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## The dual mechanism of sales capabilities in influencing organizational performance

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## ABSTRACT

In most companies, sales organizations play an increasingly strategic role in creating a competitive advantage for the firm. In contrast to marketing capabilities, sales capabilities are not well-defined and are therefore overlooked both conceptually and empirically. This study distinguishes between sales force management capabilities and personal selling capability, examines their interplay, and ultimately analyzes their impact on the firm's performance. The findings indicate that sales capabilities have a dual mechanism in enhancing performance: directly through a well-structured sales force and indirectly by leveraging personal selling capability through nurturing sales talent and targeting customers. By developing, identifying, and validating sales force management and personal selling capability empirically, this research contributes to the literature on sales as well as to the literature on capabilities, in general, and to the connection between sales capabilities and performance.

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## 1. Introduction

In the last decade, many authors have advanced research agendas aimed at developing a better understanding of sales, its core processes and activities, and ultimately their impact on performance (Dixon & Tanner, 2012). However, research on this topic is still relatively limited, as noted, for example, by Zoltners, Sinha, and Lorimer (2008), who point out that less than 4% of scholarly marketing articles are sales related. One relevant area where knowledge gaps are significant is the contribution of sales to a firm's performance. In fact, although some authors note that the sales force's effect on topline performance is considerable (Zoltners et al., 2008, p. 115), and empirical evidence suggests that investments on sales have higher returns on investment than investments on marketing (Albers, Mantrala, & Sridhar, 2010), current knowledge on the topic is limited in several respects.

The first relevant limitation is that prior studies on drivers of sales performance have focused mainly on the individual-level and not the firm-level capabilities. As a result, scholars are able to identify the characteristics of an individual salesperson performing well, but know little about sales as a set of organizational capabilities affecting performance. This is highlighted by the two meta-analyses by Churchill, Ford, Hartley, and Walker (1985) and Verbeke, Dietz, and Verwaal (2011), which suggest a focus on organization-level determinants of sales force

performance. In fact, Churchill et al.'s (1985) study concludes that innate characteristics of individual salespeople (personality traits) are poor predictors of sales performance, and suggests a focus on determinants of sales performance that are "influenceable" by companies and sales managers. Along the same line, Verbeke et al. (2011) echo the importance of identifying organizational-level determinants of sales performance.

In fact, investigating individual-level drivers of performance offers only a partial view of sales capabilities because sales in contemporary firms is a cross-functional process designed and implemented by people with different roles and responsibilities through the organization (Moncrief & Marshall, 2005; Storbacka, Polsa, & Sääksjärvi, 2011). Therefore, many authors propose a shift from the salesperson to the sales process as the focus of analysis (Tanner, 2002; Williams & Plouffe, 2007).

Accordingly, the aim of this paper is to fill the knowledge gap regarding the organizational drivers of sales performance by focusing on sales capabilities, defined as an organization's ability to manage sales processes. This ability includes both personal selling and sales force management. The former refers to managing relationships with individual customers, mainly through interpersonal interactions; the latter involves the planning, organization, direction, and control of the personal selling activities of a business unit designed to achieve the sales and profit objectives of the firm (Cron & DeCarlo, 2010; Darmon, 2007; Guenzi & Geiger, 2011).

This work distinguishes sales force management capabilities from personal selling capability and analyzes the impact of such firm-level capabilities on performance. This interpretation is consistent with the literature, suggesting that a firm's capabilities involve complex, coordinated patterns of skills and knowledge that become embedded as

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routines over time (Grant, 1996). According to this perspective, capabilities are typically conceptualized and measured as organizational processes performed well relative to competitors (Bingham, Eisenhardt, & Furr, 2007; Ethiraj, Kale, Krishnan, & Singh, 2005).

A second key limitation of prior research is that it has focused mostly on the outcomes of single sales management components, and hence, it is not able to provide an integrated view of the effects of different sales capabilities on a firm's performance (Zoltners et al., 2008). In fact, research investigating personal selling typically focuses on a single step in the process, such as prospecting or closing. Similarly, studies on sales force management also generally focus on a single process, such as sales training or sales incentive compensation, or on a subset of decisions, such as the studies on sales force control systems (Cravens, Ingram, LaForge, & Young, 1993). As a consequence, past research does not offer a comprehensive understanding of the key processes that drive sales performance.

This study aims to fill this knowledge gap by investigating the interplay of a set of sales force management capabilities and personal selling capabilities, and ultimately, the impact of this interplay on organizational performance. In particular, the researchers theorize that the sales force structuring, customer targeting, and talent management capabilities (conceptualized as sales force management capabilities) have a positive impact on salespeople's salesmanship and account management (conceptualized as personal selling) capabilities, which in turn, influence customer-based, market-based, and financial performance. The paper relies on frameworks of sales force effectiveness to theorize a sequential chain of connections: sales capabilities affect customer results, that ultimately have an impact on market and financial results (Zoltners et al., 2008). It then tests the model empirically using data from a sample of 214 managers working in a diverse set of industries.

The paper has the following structure. First, it discusses sales capabilities by differentiating between sales force management capabilities and personal selling capability. Next, a conceptual model follows relating sales force management capabilities directly and indirectly – through personal selling capability – to organizational performance. Then, it describes the methods used in the study, presents the analysis, and discusses findings and implications. Finally, it identifies some of the study's limitations and provides guidelines for future research on the topic.

## 2. Sales capabilities

There is no accepted interpretation, definition, or operationalization of sales capabilities. The very few empirical investigations of sales capabilities have several important limitations. First, they conceptualize sales capability as a single, omni-comprehensive construct. For example, Krush, Agnihotri, Trainor and Nowlin (2013, p. 826) define sales capability as “a competency in the selling process that is enabled by salespeoples' knowledge, sales management skills, sales management planning, and control systems, and relevant training systems for salespeople.” In this definition, these authors not only conflate several capabilities into a single capability, but also conceptualize and measure capabilities as a construct incorporating different concepts (skills, systems, processes). Similarly, Siahtiri, O'Cass, and Ngo (2014) conceptualize and measure sales capability as the possession of and the application of skills, knowledge, and resources to engage in large-scale persuasive sales activities but unfortunately do not explain what they mean by such activities, and constrain their analysis to marketing and sales departments only, rather than focusing on the whole organization/strategic business unit. Thus, a second key limitation in the literature to date is that sales capabilities are not referred to as clear and homogeneous sets or subsets of sales processes.

Since “capabilities” refers to how well organizations manage processes, this study starts from the key sub-processes characterizing the sales process and then develops a clear concept of sales capabilities. It

argues that such processes involve managing relationships with customers (personal selling) and managing the sales organization (organizing it, managing human resources, directing efforts). A recent exploratory study by Cron, Baldauf, Leigh, and Grossenbacher (2014) highlights that different categories of sales capabilities exist and distinguishes between basic resources, sales organization, and sales process capabilities. By building on the findings by Cron et al. (2014), this study suggests the existence of different categories of sales capabilities and advances a conceptual framework that distinguishes personal selling capability from sales force management capabilities.

### 2.1. Personal selling capability

According to Cron et al. (2014), sales process capabilities refer to customer-facing processes executed primarily by salespeople. Sales process capabilities are likely to integrate sales force and company resources and directly influence performance. The same authors highlight that these capabilities explain the critical processes of the higher-level organizational capability of customer relationship management, which captures the combination of sales activities and service and relationship management. Moreover, Rentz, Shepherd, Tashchian, Dabholkar, and Ladd (2002) argue that salesmanship skills and interpersonal skills are two fundamental components of sales skills. In summary, all of these different perspectives share the notion that selling incorporates both revenue-generating and relationship-building (or nurturing) processes. Therefore, consistent with this conceptualization, this research proposes the division of sales-related capabilities into salesmanship and account management.

Importantly, the authors of this paper conceive personal sales skills as an organization-level capability. Personal selling is no longer a lone wolf activity managed by an individual salesperson. In fact, as noted, for example, by Auh and Menguc (2013, p. 1347–1348), “the field of sales is moving beyond being a function (an isolated activity) and an operative posture to being a process (an integrated cross-functional activity).” Previous work has also demonstrated this interpretation empirically: in fact, research suggests that in more than 80% of companies the number of people actively involved in the selling cycle is higher than two (CSO Insights, 2012).

### 2.2. Sales force management capabilities

Cron et al. (2014) highlight that personal selling capability is influenced by the so-called organizing context of the firm, which refers to a set of heterogeneous resources (e.g., sales force size or sales force turnover rate) and capabilities. In alignment with some of the most influential sales force management frameworks (Darmon, 2007; Guenzi & Geiger, 2011; Zoltners, Sinha, & Lorimer, 2012), this study aims to capture three fundamental areas of the organizational capabilities described above. First, it considers the strategic, long-term oriented area of sales force structuring, which includes the sizing and organizing of the sales force and hence will be referred to as “sales force structuring” capability. Second, the paper covers the acquisition, development, and retention of human capital, which will be referred to as “talent management” capability. Third, it investigates the allocation of sales efforts across products and markets, which will be referred to as “customer targeting” capabilities. Altogether, this research refers to these three capabilities as sales force management capabilities. In sum, the conceptual model distinguishes between sales force management and personal selling capability and investigates the influence each has on customer, market, and profitability aspects of firm performance. Further, this research explores whether sales force management capabilities have a direct effect or whether the impact on firm performance is mediated through personal selling capability.

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