hypotheses 3a and 3b that adaptation goals have a greater magnitude of effect on performance in rich environments than integration goals.

In lean environments, reseller firms are likely to focus on their core technologies (Thompson 1967) and minimize operating costs via tight control over employee productivity, inventories, and materials. Thus, productivity goals are likely to be primary and positively related to performance in less munificent environments.

At the same time, environmental scarcity calls for a more disciplined and focused approach to the market. While adaptation goals are important in rich environments in order to exploit market opportunities, adaptation is important in lean environments to identify and better serve the core market segments. However, adaptive strategies usually require additional investments, and in lean times, resellers are likely to be cautious in pursuing adaptive initiatives. Thus, when environments are low in munificence, adaptation goals are positively related to performance, but they are of secondary importance.

All other things being equal, channel integration is likely to complement productivity and adaptation strategies of resellers. However, under conditions of resource scarcity, organizational members and subgroups tend to behave competitively (as in a zero-sum game situation), thus causing organizational conflict (March and Simon 1958). Interorganizational relations are subject to greater stress due to diverging perceptions and self-interests. Thus, it is predicted that in lean environments, integration goals do not have a complementary relationship with productivity or adaptation strategies and hence are unrelated to performance.

Hypothesis 4a: When environments are lean, productivity goals are primary and have a positive effect on performance.

Hypothesis 4b: Lean environments demand a more focused fit with the market, thus adaptation goals are secondary and also positively related to performance.

Hypothesis 4c: Integration goals are unrelated to performance in lean environments.

Hypothesis 4d: It follows from Hypotheses 4a and 4b that in lean environments, productivity goals have a greater magnitude of effect on performance than adaptation goals.

One of the most widely studied characteristics of an organization's environment is how dynamic, or subject to change, it is. We consider this next.

Environmental Dynamism

Dynamism refers to the degree of change or turbulence characterizing environmental activities relevant to an organization's operations (Jurkovich 1974). In dynamic environments, the complexity of interactive effects among variables exceeds the system's capacity for prediction and its ability to control the consequences of its actions (March 1991).

A firm reaches the highest level of efficiency in processing its core technology under conditions of input and output stability (Thompson 1967). It follows that reseller firms are likely to emphasize strategies for maximizing productivity because of the returns they promise. In addition, stable environments mean that the external contingencies facing the firm are minimal and do not create unusual demands for management attention. Thus, productivity goals are primary and positively related to performance in stable market environments.

Stable environments present a favorable relational climate, and reseller firms are likely to be receptive to supplier overtures and programs. There are fewer causes for disagreements about procedure and fewer perceptual dif-

ferences. Closer integration also benefits channel efficiency and complements the pursuit of productivity by resellers. Thus, integration goals are secondary and positively related to firm performance.

A stable environment implies a successful strategy and fit with the environment. There is little motivation to tinker with success, and adaptation is not likely to be a priority. Indeed, pursuing new product and differentiation initiatives carries the potential of destabilizing the firm's fit with its environment. Consequently, emphasizing adaptive goals in stable environments can have a negative effect on performance.

Hypothesis 5a: In stable environments, productivity goals are primary and have a positive effect on firm performance.

Hypothesis 5b: The relational climate in stable environments is conducive to channel cooperation, thus integration goals are secondary and also positively related to performance.

Hypothesis 5c: In contrast, emphasizing adaptation goals in stable environments is destabilizing and has a negative effect on performance.

Hypothesis 5d: It follows from Hypothesis 5a and 5b that in stable environments, productivity goals have a greater magnitude of effect on performance than integration goals.

Dynamic environments are characterized by uncertain demand, unstable prices, changing products, and shifting customer preferences. The highest priority for organizations is to understand the kinds of changes occurring and to develop effective adaptive strategies. Even though in marketing channels the greater burden of monitoring and responding to the environment falls on the brand marketer or supplier, high-performing reseller firms are likely to be those that share the sensitivity to environmental demands and are active in implementing supplier response strategies. Consequently, it is expected that reseller firms in dynamic environments place a greater priority on market adaptation and that adaptation goals have a positive effect on firm performance.

Dynamic environments create organizational uncertainty. One way of dealing with external uncertainty is to be better organized through planning and coordinating actions with others in the firm's task environment. In conventional channels when market environments turned dynamic, the channel captain devised a centralized response strategy and sought to get maximum cooperation and coordination from channel members in implementing it. It would be expected that dynamism resulted in more internal cohesion and integration in the marketing channel. In contrast, network type structures are not expected in theory to respond to dynamism by more integration; rather, they favor flexibility of response. That is, networks favor strategies for differentiation and local adaptation rather than standardized responses and centralization. Hence, it is predicted that in dynamic environments, integration goals are negatively related to performance.

Productivity goals are primary in stable environments, but will they decline in emphasis in dynamic environments? In dynamic environments, a firm needs to be more sensitive to the sources of dynamism, which are external to the firm. A number of scholars have noted that there is a direct trade-off between an internal orientation such as productivity and an external orientation such as adaptation (Miles 1982; Weick 1979). The adaptive organization has been characterized as deliberately inefficient (McKee et al. 1989). In that event, if adaptation is the primary goal in dynamic environments, then emphasizing productivity is precluded, that is, it should be negatively related to performance.

Hypothesis 6a: In dynamic environments, adaptation concerns are primary and positively related to performance.

Hypothesis 6b: Dynamic environments favor flexible channel responses, thus integration goals are negatively related to performance.

Hypothesis 6c: Productivity goals distract attention from external imperatives and are negatively related to performance.

There is no hierarchical Hypothesis 6d since there is only one predicted positive effect.

Note that two sets of hypotheses are derived for the three environmental conditions (e.g., for growth vs. mature environments) because some of the predicted cause-effect relations between goals and performance are not monotonic. Note also that testing for nonmonotonic effects imposes special conditions on the structure of analysis required to test the hypotheses. This is discussed below in the Research Method section.

RESEARCH METHOD

Data were collected via questionnaire surveys directed to key informants defined as the owners and/or managers of reseller firms (franchisees) in a number of franchised channels of distribution. Franchise channels were chosen because there is a prominent supplier firm (compared with resellers dealing in a variety of product and brand assortments), and thus the context of the responses is relatively unambiguous. This improves questionnaire design and reduces measurement error. Likewise, to keep the context of firm goals, environment, and performance unambiguous, managers of corporate-owned and multiunit franchises were asked not to respond.

The measures were systematically developed and validated employing a large-sample measure development study (Study 1). A second independent sample and survey

followed for the purposes of testing the theoretical hypotheses (Study 2). Finally, a small follow-up survey employing a subsample from Study 2 was used to check for nonresponse bias.

Sampling

The sampling frame for Study 1 (measure development sample) consisted of 941 names and addresses of franchisee firms that were members of four franchise channels that agreed to sponsor participation in the study. An effective mailing of 887 was achieved and generated 375 usable responses for a response rate of 42.3 percent.

The sampling frame for Study 2 (theory tests sample) consisted of 2,500 firms from franchise channels obtained from a commercial mailing list. Of these, 1,200 were from large chains with more than 3,000 units, 300 were from medium chains with between 2,000 and 3,000 units, and 1,000 were from smaller franchises with less than 2,000 units. They represent a diverse cross section of product markets, such as autos, farm equipment, fast food, ice cream, and service franchises such as printing. An effective mailing of 2,366 was achieved (less returned undelivered, corporate branches, etc.), and a sample of 439 usable replies resulted, giving a response rate of 18.6 percent. This is low but typical of research in marketing channels. However, a small follow-up study was also conducted to evaluate possible nonresponse bias.

A brief follow-up questionnaire was sent to 100 firms randomly selected from the original mailing list. Firms were asked to disregard the short follow-up questionnaire if they had completed the original one. The questionnaire contained one item each taken from the constructs Dynamism, Munificence, Market Evolution, and Performance in the main questionnaire.[6] The items were selected for representativeness after factor analysis of the measures in Study 1. Twenty-three usable responses were obtained. Table 1 reports the item means, standard deviations, and *t*-values for the difference between means for the main sample and the "nonresponse" sample. None of the *t*-values are significant, giving some confidence that responding and nonresponding firms are similar on the theoretical variables being studied and that nonresponse bias is not a major concern in this study.

TABLE 1
Analysis for Nonresponse Bias: Difference Between Sample Means

Construct and Sample	M	SD	t-*Value* ($X_1 - X_2$)
Dynamism—Item 2			
Main sample	3.1390	1.6278	
Follow-up subsample	3.6250	2.1515	–1.06 (*ns*)*
Munificence—Item 1			
Main sample	3.7449	1.8254	
Follow-up subsample	3.8750	1.6991	0.35 (*ns*)*
Market Evolution—Item 3			
Main sample	2.1162	1.1196	
Nonresponse sample	2.0625	1.1053	0.22 (*ns*)*
Sales Performance			
Main sample	2.0569	1.0221	
Follow-up subsample	2.3871	1.0223	–1.44 (*ns*)*

NOTE: *ns* = not significant.
* Critical value of $t = 1.64$, $df = 460$, $p = .05$.

Analytic Method

One important characteristic of the hypotheses tested in this study is that a number of the predictions between high and low conditions of the environment are *not monotonic*. Sometimes a goal is predicted to have a positive effect in the one condition and a negative effect or no effect in the other condition, that is, an L- or inverted-V-shaped relationship (cf. McKee et al. 1989). For example, an emphasis on productivity goals is predicted to have a positive effect on performance in growth markets but a negative effect in mature ones. Consequently, treating the environmental factors as continuous variables and fitting a regression or structural equation model to the data from the whole sample is not appropriate for testing the hypotheses. If this were done, nonmonotonic effects are likely to cancel out and show insignificant results.

Because of the above consideration, to test the hypotheses, the data are split into two groups for each of the environmental conditions. The high and low groups are formed by a mean-split on the summed scales for each environmental factor. For Market Evolution, there are 243 cases in the low or growth stage and 196 in the high or mature stage. For Munificence, $n = 217$ for the high-munificence or rich-environment condition and $n = 222$ for the low or lean condition. For the stable or low-dynamism group, $n = 226$, and $n = 213$ for the high-dynamism group.

Measures

Systematic efforts to develop and validate the measures were employed, including content analysis of the items, discussion with franchise owners, and a large-sample measure development study. For a scale to be useful, it must have valid content (face validity), be reliable, its items should converge among themselves, and it should discriminate from the other scales.

An item-sorting procedure administered to 10 judges (graduate students) was used to evaluate the content validity of the measures. Definitions of each construct were provided to the judges. The items to be sorted were randomly listed on two other sheets. Judges evaluated the correspondence between items and construct definitions and assigned each item accordingly. The validity of items was analyzed by employing two indexes—Proportion of

TABLE 2
Measurement Scales: Reliability and Concept Validity

Construct	n	α	P_{ca}	*CV*
Strategic goals			.608	.369
Productivity	5	.710		
Adaptation	3	.641		
Integration	4	.836		
Market Evolution	3	.691	.767	.600
Munificence	4	.857	.925	.850
Dynamism	8	.844	.763	.575
Performance	2	.699	.990	.900

NOTE: P_{ca} = Proportion of Content Agreement; CV = Content Validity coefficient.

TABLE 3
Confirmatory Factor Analysis: Firm Goals

	Factor/Loading[a] *Parameter* (t-*Value*)		
Item	*Productivity Goals*	*Adaptation Goals*	*Integration Goals*
Employee productivity	.470 (9.0)	.00	.00
Inventory control	.684 (13.8)	.00	.00
Operating costs	.686 (13.9)	.00	.00
Financial performance	.589 (11.7)	.00	.00
Survival	.462 (9.0)	.00	.00
Market fit	.00	.634 (11.6)	.00
Market positioning	.00	.734 (13.1)	.00
Customer satisfaction	.00	.516 (9.5)	
Cooperation	.00	.00	.707 (15.9)
Communication	.00	.00	.848 (20.2)
Quality standardization	.00	.00	.682 (15.2)
Mutual commitment	.00	.00	.759 (17.4)

Fit statistics
$\chi^2 = 108.89$, $df = 50$, $p < .001$
Bentler-Bonett's Nonnormed Fit Index = .944
Comparative Fit Index = .957

a. Maximum likelihood estimates, standardized values.

Content Agreement (P_{ca}) (range 0 to 1.0), and Content Validity coefficient (CV) (range –1.0 to 1.0).[7]

The reliabilities for each of the scales in this study are examined via coefficient alpha (Table 2 reports the content validity and reliability statistics). Convergent and discriminant validity is analyzed via confirmatory factor analysis (CFA) using the EQS program (Bentler 1995). Convergence is assessed by items loading significantly on their hypothesized factors (Tables 3 and 4). Discrimination is examined by looking at the correlations among latent constructs. Discriminant validity is tested via CFAs on each pair of constructs. The CFAs are run with the interfactor correlations unconstrained, and then again with the correlations constrained equal to 1. The deterioration in fit is assessed by the difference chi-square statistic (Table 5).

TABLE 4
Confirmatory Factor Analysis: Environmental Dimensions

	Factor/Loading[a] *Parameter* (t-*Value*)		
Item	*Market Evolution*	*Munificence*	*Dynamism*
Stage of market development	.854 (15.7)	.00	.00
Life-cycle stage	.748 (14.1)	.00	.00
Sales trend	.435 (8.5)	.00	.00
Economic growth	.00	.754 (17.4)	.00
Business potential	.00	.758 (17.6)	.00
Demand for product	.00	.822 (19.7)	.00
General consumer demand	.00	.765 (17.8)	.00
Sales fluctuation	.00	.00	.640 (13.7)
Demand uncertainty	.00	.00	.664 (14.4)
Changing competition	.00	.00	.770 (17.6)
Profit fluctuation	.00	.00	.720 (16.1)
Changing preferences	.00	.00	.615 (13.2)
Price instability	.00	.00	.517 (10.7)
Customer switching	.00	.00	.600 (12.8)
New product introductions	.00	.00	.466 (9.4)

Fit statistics
$\chi^2 = 234.94$, $df = 85$, $p < .001$
Bentler-Bonett's Nonnormed Fit Index = .924
Comparative Fit Index = .937

a. Maximum likelihood estimates, standardized values.

Construct operationalizations and their measurement properties are discussed below. Some scale modification was undertaken (involving rewording and reassigning a number of terms) based on the results of the measure development study. Because of space constraints, only the measurement statistics for Study 2 are reported.

Reseller Goals

It is likely a firm will have a number of important goals at any time, but it is unlikely that all will be equally important or that the same set of goals will be important at all times. Hence, informants were asked to rate the *relative degree of importance* (7-point scale, *unimportant/very important*) of each of the goal items to their businesses at this point in time. Goals were conceptualized as productivity, market adaptation, and integration goals and measured by using the following definitions and operationalizations.

Productivity goals are defined as the relative importance placed by firm management on policies for improving the operating costs and revenue flows of the business. They are operationalized with the following items:

a. Improving employee productivity
b. Efficient inventory control and materials management

TABLE 5
Discriminant Validity of Measures

	Latent Factor Correlations[a] *Difference* χ^2 *(p-value)*[b]						
Factor	*Market Evolution*	*Munificence*	*Dynamism*	*Productivity Goals*	*Adaptation Goals*	*Integration Goals*	*Performance*
Market Evolution	1.000						
Munificence	.296	1.000					
	77.34 (p = .000)						
Dynamism	.146	.273	1.000				
	143.91 (p = .000)	24.56 (p = .000)					
Productivity	.052	.024	.217	1.000			
Goals	107.37 (p = .000)	40.27 (p = .000)	21.46 (p = .000)				
Adaptation	–.040	.041	.224	.472	1.000		
Goals	180.8 (p = .000)	61.11 (p = .000)	40.79 (p = .000)	6.51 (p = .010)			
Integration	.041	.050	.212	.319	.329	1.000	
Goals	141.52 (p = .000)	47.89 (p = .000)	29.06 (p = .000)	6.83 (p = .008)	12.72 (p = .000)		
Performance	–.117	.190	–.315	.196	.093	–.046	1.000
	154.79 (p = .000)	78.97 (p = .000)	139.07 (p = .000)	71.26 (p = .000)	93.25 (p = .000)	103.02 (p = .000)	

a. The correlations among latent variables were estimated with a confirmatory factor analysis model including all seven constructs.
b. The difference chi-square statistics were obtained by estimating the constrained and unconstrained factor models for each pair of factors one pair at a time.

c. Keeping operating costs down
d. Financial indexes (e.g., gross margins, cash flow)
e. Business survival strategies

Adaptation goals are defined as the relative importance placed by management on strategies to distinguish the firm from its competitors and strengthen its customer focus. They are operationalized with the following items:

a. Better match between offerings (products, price, promotion) and market preferences
b. Market positioning to distinguish offerings from competitors' offerings
c. Increasing customer satisfaction

Integration goals (vis-à-vis a particular supplier) are defined as the relative importance placed by reseller firm management on strengthening the structural and relational ties between their firm and the supplier firm. The operationalizations are the following:

a. Developing a more cooperative relationship
b. Improving communication and information sharing
c. Coordinated quality assurance programs
d. Strengthening level of mutual commitment

From Tables 2 and 3 it can be seen that by and large, the measurement properties of the revised goal scales in Study 2 are encouraging. The reliabilities are above .60, although ideally, they should all be above .70 for basic research. The content validity coefficients are moderate, with the average P_{ca} = .61 and average CV = .37 (note that the range of CV is –1 to 1). Convergent validity of measures is tested via CFA (Table 3), which shows that all items load significantly on factors as conceptualized, and the fit of the model appears reasonable for a three-factor model, $\chi^2_{(50)}$ = 108.89, Non-Normed Fit Index (NNFI) = .944, Comparative Fit Index (CFI) = .957. The correlations among the latent goal factors are below .48 (Table 5), suggesting that the scales do discriminate. Discriminant validity is further tested by examining the deterioration in fit caused by setting the latent factor correlations equal to 1. As reported in Table 5, the difference chi-square for each pair of constructs is significant, the smallest $\chi^2_{(3)} = 6.51$, $p = .01$, suggesting that the constructs are indeed distinct.

Market Evolution

Market Evolution is defined as the stage in the life cycle of the reseller firm in relation to the development of its local market. It is operationalized with a three-item scale:

a. Classify the firm in one of the following stages: market entry, market growth, mature market, declining market
b. Which statement best describes stage of market development:
   1. A new business working on establishing a foothold in its market
   2. A business established in its market and moving toward its full potential
   3. An established business that has reached its potential
   4. An aging business that has seen its best years

c. Pattern of sales during the past few years: increasing slowly, growing rapidly, more or less stable, declining steadily

From Tables 2 and 4 it can be seen that the Market Evolution scale has an internally consistent factor structure with significant loadings, and $P_{ca} = .77$, CV = .60, and $\alpha = .69$. The scale is adequately valid and reliable for theoretical research.

Environmental Munificence

Environmental Munificence is defined as the degree of favorableness or unfavorableness of demand and economic conditions characterizing the reseller firm's market environment. It is operationalized by using the following four indicators anchored by a 7-point *very favorable/unfavorable* scale:

a. The potential for economic growth in the market area
b. The potential market for businesses of the kind the firm is in
c. The demand in the market for the types of products or services the firm deals in
d. The general consumer demand conditions faced by the firm

This scale performed well in Study 1 and was employed without change in Study 2. The measurement model is confirmed in Study 2 with convergent and significant factor loadings and $\alpha = .86$ (see Tables 2 and 4). In addition, high content validity is demonstrated, with $P_{ca} = .93$ and CV = .85.

Environmental Dynamism

Environmental Dynamism is defined as the degree of change and uncertainty characterizing demand and competition in the reseller firm's market. It is measured with the following items using 7-point *strongly agree/disagree* scales:

a. Sales tend to fluctuate a lot
b. Demand is uncertain
c. The market changes due to intense competition
d. Profits tend to fluctuate
e. Customer preferences tend to change
f. Prices of products or services tend to be unstable
g. Customers switch from one competing franchise to another
h. New products or services are frequently introduced

Study 1 showed the scale to be reliable, but some of the items were redundant contributing little to coefficient alpha. The refined scale performs well in Study 2 (Tables 2 and 4), with reliability improving to .85, and $P_{ca} = .76$, CV = .58, and moderate to high factor loadings that are all significant and convergent.

The CFA for the three environmental scales was performed simultaneously, thus providing evidence of convergent validity. The items load significantly only on their respective factors, and the three-factor model fits the data well, with $\chi^2_{(85)} = 234.94$, $p < .001$, NNFI = .924, and CFI = .937. Evidence of construct discrimination is provided by the correlations among the latent factors of the environment, which are below 0.3 (Table 5). To test for discriminant validity, the latent factor correlations are set equal to 1, and the deterioration in fit is evaluated for each pair of constructs. As seen from Table 5, the $\Delta\chi^2$ between the environmental scales and all other scales are significant at $p = .000$, indicating that the scales measure different constructs.

Performance

Performance is defined as the financial performance of the reseller firm *relative* to other reseller firms in the channel system. A relative measure of performance controls for industry-specific variations in performance parameters. It is measured with 4-point scales using two commonly employed indicators of financial performance, sales and ROI:

a. Sales volume of firm relative to other firms within the channel: top quarter, second quarter, third quarter, lowest quarter
b. ROI of firm relative to the average for firms within the channel: much above, somewhat above, somewhat below, much below

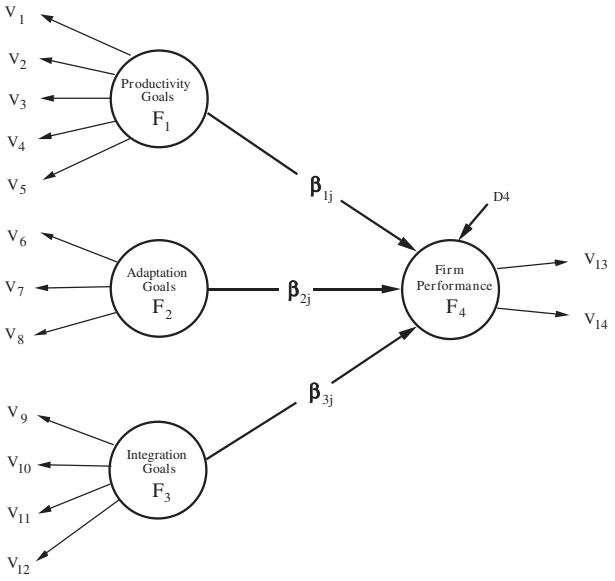
A simple two-item scale was used because sales and ROI represent objective results that are very salient to small business firms and hence tend to be unambiguous. Discussions with franchisers sponsoring Study 1 revealed that franchisees are provided these relative financial data. From Table 2 it can be seen that the items combine to form a reliable and valid instrument, with a reliability coefficient of .70 and validity coefficients $P_{ca} = .99$ and CV = .90.

Discriminant validity is usually evaluated for independent and dependent variables separately because the relation between them is the domain of the explanatory rather than the measurement hypotheses. In this study, the latent factor correlations in Table 5 are estimated for all the constructs together to address any question about conceptual confounds between the goal concepts and performance.[8] These correlations are below .2, negating any such concern. Furthermore, all the pairwise tests of discriminant validity for performance are significant at $p = .000$.

RESULTS

The hypotheses are tested by fitting the covariance structure model depicted in Figure 2 to the data for the subgroups formed by partitioning the data at the means of the three environmental variables. Ignoring for simplicity the

FIGURE 2
Covariance Structure Model of Relationship Between Firm Goals and Performance[a]



a. Error terms are omitted for simplicity.

measurement equations $V_i = \beta_{ij}F_j + E_i$ relating indicators to factors, the *structural* part of the model of Figure 2 is described by the following equation:[9]

$$F4 = \beta_{ij}F1 + \beta_{ij}F2 + \beta_{ij}F3 + D_j,$$

where

$F1$ = productivity goals, $F2$ = adaptation goals, $F3$ = integration goals, and $F4$ =performance;
β_{ij}, $i = 1, 2, 3$ is the order of parameters in each equation corresponding to $F1, F2, F3$; and $j = 1, 2, \ldots, 6$ references the environment subgroup; and
D_j is the disturbance.

In the discussion below, the Hypotheses 1 through 6 are interpreted in terms of the structural parameters β_{ij} of the above equation. There are two steps involved in testing hypotheses across subgroups.

First, the model is estimated across the two groups simultaneously, with corresponding model coefficients constrained to be equal across the groups (Lusch and Serpkenci 1990). This gives a chi-square statistic for the model's fit as if there are no differences in coefficients between the subgroups. Next, the model is reestimated with the constraints removed, and the resulting chi-square is compared with that from the first estimation. A significant difference chi-square implies the coefficients in the unconstrained analysis are different across the two groups. For Market Evolution, $\chi^2_{(138)} = 244.425$ for the constrained model and $\chi^2_{(135)} = 231.310$ for the unconstrained model. The difference chi-square is significant, with $\Delta\chi^2_{(3)} = 13.115$, $p = .004$. For Munificence, $\chi^2_{(132)} = 221.302$ for the constrained model and $\chi^2_{(129)} = 197.593$ for the unconstrained model. This difference is statistically significant, with $\Delta\chi^2_{(3)} = 23.709$, $p = .000$. And for Dynamism, $\chi^2_{(137)} = 248.321$ for the constrained model and $\chi^2_{(134)} = 234.907$ for the unconstrained model. The difference is significant with $\Delta\chi^2_{(3)} = 13.414$, $p = .003$. Thus, model coefficients are significantly different across subgroups for all environmental conditions, and we can proceed to the second step, that is, examining the differences between parameters.

The second step is to determine if the coefficients are statistically different within each group as hypothesized. For this, note that most of the hypotheses make two kinds of statements. There is the usual direction of effect statement (the subhypotheses *a*, *b*, *c*) tested via the ± sign of the relevant beta parameter. But there is also a statement of order of priority of the goals; the implication being that higher priority goals have a greater effect on performance (hypotheses *d*).

Goal priorities are evidenced by the relative magnitude of the relevant beta parameters. Where one parameter is predicted to be positive, another zero, and a third negative, and this is statistically supported, then this order is also necessarily statistically significant (i.e., a significant positive parameter is by definition statistically different from zero and all negative values, and vice versa). Such cases are self-evident in the hierarchy of effects. So the hypotheses *d* are limited to cases where the predicted effects of two goals are in the same direction but differ in the magnitude of effect (e.g., $\beta_{11} > \beta_{31} > 0$). This is tested by reestimating the model in question with the relevant parameters constrained equal to each other (e.g., $\beta_{11} = \beta_{31}$). The EQS program provides a Lagrange Multiplier (LM) test of the null hypotheses $\beta_{11} - \beta_{31} = 0$.

The key results (structural parameters) derived from fitting the model of Figure 2 are reported in Table 6.[10] All six models reveal acceptable levels of fit, with all but one of the NNFIs and CFIs being greater than .9 and standardized root mean squares (SRMRs) near about .05.

Hypothesis 1 predicts that in growth markets, productivity and integration goals have positive effects on performance in that order of magnitude, whereas adaptation goals have no effect. In contrast, in mature markets, adaptation and integration are positively related in order of magnitude to performance, and productivity goals have a negative effect. Thus,

Hypothesis 1a: $\beta_{11} > 0$, Hypothesis 1b: $\beta_{31} > 0$, Hypothesis 1c: $\beta_{21} = 0$, and Hypothesis 1d: $\beta_{11} > \beta_{31} > 0$.
Hypothesis 2a: $\beta_{22} > 0$, Hypothesis 2b: $\beta_{32} > 0$, Hypothesis 2c: $\beta_{12} < 0$, and Hypothesis 2d: $\beta_{22} > \beta_{32} > 0$.

TABLE 6
Relationship Between Firm Goals and Performance for Various States of the Environment

Environmental State		*Structural Parameters*[a] *(t-Values*[b]*) for the Effects of Goals on Performance*			*Fit Statistics*[c]
		Productivity Goals	*Adaptation Goals*	*Integration Goals*	
Market = growth	$n = 243$	.341	–.256	.104	$\chi^2 = 160.48$, $df = 66$, $p < .001$
		(3.089)	(–2.216)	(1.414)	NNFI = .877, CFI = .910, SRMR = .057
Market = mature	$n = 196$	–.392	.194	.031	$\chi^2 = 70.833$, $df = 69$, $p = .416$
		(–2.659)	(1.764)	(0.298)	NNFI = .996, CFI = .997, SRMR = .052
Munificence = rich	$n = 217$	–.296	.235	–.064	$\chi^2 = 122.33$, $df = 67$, $p < .001$
		(–2.799)	(2.290)	(–0.829)	NNFI = .923, CFI = .943, SRMR = .050
Munificence = lean	$n = 222$	.230	.139	–.005	$\chi^2 = 99.828$, $df = 68$, $p = .007$
		(2.149)	(1.314)	(–0.057)	NNFI = .937, CFI = .953, SRMR = .050
Dynamism = stable	$n = 226$	.257	–.124	.068	$\chi^2 = 121.03$, $df = 68$, $p < .001$
		(2.577)	(–1.355)	(0.920)	NNFI = .913, CFI = .935, SRMR = .051
Dynamism = high	$n = 213$	–.230	.371	–.000	$\chi^2 = 113.87$, $df = 68$, $p < .001$
		(–1.856)	(2.649)	(–0.000)	NNFI = .929, CFI = .948, SRMR = .048

NOTE: NNFI = Nonnormed Fit Index; CFI = Comparative Fit Index; SRMR = standardized root mean square residual.
a. Maximum likelihood estimates, standardized values.
b. All directional hypotheses evaluated as one-tailed tests, t(critical) = 1.28 for $p = .10$, $t = 1.64$ for $p = .05$, and $t = 2.34$ for $p = .01$.
c. Variation in degrees of freedom is due to correlations among the independent variables and a few correlated errors.

The estimate for β_{11} is positive and significant ($\beta_{11} = .341$, $t = 3.09$, $p < .01$), supporting Hypothesis 1a that placing a priority on productivity goals in the growth stages of market evolution is associated with enhanced firm performance. Integration goals are also positively related to performance ($\beta_{31} = .104$, $t = 1.41$, $p < .10$), supporting Hypothesis 1b. Adaptation goals show a significant negative relationship with performance ($\beta_{21} = –.256$, $t = –2.22$, $p < .05$). The result rejects the zero effect predicted by Hypothesis 1c but points to an important conflict between productivity and adaptation strategies, which is consistent with other findings discussed below.[11] Regarding the order of effects hypothesized by Hypothesis 1d, whereas $\beta_{11} = .341$ is greater than $\beta_{31} = .104$, the LM test of the constraint $\beta_{11} = \beta_{31}$ fails to reject the null hypotheses, $\chi^2_{(1)} = .283$, $p = .595$. Thus, it cannot be said β_{11} is significantly greater than β_{31}.

In mature markets, as predicted by Hypothesis 2a, adaptive goals have a positive relationship with performance ($\beta_{22} = .194$, $t = 1.76$, $p < .05$). But the predicted complementary effect of integration goals does not materialize, and β_{32} is insignificant at .31 ($t = .30$), rejecting Hypothesis 2b. In mature markets, Hypothesis 2c predicts that productivity goals conflict with adaptation and thus have a negative effect. This indeed is the case with $\beta_{12} = –.392$ ($t = –2.66$, $p < .01$). Finally, since β_{32} is not greater than 0, the order of effect hypothesized by Hypothesis 1d is not supported.

In munificent environments, adaptation and integration goals are predicted to have positive effects on performance (in that order of importance), whereas productivity goals have a negative effect. But when environments are *not* munificent, emphasizing productivity and adaptation goals has a positive effect on performance, but integration goals have no effect. Thus,

Hypothesis 3a: $\beta_{23} > 0$, Hypothesis 3b: $\beta_{33} > 0$, Hypothesis 3c: $\beta_{13} < 0$, and Hypothesis 3d: $\beta_{23} > \beta_{33} > 0$.
Hypothesis 4a: $\beta_{14} > 0$, Hypothesis 4b: $\beta_{24} > 0$, Hypothesis 4c: $\beta_{34} = 0$; and Hypothesis 4d: $\beta_{14} > \beta_{24} > 0$.

From Table 6 it can be seen that as predicted by Hypothesis 3a, in a rich task environment, higher firm performance is associated with an emphasis on adaptation goals ($\beta_{23} = .235$, $_t = 2.29$, $p < .05$), whereas pursuing productivity has a negative relationship ($\beta_{13} = –.296$, $t = – 2.80$, $p < .01$), supporting Hypothesis 3c. However, $\beta_{33} = –.064$ is insignificant, with $t = –.83$, thus Hypothesis 3b's prediction that integration goals are also positively related to performance is not supported. It also follows that the order of effects hypothesized by Hypothesis 3d is not supported.

According to Hypothesis 4a, in lean environments, emphasizing productivity goals has a positive effect on performance, and this is complemented by a secondary positive effect from adaptation goals (Hypothesis 4b). The productivity relationship is supported with $\beta_{14} = .230$ ($t = 2.15$, $p < .05$). The secondary association is supported with $\beta_{24} = .139$, but it is significant only at $p < .10$ ($t = 1.31$). Integration goals were predicted to be unrelated to performance, and $\beta_{34} = –.005$ is insignificant with $t = –.057$. The magnitude of the parameters is also consistent with the order of effect predicted in Hypothesis 4d (i.e., $\beta_{14} > \beta_{24}$); however, this is not verified statistically. The LM test fails to reject the null hypotheses $\beta_{14} – \beta_{24} = 0$, $\chi^2_{(1)} = .006$, $p = .941$.

Hypothesis 5 predicts that when task environments are stable, focusing on productivity boosts performance, and

this is complemented by integration goals, which also have a positive, secondary effect. However, pursuing adaptive initiatives decreases performance. In contrast, in dynamic environments, adaptation goals are positively related to performance, whereas integration and productivity goals are negatively related. Thus,

Hypothesis 5a: $\beta_{15} > 0$, Hypothesis 5b: $\beta_{35} > 0$, Hypothesis 5c: $\beta_{25} < 0$, and Hypothesis 5d: $\beta_{15} > \beta_{35} > 0$.

Hypothesis 6a: $\beta_{26} > 0$, Hypothesis 6b: $\beta_{36} < 0$, and Hypothesis 6c: $\beta_{16} < 0$.

The positive relationship between productivity goals and performance in stable environments is supported with $\beta_{15} = .257$ ($t = 2.58$, $p < .01$), and adaptation goals are significant in the predicted negative direction at $p < .10$ ($\beta_{25} = -.124$, $t = -1.36$). However, integration goals are insignificant ($\beta_{35} = .068$, $t = .92$). Thus, Hypotheses 5a and 5c are supported, but Hypotheses 5b and 5d are rejected. In dynamic environments, adaptation goals are positively related to performance ($\beta_{26} = .370$, $t = 2.65$, $p < .01$), as predicted by Hypothesis 6a. Productivity goals have a negative association ($\beta_{16} = -.230$, $t = -1.86$, $p < .05$), as predicted by Hypothesis 6c. But integration goals are not significant ($\beta_{36} = -.000$, $t = -.00$), rejecting Hypothesis 6b, which predicted a negative effect. Thus, Hypothesis 6 is partially supported (there is no order of effect hypotheses for Hypothesis 6).

Summarizing the findings, it is significant that the leading or primary elements of all six hypotheses (which represent the top priority goal) are supported. Support for the secondary predictions when they complement the primary is indifferent at best. But it is noteworthy that productivity and adaptation have a more or less consistently contrary relationship with performance. A surprising result is that only one of the hypotheses pertaining to integration goals is supported, while four are rejected (one other that is not rejected is a less compelling result since it predicted a zero effect). Since integration in all cases was argued to be the complementary secondary goal, its poor showing means all the predictions regarding a *hierarchal* order among goals are not supported. The lack of effects due to integration goals raises interesting questions for discussion. This follows in the next section.

DISCUSSION

Primary Effects

It is significant that the leading or primary elements (*a*) of all six hypotheses (which represent the top priority goal) are supported. In the growth stages of a market franchisee firm, performance seems to improve when the firm concentrates on productivity goals such as improving efficiency, controlling costs, gross margins, cash flow, and so forth. In contrast, in mature markets, we find that the goals associated with adaptation imperatives—such as stronger customer service, positioning and differentiation of products vis-à-vis market preferences—emerge to the fore.

When environments are munificent in resources and opportunities, franchisees appear to improve performance by prioritizing adaptation goals. On the other hand, in lean environments, the data suggest firms are better off pursuing a conservative business strategy, circling the wagons, and emphasizing productivity goals.

Stable environments are conducive to optimizing internal operations when there are few external disturbances and pressures competing for management attention. Prioritizing productivity goals appears to return the best performance dividends. Dynamic environments on the other hand call for management to focus attention on the sources of dynamism that are external to the firm and on strategies for dealing with them. This highlights adaptation goals.

The above findings support Mintzberg's (1983) contention that organizations select a primary goal that they maximize. However, they are equivocal regarding the second part of Mintzberg's logic that firms prioritize goals in ordered hierarchies.

Hierarchical Effects

There are three noteworthy aspects about the findings regarding the hierarchical secondary and tertiary effects.

First, there are the hypotheses *b* that propose a second goal set acts as a complement to the primary goal set in enhancing performance. In the case of lean environments, this goal is adaptation and it does have a significant effect but at the .1 level. In all other environments, the complementary goal set is integration. Except for growth markets (where they have a significant positive effect), integration goals are uniformly insignificant.

There are plausible, albeit at this time speculative, explanations of this result. It is possible that channel integration effects are more complex than depicted in Figures 1 and 2, that integration acts to *mediate* the effects of the primary goals in various ways. The benefits of franchiser-franchisee integration may be of a general kind. It may work via building franchisee learning, management skills, and business acumen. It may expose franchisees to important information about their markets and alternative ways of thinking about their marketing strategies, from which they are able to better devise their own, local responses (in mature, dynamic, or munificent markets). These effects are long-term in nature and not likely to show up readily in the current-term financial indexes used to measure performance in this study.

The second finding of note regarding secondary effects is the inverse relationship between productivity goals and

adaptation goals. Except in the case of lean environments where adaptation offers a mild complement to the pursuit of productivity, in all other situations, the two have contrary relationships. When productivity has a positive relationship with performance in growth and stable environments, adaptation has a negative one. When adaptation has a positive association in mature, rich, and dynamic markets, productivity is negatively associated.

This is so presumably because productivity goals are internally oriented at a time when an external orientation is critical and vice versa. Actions such as tight cost and inventory controls, margin management, and so forth could very well exacerbate adaptation problems by focusing managerial attention on solving the wrong problems. Conservative, productivity-driven decisions could also constrain budgets and needed resources for implementing adaptive strategies. Likewise, adaptation strategies appear to interfere with performance in growth and stable environments when productivity has a positive impact on performance.

The root of this conflict may reside in the fact that internal and external orientations are difficult to nurture at the same time. In fact, the results are reminiscent of the much emphasized distinction in the literature between effectiveness and efficiency, that is, the difference between doing the right thing (adaptation) and doing things right (productivity). There is a string of classic pieces in the literature that imply organizations are rarely ambidextrous in this regard—Lawrence and Lorsch's (1967) mechanistic versus organic organizations, Porter's (1980) cost-leadership versus differentiation strategies, and so forth.

The third important observation concerns the specific hierarchical differences proposed by the *d* hypotheses. These hypotheses resulted due to the analytic necessity of testing for significant differences between two hierarchically related goals when the predictions for the goals were in the same direction. There are two instances (growth and lean environments) when the hypothesized effects were statistically significant in the same direction. However, in each case, the difference between the parameters did not stand the test of statistical significance. In any event, the theoretical and practical significance of the hierarchical order among goals is more than a little muddied because in this order, integration goals are the principal candidate. Integration goals, as we have seen, did not fare well in this study.

CONCLUSION

Channel functions, power, and marketing strategy are more widely distributed in today's volatile markets. To understand the mechanisms driving performance in channels, it seems useful to have an understanding of the forces that shape the structure and priority of strategic goals pursued by its downstream members—that is, the reseller firms (franchisee firms in this study) that are in direct proximity to the customer and marketplace.

In this article, franchisee strategic goals are conceptualized in clusters defined as productivity goals, market adaptation goals, and channel integration goals. In a given environment, a firm selects a primary goal that it seeks to maximize. But other goals have secondary and tertiary effects on performance. Some effects are conjunctive and complement performance, whereas others are disjunctive and degrade performance.

All hypothesized primary goal effects are supported in the study. This lends support to Mintzberg's argument that firms select a primary goal that they maximize. In growth markets, productivity goals appear to be the important determinants of performance. In contrast, in mature markets, adaptation goals appear to have the major (positive) influence on performance. Adaptation also plays the major role in affecting performance (positively) when environments are munificent (rich in resources). But when environments are lean (scarce in resources), franchisee firms seem to prioritize productivity goals for performance. Finally, in stable environments, productivity goals are the major determinants of performance and are prioritized, whereas in dynamic markets, adaptation goals are the primary drivers of performance.

The hypothesized effects of secondary goals are supported less uniformly but nevertheless offer useful insights. In particular, there appears to be a more or less consistent conflict between productivity goals and adaptation goals. Except in the case of lean environments where adaptation offers a mild complement to the pursuit of productivity, in all other situations, the two have contrary effects. This is so presumably because productivity goals are internally oriented at a time when an external orientation is critical.

The surprise is the uniformly poor showing of effects due to channel integration. Except for growth markets, none of the directional hypotheses for integration goals are supported. Integration effects may be more long-term in nature and not readily captured in current-year financial indexes such as sales revenue and ROI used in this study. This suggests at least one important avenue for future research, that is, looking at other dependent effects of the various goals. Such dependent effects may include behavioral and long-term variables like reduced dysfunctional conflict and increased constructive interactions, generation of more innovative ideas from members, fewer marketing failures, and even performance with fewer cyclical effects.

The above also highlights the usual caveats that apply to any inferences drawn from cross-sectional survey researches. First, the method employed does not readily allow testing for interactive effects among the various goals. Second, some goal effects (such as those of adapting

to changes in the marketplace) may not yield short-term payoffs and may require longitudinal studies to capture fully. Third, the results are influenced by the particular measures used to operationalize constructs. Although care was taken in systematically developing and validating the measures, they are but a sampling of the construct domain. They are also perceptual measures. While it can be argued that the only environment relevant to managerial decision making is that which is perceived by management, misperceptions can be expected to have negative effects on performance over time. Alternative ways of defining and operationalizing the constructs, using different time frames and longitudinal designs, or using objective measures, could give different results than those discovered here.

The relationships studied are but a slice of a complex interorganizational phenomenon. As depicted in the boldface box of Figure 1, there are a variety of organizational processes and tactics related to goal implementation that surely mediate the relationship between goals and performance. And there may be other external dimensions besides market evolution, munificence, and dynamism that have important influences. These represent prospective avenues for extending research in this area.

One other area for future research includes looking at supplier goals in relation to the market environment and how they interact with reseller goals. The conventional literature argues that a major source of channel conflict is goal and domain dissensus. But this position is often argued from the viewpoint of a manufacturer-controlled channel. It would be interesting to theorize what the performance consequences of goal consensus are versus divergence in relational exchange. This will require a finer conceptualization of environmental effects to include influences emanating from the input, technological, and regulatory environments. In certain situations (e.g., in responding to new products and strategies emanating from competing manufacturers, or the effects of deregulation), goal consensus and consistent implementation may be more important to performance. In others (e.g., responding to bottom-up pressures such as changing consumer preferences), goal divergence may indeed produce more innovative solutions and performance in the long term.

A theory of goal structures is also likely to be important in designing the internal resource flows and managerial support systems that are integral to vertical marketing systems in general and relational exchanges in particular. Traditional mechanisms of control (whether based on hierarchical fiat, legal contract, or market power) are not conducive to fostering and maintaining relational cultures. Rather, focal firms rely on offering services and resources (financial assistance, training, managerial advice, information sharing, design assistance, technology transfer, etc.) to members as incentives, to coordinate network operations, and to maximize system effectiveness and efficiency. The value of these incentives is likely to be directly proportional to the kinds of strategic goals being prioritized by the recipient firm.

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NOTES

1.These include efficiency versus effectiveness, internal versus external orientation, cost versus differentiation leadership (Porter 1980), production and product orientation versus market orientation (Kotler 2000), and defender versus analyzer and prospector conceptualizations (Miles and Snow 1978). Most of these conceptual frameworks have been developed with the classic manufacturing firm as the unit of analysis and its performance vis-à-vis industry competitors as the subject of explanation. Consequently, these conceptualizations do not map readily to reseller firms in a marketing channel (e.g., the product-oriented prospector strategy or the dual product-market analyzer strategy).

2. The literature sometimes distinguishes between the internal process and behavioral system models (in addition to the rational and open system ones). For the purposes of this study, the internal process and behavioral models are treated as one. A number of conceptual studies suggest that the various effectiveness criteria can, in fact, be integrated into three basic models as in this study (Scott 1977; Seashore 1983).

3. Performance is a hierarchical concept. At an encompassing level, it includes measures such as consumer and distributor relationship effectiveness, innovation and new product performance (Moorman and Rust 1999; Srivastava, Shervani, and Fahey 1999), and effectiveness with marketing alliances and networks (Achrol and Kotler 1999). In marketing channels, Kumar, Stern, and Achrol (1992) used Parsons's (1959) framework to develop a comprehensive framework that can be used by suppliers to measure the overall "health" of their resellers. In this study, we are interested in the interrelationships between the components of reseller effectiveness. Thus, we take Parsons's framework more literally. Parsons's framework is about organizational "imperatives," things that organizations must *strive to achieve* to be successful. We operationalize this as follows: what does the firm need to achieve (goals) to be successful (performance)? Many effectiveness issues such as new products and customer relations are part of a reseller firm's adaptation goal set, and the issues about distributor relationships are part of the integration goal set. Consequently, for performance itself, we choose a narrower, bottom-line level of conceptualization of performance as *relative* financial performance that includes measures of sales revenue and ROI.

4. Munificence may at times be related to market evolution, but they are not colinear. Early stages of a market life cycle may be characterized by favorable growth or by a struggle to establish viability and market acceptance. During the early heydays of e-businesses, even the most successful in terms of rate of growth (e.g., Amazon) were not facing a munificent environment and continued to accumulate large losses. Likewise, mature markets are sometimes stable and rich (McDonald's) and in other instances turbulent and lean (KFC), depending on industry shakeouts, new competition, and innovation (cf. Lambkin and Day 1989).

5. In general, it is not possible to prove the null hypotheses. However, in this study, we are contrasting the same model fitted across two sets of data (the high and low conditions), in one of which a parameter may be predicted to be zero but not in the other. Thus, the zero effect has

some (comparative) inferential value and is not literally an effort to prove a null hypothesis.

6. Nonresponse bias is sometimes evaluated by comparing the obtained sample with the population on some descriptive firm variables such as sales, number of employees, and so forth. This procedure does not provide adequate assurance that respondents are not different from nonrespondents on the *theoretical* variables being studied. In this study, we compared the obtained sample with a small nonrespondent sample on select theoretical variables.

7. Proportion of Content Agreement, $P_{ca} = n_c/N$

Content Validity coefficient, $CV = (n_c - n_o)/N$,

where

n_c = number of judges assigning an item correctly,

n_o = highest number of assignments of item to any other construct in the set, and

N = total number of judges. (Anderson and Gerbing 1991).

8. In conceptualizing performance, we make an important departure from Kumar et al. (1992), namely, in this study, we predict that the "facets of effectiveness" are differentially important in different market circumstances (a contingent relationship). *This is a strong statement against a confounding relationship*. The empirical finding that at times some goals are shown to be positively related to performance and at others negatively related is evidence that there is no confound here.

9. The EQS notation system does not employ the typical math symbols for linear models but represents parameters to be estimated by simple asterisks. It is difficult to discuss the results of a number of models without suitable symbols. Hence, the usual regression notation β is substituted in this article for predicted relations among variables.

10. Whereas simultaneous, two-group analysis was used earlier to test for significant model differences across the subgroups, for hypotheses testing, the models are fitted to each subgroup individually. This generates fit statistics for each subgroup, whereas there is only one set of fit statistics when fitting to the two groups simultaneously. Note that there are no differences in parameter estimates when the *unconstrained* model is fitted to two groups simultaneously or each subgroup individually.

11. On reflection, this is a plausible result. A reseller firm operating in a growth market is likely to gain less and risk more by tinkering with the marketing formula of the supplier firm, at least until it is much better experienced in its market. Performance could suffer, in the worst-case scenario, by destabilizing the degree of market fit with unnecessary interventions, and in the least case, due to wasteful allocation of resources.

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