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The impact of sales management controls on the entrepreneurial orientation of the sales department

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Contingency approach

Summary This study investigates the importance of an entrepreneurial orientation of the sales department (SEO) as a strategic orientation in a challenging environment and the role of sales management controls in fostering SEO. The relationships are hypothesized to be contingent on the competitive intensity of the environment.

Based on findings from a survey of 268 SMEs and multiple regression analysis, SEO is an important lever to increase performance. The results also show that the effects of sales management controls on SEO depend on the environmental context.

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Introduction

Advances in technology, increasing product complexity, demanding customers and strong competition have made the selling environment more challenging (Brown, Evans, Mantrala, & Challagalla, 2005; Jones, Brown, Zoltners, & Weitz, 2005; Lane & Piercy, 2004). To cope with these challenges and to achieve their objectives sales executives must redefine the strategic objectives of their sales departments and align their sales management control system (Brown et al., 2005). Sales executives can no longer rely solely on short-term performance goals; they must consider their long-term goals and must make sure that their sales departments are able to respond to changes in the selling environment and take advantage of new business opportunities resulting from these changes. Therefore, several sales researchers call for increasing the entrepreneurial orientation of sales departments in order to achieve and

sustain a competitive advantage (Ingram, LaForge, Locander, MacKenzie, & Podsakoff, 2005; Jones, Roberts, & Chonko, 2000; Morris, Avila, & Teeple, 1990). Entrepreneurial orientation (EO) refers to the degree to which firms “establish the identification and exploitation of untapped opportunities as an organizing principle of the firm” (Baker & Sinkula, 2009, p. 444) and applies to sales departments that actively seek out for innovative selling approaches and new business opportunities. EO constitutes one key opportunity for sales departments to achieve a strategic advantage by differentiating from competitors and by proactively adapting to changes in customer preferences and advances in technology. Furthermore, EO is expected to be particularly beneficial for small- and medium-sized companies that cannot compete on costs and rebates with large established companies being another source of competitive advantage.

Entrepreneurial orientation (EO) has been intensively studied on the organizational level and has been identified as a key lever to increased firm performance (Rauch, Wiklund, Lumpkin, & Frese, 2009) and shown to be of

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particular importance in competitive environments (Lumpkin & Dess, 2001).

On sales department level Matsuo (2009) and Evans, Landry, Po-Chien, and Shaoming (2007) show that sales executives can increase sales performance by fostering the innovativeness of the sales department. Their results further reveal that sales executives need to align their sales management control system in order to promote sales innovativeness, but the results remain unsettled: Evans et al. (2007) suggest that output control and capability control foster sales innovativeness and that activity control is not related to sales innovativeness, while Matsuo (2009) shows no significant relationship between output control and sales innovativeness but a significant positive relationship between activity control and sales innovativeness.

Despite several calls for research on how to make the sales department more entrepreneurial (Ingram et al., 2005; Jones et al., 2000; Morris et al., 1990), limited research has explored the EO of the sales department (SEO) as a strategic orientation, the impact of SEO on performance in competitive environments, and the extent to which this long-term strategic orientation requires an alignment of the company's sales management control system. These research gaps are problematic for several reasons:

First, organizational EO has been identified as a key performance lever but the organizational level EO is too broadly aggregated to allow the derivation of sales-specific conclusions. Whether SEO is an important strategic orientation that allows sales executives to achieve competitive advantage is yet to be clarified. Second, even if sales executives acknowledge that SEO is an important strategic orientation, there are no guidelines on how to build an entrepreneurial sales department. Third, existing organizational EO research (Rauch et al., 2009) and sales control research (Flaherty, Arnold, & Hunt, 2007; Menguc & Barker, 2003) emphasize the importance of the environment as contingency. Salespeople act as boundary spanners between customers and the organization and have to compete for customers in the market. Their sales performance is affected if the market is highly turbulent or highly competitive. Therefore, the motivational effects of sales controls on the salespeople's willingness to pursue entrepreneurial selling approaches are likely to vary depending on the market environment.

This study makes three contributions to existing research. First, we elaborate on SEO and its impact on performance. Second, we determine which sales controls foster SEO and which impede it. Third, by employing a contingency perspective, we investigate the moderating effects of the market's competitive intensity on the SEO-performance and the control-SEO relationships.

Conceptual and theoretical premises

Foundations of SEO

The concept of EO has its origin in the strategy-making process literature. Mintzberg (1973) characterizes the entrepreneurial mode as the strategic mode in which "strategy-making is dominated by the active search for new opportunities" (p. 45). This concept is further advanced by Covin and

Slevin (1989), who characterize the strategic posture of a firm along the dimensions of innovativeness, proactiveness, and risk-taking. On this basis, the concept of EO emerges as the "processes, practices and decision-making activities that lead to new entry" (Lumpkin & Dess, 1996, p. 136). This study focuses on SEO which is comprised of the entrepreneurial processes, practices, and decision-making activities by the sales department with the objective of achieving new sales opportunities and creating competitive advantages. SEO is regarded as a specific strategic orientation of the sales department and makes the search for new opportunities as an "organizing principle" of the sales department (Baker & Sinkula, 2009, p. 444). Thus, the concept of SEO is more comprehensive than existing sales management constructs that have been investigated as performance levers and that only focus on the individual salesperson level, such as salesperson creative performance (Wang & Netemeyer, 2004), salesperson's proactivity (Pitt, Ewing, & Berthon, 2002), or salesperson's adaptive selling behavior (Park & Holloway, 2003; Spiro & Weitz, 1990). SEO can be regarded as an underlying logic that pervades through the entire sales department and drives individual salespeople's behaviors and efforts with the objective of building new, innovative business opportunities.

In line with the definition of organizational EO, SEO is defined along the dimensions of innovativeness, risk-taking, proactiveness, and competitive aggressiveness (Lumpkin & Dess, 2001). An innovative sales department comes up with new selling methods or proposals that solve customers' problems (Matsuo, 2009). Risk-taking refers to a sales department that prefers to sell new, innovative products with uncertain demand due to changes of large financial returns. Proactiveness involves salespeople's willingness to act as first movers with regard to new selling methods, new rebate schemes or new services offerings. Aggressiveness refers to the competitive posture of the sales force in the market-place.

Regarding the conceptualization of SEO we take a similar approach as Monsen and Boss (2009), who analyze the department-level EO of managers and staff in a health care organization, by taking the existing EO measurement models (Covin & Slevin, 1989; Lumpkin & Dess, 1996; Lumpkin & Dess, 2001) as a starting point and adapt the items to the sales context. Unlike Monsen and Boss (2009), we do not focus on the individual dimensions of SEO but treat it as one latent multi-dimensional construct.

Foundations of sales management control

The sales management control system is the key instrument that sales executives have to influence salespeople's attitudes and behaviors in order to attain the organizational objectives (Challagalla & Shervani, 1996). Much of the research of management control in general and sales management in particular builds upon contingency theory, which proposes that there is no one universal, best-practice approach but that the most effective choice of controls depends on the specific organizational and environmental setting and the specific organizational objectives that sales executives want to accomplish (Jaworski, 1988; Jaworski & MacInnis, 1989; Ramaswami, 1996). Thus, a shift in strategic

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