Governance of international distributors through incentive travel programmes: Insights from manufacturing enterprises

Distributors are important export channels for internationally active small and medium sized manufacturers. Effective governance of these channel members is crucial for the manufacturers’ sales and marketing success. Unilateral incentive schemes represent one mechanism to govern distributors. The variety of incentives is noticeable, among them, incentive travel programmes are one possible instrument for sales managers to steer and motivate their sales partners. This paper examines how incentive travel initiatives can be designed in international business and provides an insight into their application by manufacturing companies.

Based upon a literature review a schema for organizing the variety of incentives is developed and at that point travel incentives are classified within this taxonomy. Then, general design possibilities for incentive travel programmes are discussed. A qualitative study conducted within 5 manufacturing enterprises highlights how the design is used by Austrian manufacturers. The results suggest that the investigated companies rather use a bilateral governance approach when applying incentive travel programmes in order to strengthen the relationship with the distributors in the long term and not primarily to motivate them in the short run. This contradicts the common classification of incentive travel in the literature and questions the common practice of artificially separating governance mechanisms and their (unilateral or bilateral) characteristics without taking business reality into account.

Finally, the study provides some insights about country and culturally specific aspects which ought to be considered when designing an incentive travel programme. The paper concludes that especially the specific nature of different countries opens a wide range of opportunities for further research in the area of channel governance through incentive travel.

1 Introduction

In distribution policy numerous companies tend to outsource specific functions and activities to external channel members and ensure a long-term commitment to the established business relationship (Kotler et al. 2008, p. 881). The governance of channel intermediaries therefore, belongs to the important strategic tasks of marketing and sales departments (Mehta, Dubinsky and Anderson 2002). Mechanisms for controlling channel members are therefore, intensively discussed in academic research (e.g. Luo et al. 2011). Control mechanisms for downward or upward channel partners, i.e. for suppliers or distributors, are classified from different viewpoints and thus given broader meanings (Zhuang and Zhang 2011). However, the various governance mechanisms do not
have direct real-world equivalents (Heide 1994). Hence, sales and marketing managers are required to manifest them through specific instruments or programmes – like incentives (Gilliland und Bello 2001). Incentive travel programmes represent one possibility to influence distributors to sell more products and motivate the business partner (Severt 2013). However, incentive travel schemes are merely used for organizations’ own sales force in (Jeffrey, Dickinson and Einarsson 2013) and rarely discussed in European literature.

2 Literature review

The channel governance concept is prominently discussed in several diverse research logics, including behavioral research (e.g. Coughlan et al. 2006, p. 196), economics (e.g. Grewal et al. 2013), relational contracting (e.g. Zhou et al. 2015), and organization theory (e.g. Joshi 2009). Hereby, the term channel governance refers to the ways exchange is coordinated and the processes and mechanisms in place to manage business relationships in order to finally reach one’s own and common goals (Homburg et al. 2009). Among these mechanisms the study of Heide (1994) is one of the most discussed in the literature. He distinguishes between two forms of control based upon the dominance of one business partner: unilateral and bilateral. Unilateral governance, a form which is based on authority, means that one party establishes mainly formal rules that control the business relationship (Gilliand, Bello and Gundlach 2010). The emphasis of this governance mechanism is put on the information aspect of performance (Nevin 1995) and is manifested in two forms: First output control, which contains the examination of distributor performance against ex-ante defined targets, and second, process or behavior control, which involves steering distributor behavior through information and recommendations (Grewal et al. 2013).

In contrast, bilateral governance which is equivalent to normative, social or relational governance (Weitz und Jap 1995) is founded on shared understandings and mutual trust. Thereby, the operating parameters of the business relationship are guided through social ties (Gilliand, Bello and Gundlach 2010) and the assumption that the distributor will himself set actions leading to positive outcomes for the supplier (Huang, Cheng, and Tseng 2014). Participation and flexibility are typical characteristics of bilateral governance mechanisms (Luo et al. 2011).

However, these governance mechanisms can also be used at the same time in a complementary way which may have a positive impact on the cooperation between the partners (Cannon, Achrol and Gundlach 2000).

Gilliland (2003) categorizes incentive travel as a form of unilateral control in order to influence a distributor’s outcome through instrumental rewards. He further admits that monitoring is unnecessary as the results (e.g. sales) are achieved or not. Severt (2013) defines channel incentive travel programmes as travel provided to owners or employees of the channel partner with the aim to motivate them to improve their performance. However, a systematic screening of the abstracts of the peer-reviewed marketing literature with the key words “incentive”, „distribution or indirect channel or supplier” and „governance or control” (combined with Boolean connectors) for the period of 2000 to January 2016 resulted in only 7 articles which do not distinctly treat this specific form of incentives. The basis for this literature review was the ranking of the VHB-JOURQAL, a high quality classification of publications (Clermont and Schmitz 2008). Thus, it can be pointed out that researchers have not distinctly discussed incentive travel programmes as an instrument for governing distributors in much detail.

3 Purpose and aim of research

Studies about incentive travel programmes rarely focus exclusively on this specific type but rather subsume them under unilateral monetary or economic incentives. Incentives are also strongly
criticized for crowding out intrinsic motivation, putting employees under pressure and for their ceiling effects (Achtziger et al. 2014). Other researchers simply consider them as a motivational manifestation of formal control mechanisms (Dong, Tse and Hung 2010) or as an important element - next to monitoring and enforcement - of the distributor control process (Gilliland, Bello and Gundlach 2010). Despite this, investigations in the hospitality research stream indicate that incentive travel can also be differently understood depending on the design of this instrument (Fenich et al. 2015) and its usage in different cultures (Gunkel 2006, p. 38).

Therefore, this study first investigates the elementary design facets of incentive travel programmes and the derived governance character. Moreover, the study aims at working out the importance of cultural aspects that have to be considered when designing and implementing incentive travel programmes. Thus, this paper aims at adding insight into this specific distributor governance instrument by referring to the two research questions:

1) How can incentive travel programmes be designed to achieve different effect mechanisms of governance?
2) Which country or culturally specific aspects should be considered when designing and implementing incentive travel programmes?

4 Methodology

In this study the use of a qualitative approach seemed to be the most appropriate method to adopt for this explorative-descriptive investigation. Therefore, expert interviews were conducted due to their insightful character for the qualitative inquiry (Patton 2002). This method enables an exploration of a broad and in-depth expertise from various perspectives of different organizations in different sectors with respect to the subject area of governing distributors. Bogner et al. (2004, p. 7) emphasize that experts can provide insider knowledge through their key positions and gathered expertise. Thus, five experts were selected and interviewed about their experience and use of incentive travel programmes. Additionally, managers of a further eight companies which deliberately do not use incentive travel were interviewed as well to get insights about possible obstacles. The experts were chosen from different managerial positions to get a broader perspective about the topic, i.e., managing directors, heads of marketing and heads of sales. All companies investigated are Austrian, mainly family owned and small or medium-sized. As 99.6% of all Austrian companies are micro, small or medium-sized and employ around 67% of Austrian employees (Statistik Austria 2015) the non-probabilistic SME-sample was chosen accordingly. The investigated companies operate in the manufacturing sector mainly in engineering, sell their products through international distributors and are well experienced in incentive travel programmes.

The data was collected mainly through face-to-face interviews, only one interview was conducted via phone - all in the period from April to May 2011. The semi-structured interviews aimed at a focus on richness rather than volume of the information provided and allowed performance of deeper analysis regarding the informants’ opinions. The questionnaires included open-ended or causal questions to get essay-format answers. To capture the richness of answers all interviews were conducted in the mother tongue.

5 Findings about the design of incentive travels

Severt (2013) points out that the design of incentive travel programmes is one of the main factors for success if used as a governance instrument. The design of incentive travel programmes finally determines which effect mechanism of governance is achieved. Thereby, the following design
aspects are fundamental: (1) target audience within the distributorship, (2) format of the programme and performance measurement, (3) reward composition, (4) involvement of and communication to the distributor and (5) post-execution actions (Jeffrey 2014; Fenich et al. 2015; Jeffrey, Dickinson and Einarsson 2013).

5.1 Target audience within the distributorship

The management and the sales force of the distributor are extraordinarily decisive players for the success of a manufacturer (Hughes and Ahearne 2010). Additionally, it is crucial to decide whether a team or an individual person will receive the travel reward. Studies conducted in the US about incentives used for companies’ own employees indicate a strong use of predominantly group based incentive travel programmes for their own, sales force (Jeffrey, Dickinson and Einarsson 2013). The interviewed informants also report focusing on the sales force of the distributors because of their direct contact to the end customers and because a reward for the distributors’ manager does not lead to the desired objective. However, some respondents also indicate the additional use for the sales partner’s managers because of easier administration and no unpleasant interference in the distributors’ business. Rewarding individuals (and not teams) proves to be advantageous due to being less expensive and facilitating the measurement of performance (Dacin, Ford and Murphy 2004). Most informants opt for this form but include different winning levels for heterogeneous sales force groups to provide greater fairness.

5.2 Format of the incentive travel programme and performance measurement

In the literature, the competitive format for incentive travel programmes in the form of a sales contest is most frequently discussed with the argument that this format motivates sales people to achieve higher levels of performance (Severt 2013). The second format is an implementation within a recognition programme and awards the prizes without any ex-ante competition (Dacin, Ford and Murphy 2004). The companies investigated prefer the competitive format. Still they aim to provide a fair framework involving the individual distributor and mutually agreeing on target setting or offering adapted winning categories.

In the examined enterprises the performance of the distributor is then measured with economic parameters (i.e. output) as well as with behavior-based metrics. The arguments for using behavioral measurements are the wish to take into account the heterogeneity of the participants and the bigger impact on the fulfillment of the goals in the long-run. This indicates that the companies investigated do not merely focus on short-term results but view this instrument as a means for reaching long-term targets.

5.3 Reward composition

In general, enterprises have edged away from a one-size-fits-all tactic toward a more customizable approach for composing the reward itself (Fenich et al. 2015). However, it has become commonplace that the reward, i.e., the travel, must be of extraordinary character for the target group (Severt 2013). Therefore, the travel should not only be feasible for possible participants – like date, practicality or security considerations – (Fenich et al. 2015) but also attractive which is a result of the travel destination itself and the composed programme, such as “action”, “luxury” or “work related” activities (Fisher 2005, p. 140; Kovalesky 2006). A common view amongst interviewees is that the destination and theme are dependent on multiple factors such as nationality, personality or type of industry. Therefore, the informants also apply a more customized approach. Nevertheless, it is notable that the companies combine travelling with some work related aspects (like visiting a fair
or conference) and mainly travel in groups accompanied by their own sales manager or sales persons in order to enhance commitment and provide a common positive experience. Despite this, some informants point out that they also use individual (unattended) travel where the winners can take along a second person (e.g. partner). In this design the strengthening of the relationship or commitment is not their focus.

5.4 Involvement and communication to the distributor

The announcement of the travel incentive plays a crucial role in its success too. This concerns the internal communication within one’s own company and in particular to the distributor, mainly the managing director of the sales partner (Fisher 2005, p. 14). The empirical investigation indicates that a bilateral approach is merely used for distributors. In all cases, the informants report that they do not officially announce the incentive travel but rather communicate it in the form of personal invitations appealing to (common) values of the distributor’s manager (like his/her honour). Some companies even mention deciding together with the sales partners’ manager about the programme in order to focus on the relationship aspects and not to put any pressure on participants. Others actively involve the travel participants in the decision-making process about specific activities. Only if the design of the incentive travel is in a competitive format the communication to the distributors’ manager is not seen important. However, this has only been mentioned by a minority of informants.

5.5 Post-execution actions

Compared to cash awards, incentive travel programmes can be more meaningful, motivational, and memorable (Fenich et al. 2015). They can strengthen the relationship of the distributor with the supplier if tangible artifacts of the travel, such as souvenirs, videos, post-event homepage tags or photos, are provided (Jeffrey 2014). Physical reminders can support the feeling of appreciation and may lead to positive word-of-mouth among colleagues or other distributors without giving the impression of bragging (Jeffrey 2014). Interestingly, issues related to post-travel actions are not particularly prominent in the interview data. Physical artifacts are not collected at all by the interviewed firms and feedback about the event is only collected in rare cases. A probable explanation for the lack of this important success factor is a likely absence of professionalism within the companies as incentive travel programmes are scarcely widespread or intensively used. The fact that no enterprise uses the help of incentive travel agencies, and the statements about lack of time, administrative challenges and complicated regulations they need to meet, might be further indicators to this possible lack of professionalism in using incentive travel programmes.

5.6 Incentive travels as a mean of bilateral governance

In summary, the previously discussed results show that nearly all enterprises use incentive travel programmes as an instrument for strengthening the relationship with the distributors. When asked about the purpose of this tool nearly all informants argue that they are utilized to build up commitment and relationship – especially with the distributors’ sales force – through personal interactions in a relaxed and informal surrounding and to intensify the personal contact during the journey. This further helps them to gather information about market trends and finally establishes trust. An increase in sales is just seen as a positive side effect rather than the primary goal! The active involvement of the distributor in the programme design underlines the importance of the relationship aspects. Although a few writers have pointed out the opportunities for collaboration and team building through incentive travel (Fenich et al. 2015), the common tenor in the literature is different in that there is more emphasis on the motivational aspects. Incentive travel initiatives are recognized as a mean to increase (short-term) motivation through a reward (Gilliland and Bello
Indeed, the companies examined which do not use incentive travel programmes at all argue exactly from this perspective. These informants see incentive travel mainly as a tool to increase motivation in the short run and not for improving the relationship or intensifying the personal contact. Hence, they recognize this instrument as being more appropriate for other industries, such as the insurance sector and not their own.

However, taking together the findings of all interviews, the results suggest that it is more a question of HOW incentive travel programmes are designed and used and not about their motivational character. This study has shown that travel incentives programmes, as unilateral governance instruments, can be designed in a participative, relationship strengthening way, with strong bilateral governance characteristics. Therefore, the discussion about governance mechanisms and their (unilateral or bilateral) characteristics probably fails to take business reality into account by artificially separating these mechanisms.

6 Findings about the country of culture
specific aspects of incentive travel programmes

Gunkel (2006, p. 27) highlights that incentives are strongly dependent on culture. Therefore, when designing an incentive travel programme for distributors suppliers have to also take into consideration the country or culture the incentive is dedicated to. All informants emphasise the importance of culturally specific influences. They especially point out the influence of culture on the target audience within the distributorship and the format of the programme, the reward composition and the involvement of the distributor. They have exemplarily experienced that Indians love to do everything in big groups, whereas competitive formats with a stress on prestige are particularly successful in the US and in Eastern European countries. This is also in accordance with Gunkel’s findings (2006, p. 38) that in former socialist systems egalitarian rewards are stressed. Moreover, the respondents highlight that religious holidays (e.g. Easter, month of Ramadan, etc.) have to be considered when composing a feasible travel programme. Additionally, one respondent states that distributors from Arabic countries are often not attracted by fun-themes. However, most information has been provided about the travel destination although there is no common thread through all interviews. The only result which nearly all informants support, is that people are attracted by complementary, sometimes difficult to visit destinations (e.g. for visa purposes or cost or time reasons). Turning to the findings of Gunkel (2006) about the target audience within the distributor and the involvement of the distributor – such as in frequently disrupted political systems, group based incentive systems are demanded and isolated geographic locations rather emphasise social interaction – no confirmation nor rejection can be identified through this study. Issues related to Lee and Usunier’s research (2009, p. 435) that team winning formats are preferred in collectivist countries are also not prominent in the interview data. Therefore, it can be summarized that additional research could be beneficial for an understanding of culture-compatible designs of incentive travel programmes for distributors.

7 Limitations and further research

In this study there are several sources of uncertainty to take into consideration which are stated and explained below.

Firstly, it has to be clearly pointed out that the findings from the qualitative research are not representative of a population. According to Brymann (2012) instead, the results of qualitative
studies are to generalize the theory rather than the populations. It is the quality of the theoretical conclusions made out of qualitative data that is essential to the evaluation of the generalization. Therefore, the interpretation and application of the findings have to be judged in the light of limited generalization of this research.

Secondly, it needs to be reflected that the sample size of informants is rather small, although the careful selection of the investigated cases endorses the usefulness of the findings to a certain extent. Hence, further data collection is required to cover the distinctive designs and the various national specific characteristics and to contribute to the knowledge in the field of distributors’ governance through incentive travel programmes.

Thirdly, one has to consider, that the translation from German to English bears the risk of misinterpretations of meanings or mistranslations.

Finally, it has to be pointed out that the topic of incentive travel programmes is particularly limited in Europe. Nonetheless, or precisely because of this lack and the positive experience of some companies in motivating Eastern European people through monetary incentives (Stadlmann and Almhofer 2014) this research could be extended to other geographic and business areas in order to support enterprises with insights about the possible – so far rather unused – tool of incentive travel programmes for governing distributors.

Literatúra/List of References


Klúčové slová/Key Words

distribution, distribution channel, sales manager, incentive travel programme
distribúcia, distribučný kanál, manažér predaja, motivačný cestovný program

JEL klasifikácia

M31

Résumé

Riadenie medzinárodných distribútorov prostredníctvom motivačných programov: Poznatky z výrobných podnikov

Kontakt na autorov/ Address

Mag. Christian Stadlmann, University of Applied Sciences Upper Austria, Global Sales and Marketing, Wehrgrabengasse 1-3, 4400 Steyr, Austria, e-mail: christian.stadlmann@fh-steyr.at

Magdalena Kass, BA, MSc, TGW Mechanics GmbH, Collmannstraße 2A, 4600 Wels, Austria, e-mail: Magdalena.Kass@tgw-group.com

Recenzované/Reviewed