



Retail buyer control systems: Implications of buyer behavior strategies for performance



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ABSTRACT

This study investigates management control systems in retailing and examines how they connect to retail buyers' behavior strategies and retail performance. We test hypotheses with a structure equation modeling (SEM) based on survey data from 149 merchandising division heads at Japanese supermarkets. The results reveal that outcome-based control promotes buyers' price negotiation orientation while behavior-based control encourages buyers' innovative behavior orientation. Moreover, both of these distinct behavior strategies yield greater retail performance. This study contributes toward the development of a generalized model of how retailers can manipulate buyers' behavior strategies from the management perspective by applying organizational control theory in the field of retail buying.

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CHINESE ABSTRACT

这项研究调查了零售业中使用的管理控制系统，并分析了这些系统与零售采购员行为策略和零售业绩之间存在着怎样的关系。我们基于来自149位日本超市的销售部门主管的调查数据并使用了一个结构方程模型（SEM）来对假设进行了论证。结果表明，基于结果的控制方法促使采购员的行为以价格谈判为主导；而基于行为的控制方法则鼓励采购员的行为以创新为主导。此外，这两种截然不同的行为策略都能产生更好的零售业绩。这项研究有助于开发出一个通用的模型来解决零售商如何才能通过应用零售采购业领域中的组织控制理论来从管理角度操控采购员的行为策略。

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1. Introduction

Understanding retail buyers' behavior and decision-making process have been long-standing goals in retail strategy (Manjeshwar et al., 2013). Retail buyers play a pivotal role as gatekeepers for consumers (Sternquist, 1994), which largely determine a firm's sales and profitability. Since the buying tasks and processes are unique, highly complex, and impossible to imitate as they are unobservable to competitors compared to store activities, these can be considered a particular source of capability development in retail strategy.

However, the knowledge of retail buying still remains obscure at best. Despite significant advances in our understanding of retail buyers' behavioral characteristics and decision-making, previous studies largely focus on the buying process (Hansen and Skytte, 1998; Johansson, 2001; Sternquist and Chen, 2006) or, investigate a specific part of the buying process, such as buying criteria and/or

individual characteristics (da Silva et al., 2002), basis of information and judgment (Insch et al., 2011), supplier relationship management (Munnukka and Järvi, 2015), and cultural/national differences (Johansson and Burt, 2004; Manjeshwar et al., 2013; Skytte and Bove, 2004). Yet there is a lack of research into how to control retail buyers from the standpoint of management control.

To address this, we draw from organizational control theory to examine retail buyers' management control systems, which represent an organization's set of procedures for monitoring, directing, evaluating, and compensating employees (Anderson and Oliver, 1987, p. 76). This perspective aims to investigate optimal control system design and its impact on employee capabilities, performance, and organizational effectiveness (Cardinal et al., 2004; Eisenhardt, 1985; Liu et al., 2014; Ouchi, 1979). Generally, control system design occurs along a continuum ranging from outcome-based to behavior-based control.

Management control systems are essential when pursuing organizational goals and objectives. Thus, while most studies tend to adopt the perspective of sales management across industries (Baldauf et al., 2005), this concept has been widely applied in different contexts, such as organizational buying (Anderson and Chambers, 1985)

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and inter-firm relationships between buyers and sellers (Ju et al., 2011). Surprisingly, despite the significant, diverse roles retail buyers play (Fiorito et al., 2010), very few studies have examined retail buyer management in terms of directional motivation (Keaveney, 1995), creative behaviors (Ganesan and Weitz, 1996), cooperative negotiation (Pullins, 2001), and relationship continuity with suppliers (Kim and Takashima, 2014). However, findings from these studies provide profound insights into the present study that seeks to develop a generalizable model of retail buyer control systems.

In this context, this study aims to examine retail buyer control systems in retailing, and analyzes how this is connected to retail buyers' behavior strategies and retail performance. To this end, we first develop a theoretical model that draws relationships between the two management approaches in terms of outcome-based and behavior-based control and retail buyers' different behavior strategies. For buyers' behavior strategies, we explore two theoretically relevant constructs, price negotiation orientation and innovative behavior orientation, which have been considered typical behavior strategies in retail growth (Burt and Sparks, 2003). Second, we investigate the retail performance implications of these two distinct behavior strategies in terms of retail capability and sales growth.

This study offers three key contributions to the literature. First, drawing on organizational control theory, we develop a theoretical model of retail buyer control systems that improves our knowledge of how retailers can manipulate their buyers' behavior strategies to increase organizational effectiveness from the retail buyer management perspective. Second, this study responds to calls for research into how retailers can encourage their buyers' innovation, which is significant but still unanswered. Third, we suggest that an optimal control system design depends on the managerial objectives for purchase-related tasks in managing firm performance.

2. Theoretical framework

Retailers can achieve long-term survival by emphasizing price component such as cost advantages to achieve low prices with high margins and/or non-price component such as innovative behavior to create differentiation (Dawson, 2000; Hansen, 2009; Hristov and Reynolds, 2015). However, considering that retail competition has become globally fierce, choosing among the alternatives is not always a matter of choice. This pressure drives retailers, irrespective of size and whether it is a domestic or global firm, to simultaneously pursue both options on the growth spiral (Burt and Sparks, 2003).

Retailers are therefore strongly motivated to understand how best to manage their buyers to improve organizational effectiveness. However, there is little research into retail buyer management. Indeed, it has become a critical challenge for retailers to optimize their management control systems based on retail buyers' behavior strategies.

Earlier studies suggest that retail buyer behavior and firm performance depend on how buyers are motivated and their activities evaluated (Baldauf et al., 2005; Cardinal et al., 2004; Evans et al., 2007; Liu et al., 2014). On the basis of the difference between motivation and measurement, the design of control systems is characterized as a continuum ranging from outcome-based to behavior-based control (Anderson and Oliver, 1987; Oliver and Anderson, 1994, 1995).

Outcome-based control is an approach measuring simple objective result indicators such as sales and profits. This approach provides individuals with discretionary authority while maintaining their responsibility for the outcomes. Accordingly, salaries and incentives are easily adjusted depending on individual performance. In contrast, behavior-based control subjectively measures a diverse group of behavioral indicators with frequent monitoring and instructions for activities to ensure that individuals perform the

desired activities appropriately. Generally, an individual buyer is not responsible for the outcomes and receives a fixed salary.

The first style is closer to the doctrine of a *laissez faire* while the second is characterized by interventionism. In reality, as each method is a double edged sword depending on the situation (Oliver and Anderson, 1995), retailers compare these methods to design controls that best suit their buyers to achieve specific goals.

To understand the choice between the two methods, earlier studies provide explicit principles in terms of outcome measurability and process knowledge (Anderson and Oliver, 1987; Eisenhardt, 1985; Ouchi, 1979). Outcome measurability represents the ability to measure outcomes accurately and completely. Process knowledge refers to the ability to transform information and knowledge into actionable strategies to achieve desired outcomes, also called task programmability or knowledge transformation.

Based on this principle, there are four options guiding the design of management control systems in retailing. First, when adequate measures of outcomes are available and process knowledge is known, both outcome-based and behavior-based controls are appropriate. Second, outcome-based is appropriate if adequate measures of outcomes are available but process knowledge is unknown. Third, if adequate measures of outcomes are unavailable but process knowledge is known, behavior-based control is a feasible option. Fourth, when adequate measures of outcomes are unavailable and process knowledge is also unknown, clan control is appropriate.

However, despite the explicit principle classifying control systems, this framework has drawbacks for retail buyer management. Critically, this framework is unable to respond to differing managerial objectives in terms of time horizons and cross-functional (or interdepartmental) communication.

First, retail managers usually supervise diverse behaviors and activities according to the unique, complex nature of retail buyer roles. Buying tasks can be categorized as analyzing past sales and promotions, planning financial budgets, vendor planning and negotiations, initiating marketing plans, and training and developing staff as well as selecting and pricing merchandise (Fiorito et al., 2010). In terms of time horizons, management may have short or long term objectives (Darmon and Martin, 2011). This point of view suggests the need for a broader conceptual model of control systems by emphasizing performance over some period of time.

For example, sales, profit/profit rate, and inventory are the objective measures, while responsiveness and information-sharing through supplier relationship management represent subjective indicators for retail buyers (Hansen, 2009). The former measures represent typical results indicators for short-term objectives. The latter can be generally considered as long-term objectives. In terms of time horizons, outcome-based control will be chosen when managers motivate and measure their buyers to achieve short-term objectives. In contrast, managers will select behavior-based control when pursuing long-term objectives. Thus, it is anticipated that the optimal control system design will vary by the managerial objective's time horizons.

Second, knowledge-based control underpinned by information sharing is vital to achieving greater performance (Matsuo, 2009). In retailing, managers need to bridge between individual buyers in the merchandising division, especially when multiple buyers are responsible for the same product categories. More importantly, considering retail organizational structure, we argue that cross-functional communication linking merchandising (buying phase) and store division (selling phase) is required to improve specialized knowledge.

In this context, it is important that managerial objectives include cross-functional communication (Takashima, 2004), which has been largely overlooked in the control systems literature. To this end, managers should intrinsically motivate their buyers to encourage

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