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“I think I can…I think I can”: The impact of perceived selling efficacy and deal disclosure on salesperson escalation of commitment

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ABSTRACT

Salespeople have considerable autonomy in the choices they make with respect to both the types and amounts of resources they deploy in pursuing potential customer accounts and specific sales opportunities. Building from a prospect theory framework and also leveraging self-justification theory, this research reports the results of three experimental studies conducted on practicing salespeople. The experiments help shed light on several factors that might influence a critical form of salesperson resource allocation decision — the allocation of the salesperson's own ‘selling time’ which is devoted to a specific sales opportunity. Study 1 establishes that an escalation of commitment effect exists when salespeople pursue a new customer opportunity, and that “competitive intensity” is a key variable that attenuates the escalation of commitment effect. Study 2 demonstrates that a salesperson's “selling efficacy” – or their confidence in their abilities and decision-making in sales – has important, but mixed, effects on the salesperson's allocation of scarce resources. Finally, study 3 broadens this research by showing that environmental factors such as the extent to which the salesperson has ‘disclosed’ their pursuit of a new sales opportunity within their own organization can also influence the escalation of commitment effect on how they allocate resources in pursuit of that business. The article's broader contribution is that it offers an overdue and preliminary glimpse into the levers which shape and influence how, when, and why salespeople apply resources in the pursuit of new customers.

> “I am tired of our salespeople telling me that the reason that they are calling on a particular account is because it has a big smokestack and lots of cars in the parking lot…Our salespeople have to get better at identifying opportunities that we want to win and where we have a good chance of landing the business” — VP of Sales for Large Industrial Printing Company.

1. Introduction

A sales representative for a large industrial products firm sits in his/her car thinking about the sales call that has just wrapped-up. This particular call did not go well. The rep's main contact shared that the company is most likely heading in a different direction when it comes to selecting a new supplier. “I would say that you have a 20% shot…” was the exact quote offered by the buyer in the meeting's concluding moments. News like this is tough to swallow given the sales potential this client represents. The salesperson thinks, “There are other fish in the sea, but I really want this account — the upside is huge.” As s/he starts the car, the salesperson realizes that a decision has to be made: carry on and continue to try to land the account, or move on to other sales opportunities. The salesperson's dilemma in this fictitious scenario is far from unique.

There was a time in sales organizations, not so long ago, when this rep would have been strongly encouraged to continue to pursue this sales opportunity given that the possible financial return was substantial. However, a recent trend in sales force management is so-called “opportunity management”, where sales reps are encouraged to evaluate opportunities in relation to pre-defined criteria to determine the amount of effort to allocate on a particular deal (e.g. Bonney & Williams, 2009; Homburg, Droll, & Totzek, 2008; Stevens & Kinni, 2007). As further evidence in support of this trend, consider the myriad of sales and deal profiling tools emerging in the marketplace from professional sales training and consulting companies. For example, Miller-

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Heiman's funnel scorecard is a method designed to help reps "systematically identify the best opportunities to pursue" (see http://www.millerheiman.com/Our_Products/Funnel_ScoreCard/). Similarly, the TAS Group has recently launched its Dealmaker software which is specifically designed to help reps profile customer opportunities so that they "sell smarter to win more deals" (see http://www.thetasgroup.com/dealmaker-software-overview.php).

In the course of developing the specific research questions for the present study, interviews were conducted with several frontline and upper-level sales managers from a wide range of organizations. While these interviews were not meant to serve as rigorous qualitative research (i.e. grounded theory or phenomenology, see Miles & Huberman, 1984; Strauss, 1987), they did provide ample anecdotal support for the notion that sales organizations today are pushing sales reps to work smarter when it comes to different client opportunities. For example, the quote used as the opening vignette for this manuscript clearly shows that from management's perspective, not every client is ideal for the company, and reps clearly need to get better at identifying and subsequently pursuing "good" sales opportunities. Another executive at that same firm noted, "the costs of pursuing deals in our company have continued to rise to the point that we have to be better at knowing when to walk away from a potential opportunity that we can't win…we have to train them {i.e., the salespeople} to think differently about the deals they come across." Finally, a VP of Sales for a large raw plastics distributor remarked, "There are certain accounts that are better than others. We have a certain niche where can compete, and if there are bunch of our competitors chasing the same account, then it will become a pricing game and that is not us…the problem is, our reps don't seem to get this." The concerns of these managers are well founded given that new customer conversion rates average less than 20% in many industries (Siebel, 2001; Stevens & Kinni, 2007). Therefore, sales representatives must make wise decisions on which customer prospects to pursue and how to allocate scarce resources (e.g., their own selling time) in those pursuits.

At the core of both the commercial sales consulting perspectives noted above as well as the insights gained from our interviews with managers, it is apparent that sales organizations are working diligently to supply their salespeople with the tools to make an accurate determination of two critical aspects of sales opportunities: (i) can the deal be won (odds of winning), and (ii) is the deal worth pursuing, compared to criteria regarding the firm's overall marketing strategy, its product/service mix, desired financial return metrics, etc.? Sustained efforts to pursue prospects with a relatively low probability of ultimately making a purchase from the vending firm can result in negative outcomes such as an increased overall cost of sales, as well as hidden opportunity costs (i.e., in terms of other account/sales opportunities which were ignored or not fully pursued).

Despite these realities and trends, researchers have yet to explore or document the effects of salesperson decision-making as it relates to allocating selling time in the pursuit of new customers. The closest research relating to opportunity decision-making is found in the learning orientation and sales performance research stream (see Sujan, 1986; Sujan, Weitz, & Kumar, 1994), which supports the idea that salespeople should work smarter, not harder. Other related work here pertains to the notion of sales rep agility (see Chonko & Jones, 2005), with this research stressing that reps need enough cognitive awareness to know when to shift resources between different accounts and sales opportunities across their respective portfolios. Despite these related streams of work, there are no studies in the extant literature that deal directly with salesperson deal-level decision-making. This is a critical gap in the literature because it is precisely this poor "deal-by-deal-level" salesperson decision-making that results in poor overall salesperson performance (e.g., Rackham & DeVincentis, 1999; Stevens & Kinni, 2007), and sub-optimal firm-level outcomes (e.g., Homburg, Steiner, & Totzek, 2009; Palmatier, Dant, Grewal, & Evans, 2006; Palmatier, Scheer, Houston, Evans, & Gopalakrishna, 2007).

The present study addresses this research gap by exploring key factors that influence salesperson decision-making in pursuing new sales opportunities — including those customer situations where the outlook for securing the account and "winning" the business actually decrease over time. To this aim, the present study draws on escalation of commitment research in an effort to gain a better understanding of how salespeople make decisions as they work on customer opportunities across the sales cycle. Past research on the escalation of commitment effect has drawn from two different theories to explain why decision-makers allocate resources at increasing rates, just as the very odds of reaching a desired outcome actually decrease over time. One of these theories, prospect theory, has been used to show that the escalation of commitment effect is the result of the constant comparison of current conditions to the initial reference frames formed early in the decision-making process (e.g., Bromiley, 2010; Kahneman & Tversky, 1979). Other researchers have argued that self-justification theory serves as a better explanatory framework for escalation of commitment effects (e.g., Brockner, 1992; Festinger, 1957; Wong & Kwong, 2007; Wong, Yik, & Kwong, 2006). Under self-justification theory, decision-makers tend to escalate resource allocations: (i) as a means of justifying their own prior decisions, as well as (ii) attempting to pacify those who observed the making of those decisions, and who might otherwise be critical of them (e.g., Brockner, 1992; Brockner et al., 1986). Hence, another contribution of the present article is that we attempt to combine these two theoretical perspectives as a means of increasing our understanding of sales representative resource allocation decisions.

In particular, we propose that changes in the "competitive intensity" of a selling situation will systematically affect salesperson resource allocation decisions over time due to the comparison of these changes with initial reference frames (prospect theory). In addition, we demonstrate that the salesperson's confidence in his/her selling ability and the amount of information on customer opportunities they have shared with their management team (i.e., deal "disclosure") exacerbate the escalation of commitment effect (self-justification theory). In examining the role of these variables in the pursuit of sales opportunities, the present article provides much needed insights relative to extant research as it relates to the efficiencies and broader dynamics associated with salesperson decision-making.

The results of three separate experimental studies employing sales representatives from a large industrial printing firm are reported. Study 1 examines the degree to which the changing probability of winning a potential customer opportunity influences salesperson resource allocation decisions; specifically, escalation of commitment behaviors on those resourcing decisions. The second study examines the moderating effect of the salesperson's selling efficacy – or the innate belief and confidence in his/herself as a salesperson – on the escalation of commitment effect. Study 3 extends study 2 by exploring the interactive effects of decreasing odds of winning a new customer account opportunity as well as the level of salesperson "disclosure" to their own organization on the resource allocation decisions that they have made in pursuit of that sales opportunity, as it evolves. The paper concludes by highlighting the contributions it makes to the marketing strategy and sales literature, then noting several limitations in the research, as well as pressing future directions for additional work.

2. Escalation of commitment and its impact on salespeople

Escalation of commitment provides a useful lens to better understand how salespeople might make decisions in pursuing customer opportunities. Defined as the tendency of decision-makers to persist with failing courses of action (Bazerman, Giuliano, & Appelman, 1984; Staw, 1981), escalation of commitment has been found to impact decision-making in a variety of business situations such as new product development (Schmidt & Calantone, 2002), managerial strategy and policy-setting (Brockner et al., 1986; McNamara, Moon, & Bromiley, 2002), accounting and financial reporting (Heath, 1995; Zardkoohi, 2004), and