

Relationships between Sales Management Control, Territory Design, Salesforce Performance and Sales Organization Effectiveness

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This research evaluates determinants of sales organization effectiveness in a sample of British companies, and contributes to an important new research stream by following recent empirical studies in the USA and Australia. We discuss a model of sales organization effectiveness determined by salesforce outcome performance and behavioural performance, as well as by the use of a behaviour-based control approach. Sales territory design is also considered as a particularly important managerial variable, which has received little analytical attention in the traditional literature, but which appears to be an important influence on the effectiveness of the sales operation. Our exploratory path analytical model suggests that sales territory design has a large effect on sales organization effectiveness both directly, and indirectly through its relationship with salesforce behavioural performance. These findings are somewhat different to those in similar studies in other countries, and suggest some important implications for managers as well as for researchers in this field.

Introduction

In common with the majority of industrialized economies, expenditure on maintaining and deploying selling efforts in the form of the field salesforce is a substantial investment by many British companies, which at least equals marketing expenditures on advertising and sales promotion (*Marketing Business*, 1989). The rationale for such investments is clear:

'Ultimately a sales organization's role is to translate the company's strategy from a boardroom vision to an everyday reality, add value for customers beyond that provided by the products and services, create competitive differentiation, and contribute to the company's profitability' (Corcoran *et al.*, 1996, p. 133)

The importance of the sales organization is underlined by companies' continuous modifications to sales management strategies and sales organization variables in attempts to enhance or retain competitiveness, and the urgency of such changes appears greater in the current business environment (Babakus *et al.*, 1996; Hise and Reid, 1994). For example, multinational organizations like Colgate-Palmolive, Compaq Computer, IBM, Proctor and Gamble, Xerox and Kraft are illustrative of the many that have recently undertaken major sales organization restructuring in the search for greater effectiveness and competitiveness (Corman, 1993; Dobrzynski, 1993; Lawrence, 1993; Naik, 1993). While these changes vary in scope from simply changing account assignments, reallocating product responsibilities or making adjustments in sales coverage, through to the large-scale refocusing of

entire salesforces, such realignments indicate a significant topic for analysis.

Research conducted with leading sales organizations in Europe, Japan and North America indicates that performance pressures are requiring sales organizations to respond quickly to new challenges, create innovative strategies and acknowledge that past premises about business relationships may be faulty in the contemporary selling environment (Corcoran *et al.*, 1995). In the USA, for example, a recent survey of sales managers in major corporations indicated that imperatives for change in sales organizations come from factors such as:

- 1 customer-oriented selling requires more varied types and sophisticated salespeople;
- 2 flexibility and quick decision-making requires infrastructural change away from traditional bureaucratic forms;
- 3 corporate restructuring to remove traditional barriers between manufacturing, sales, logistics and customers;
- 4 budget restrictions causing greater scrutiny of the sales process for effectiveness and profit contribution;
- 5 the need to organize field units to fit with different market segments requiring different selling approaches, managerial structures, and compensation systems (The H. R. Chally Group, 1992).

However, much past research in the sales management field has attempted to provide a basis for improving sales performance and effectiveness primarily by studying the determinants of the individual salesperson's performance. Unfortunately these studies have typically resulted in low levels of explanation (Churchill *et al.*, 1985). As a consequence, a small but expanding stream of research has been focused on the importance of such situational contingencies as sales-management control systems and sales territory design choices, as moderators and/or determinants of the performance of salespeople and the effectiveness of sales organizations (Weitz *et al.*, 1986). The analysis of such contingencies is manifested in research which focuses on sales management practices and sales organizations, rather than the characteristics of individual salespeople (Cravens *et al.*, 1993; Darmon, 1993; Ganesan *et al.*, 1993; Grant and Cravens, 1996; Oliver and Anderson, 1994). The

present British study contributes to this emerging stream of research.

Surprisingly, despite these indications of significant organizational changes in major companies, combined with growing research interest in sales management processes, as well as general recognition of the importance of the design of marketing organizations (Achrol, 1991; Day, 1997; Piercy, 1985; Piercy and Cravens, 1995; Webster, 1992), the design of sales territories has received remarkably little research attention. Indeed, in spite of considerable interest in sales-management control activities and salesforce effectiveness (Anderson and Oliver, 1987; Cravens *et al.*, 1993; Oliver and Anderson, 1994), even less attention has been paid to the potential interaction between these variables and sales-territory design issues. This oversight is significant, particularly if put in the context of the major role of selling activities in many organizations, the correspondingly high expenditures on the sales function and the impact of salesforce performance on customer satisfaction and the financial effectiveness of the company (Cravens *et al.*, 1993). It is also important in the light of the call for coherence in the control and organizational 'signals' sent to salespeople (Oliver and Anderson, 1994).

Drawing on the research stream represented by new studies carried out in other countries (Babakus *et al.*, 1996; Cravens *et al.*, 1993), the purpose of this research is to examine important relationships between sales management control, sales territory design, salesforce performance and sales organization effectiveness, in a sample of British companies. This contribution also adds to the very limited amount of sales management research conducted in Britain and throughout Europe, and attempts to identify commonalities and differences between the findings in Britain and studies in other cultures. This research study is significant in establishing benchmarks specific to the British context, rather than assuming the general applicability of study findings from other countries. Hypotheses are developed below and methods and results are discussed, leading to a discussion of management implications and important research directions.

Constructs and hypotheses

The constructs evaluated in this research are: sales organization effectiveness; the sales management

control system; salesforce performance, in terms of both outcome and behaviour; and sales territory design. Figure 1 on page 103 shows the proposed relationships among these constructs. The choice of the constructs and our measurement of them follows the logic set out below.

First, these constructs are found in several new studies of sales management processes (e.g. Babakus *et al.*, 1996; Cravens *et al.*, 1993; Piercy, Cravens and Morgan, 1998), and modelling the interrelationships between them follows the general propositions formulated by Walker, Churchill and Ford (1979).

Second, we recognize the important distinction between the effectiveness of the sales organization and the performance of salespeople (Cravens *et al.*, 1993; Walker *et al.*, 1979). In addition, the performance construct is further subdivided into behavioural performance and outcome performance (Cravens *et al.*, 1993; Jaworski and Kohli, 1991). It should be noted that behavioural performance, outcome performance and sales organization effectiveness are considered here as separate constructs, since they are commonly acknowledged as conceptually distinct, even though this distinction is frequently violated in sales management research and practice (Babakus *et al.*, 1996).

Third, we build on the findings of the research stream in salesforce management control by distinguishing between behaviour-based and outcome-based sales-management control approaches (Anderson and Oliver, 1987; Oliver and Anderson, 1994). In this area, Cravens *et al.* (1993) identify field sales management control and compensation control as primary indicators of behaviour-based and outcome-based control approaches respectively. The sales management control measure in our research is an extension of their behaviour-based management control construct.

Fourth, the research literature includes various studies of sales organization structure, salesforce size, territory design and the allocation of selling efforts (e.g. Beswick and Cravens, 1977; LaForge and Cravens, 1985; Lodish, 1980; Rangaswamy, Sinha and Zoltners, 1990; Ryans and Weinberg, 1979, 1987; Zoltners and Sinha, 1983). However, these studies typically focus on sales territory design in isolation from other sales management activities. Our research specifically attempts to integrate the sales territory design variable into an overall sales organization effectiveness

framework, recognizing that the antecedents of effectiveness include the management control system employed by the organization, the design of the territories assigned to salespeople and salesforce performance.

Sales organization effectiveness

Sales organization effectiveness has been defined as a summary evaluation of overall organizational outcomes (Churchill *et al.*, 1985), which may refer to the entire sales organization, or an organizational subset, such as a region, district, territory or customer group. Total sales volume is the most frequently used measure of sales organization effectiveness. However, to overcome the limitations of sales volume evaluations of effectiveness, for example sales volume 'bought' by large discounts may be unprofitable, assessments of costs, profit contribution, return on assets and residual income analyses have been adopted by some companies and researchers (Churchill, Ford and Walker, 1993; Cron and Levy, 1987; Dubinsky and Barry, 1982; Ingram and La Forge, 1992; Jackson, Keith and Schlacter, 1983; Morris *et al.*, 1991; Schiff, 1983).

The conceptual logic underlying the sales organization effectiveness construct is that it is determined by the skills and efforts of salespeople, sales management and other organizational factors, and environmental factors such as market potential and the intensity of competition (Walker *et al.*, 1979). While the evaluation of salesperson performance should be based on consideration of factors under the control of the salesperson, effectiveness is determined by a combination of factors, including the salesperson.

Salesforce performance

The distinction between sales organization effectiveness and salesforce performance has received considerable empirical support (Beswick and Cravens, 1977; Cravens, Woodruff and Stamper, 1972; LaForge and Cravens, 1985; Ryans and Weinberg, 1979, 1987). That support rests on the finding that variations in sales organization effectiveness are explained by changes in environmental factors (e.g. competition) and organizational factors (e.g. management control systems, advertising spending and brand image), as well as by salesperson factors. These studies suggest that sales

organization effectiveness and salesperson performance are related but conceptually different constructs. In this sense, effectiveness is a summary evaluation of organizational outcomes that can be partly attributed to the salesperson (Churchill *et al.*, 1993).

The consequence is that valid evaluations of salesperson performance should be restricted to factors under the control of salespeople, whereas sales organization effectiveness assessments are overall results determined by many situational factors *including* salesperson performance. The performance of salespeople contributes to, but does not completely determine, sales organization effectiveness. Indeed, it can be further argued that the effects of a single variable on performance (such as the control system) viewed alone may be misleading, because it is likely that its effects will be mediated by other variables (Challagalla and Shervani, 1996).

In addition, several recent studies have also divided the salesperson performance construct into a *behavioural* performance dimension and an *outcome* performance dimension. Because salespeople can more directly control what they do (i.e. their behaviour), *behavioural performance* measures have been proposed and used in a number of studies (Cravens *et al.*, 1993; Jaworski and Kohli, 1991; Mackenzie *et al.*, 1993; Walker *et al.*, 1979). Illustrative components of behavioural performance include: technical knowledge, adaptive selling, teamwork, sales presentation, sales planning and sales support.

However, while behavioural aspects of performance are significant, salespeople also produce outcomes that can largely be attributed to them, representing an *outcome performance* dimension. This is a separate component of performance, both conceptually (Anderson and Oliver, 1987; Walker *et al.*, 1979), and in empirical evaluations (Behrman and Perreault, 1982, 1984; Challagalla and Shervani, 1996; Cravens *et al.*, 1993; Jaworski and Kohli, 1991; Oliver and Anderson, 1994).

While our analysis treats salesforce behavioural performance, salesforce outcome performance and sales organization effectiveness as separate constructs, the interrelationships between these constructs are hypothesized as follows:

H1: The higher the level of salesforce behavioural performance, the higher the level of salesforce outcome performance.

H2: The higher the level of salesforce outcome performance, the higher the level of sales organization effectiveness.

The direction of these hypotheses follows the findings of Cravens *et al.* (1993) and Grant and Cravens (1996), who found a positive relationship between behavioural and outcome salesforce performance in organizations employing behaviour-based control approaches, and also a positive relationship between outcome performance and financial effectiveness.

Sales management control system

There has been some debate in the recent literature regarding the orientation of control systems towards either behaviour-based or outcome-based approaches (Anderson and Oliver, 1987; Challagalla and Shervani, 1996; Oliver and Anderson, 1994). A notable landmark in this literature was the Anderson and Oliver (1987) model of behaviour-based control systems, which were distinguished in terms of the relative amount of effort devoted by sales managers to monitoring, directing, evaluating and rewarding salespeople. The greater the extent of these activities, the more behaviour-based the control system, as opposed to outcome-based systems emphasizing sales and profit results, and rewarding primarily through compensation systems linked to sales and profit results. None the less, the four management control activities (monitoring, directing, evaluating and rewarding) are present under behaviour- and outcome-based control.

Anderson and Oliver (1994) restated their model of behaviour-based and outcome-based control as a continuum of approaches to control and suggest that 'levels of monitoring and direction, as well as methods of evaluating and compensating salespeople, should be treated as interrelated dimensions that *collectively* describe management's control system'. Challagalla and Shervani (1996) have argued against a unidimensional construct of behaviour-control, in favour of a distinction between activity control and capability control which rests on dimensions of control as information (goals, feedback, etc.) and reinforcement (reward, punishments). These distinctions are not made in our present measurement approach, but are significant to the interpretation of our findings.

Drawing on the Anderson and Oliver (1987) and Oliver and Anderson (1994) propositions and empirical results (Cravens *et al.*, 1993), the following hypothesis is advanced:

H3: The greater the extent of behaviour-based sales management control, the higher the level of salesperson behavioural performance.

Anderson and Oliver (1987) argue that the more outcome-based the salesforce control system, the less sales managers are directly involved with salespeople, because the main management control device is the compensation system – salespeople who do not perform well will be paid less because compensation is based heavily on incentive pay (e.g. bonus and/or commission). The intention is that this will motivate them to identify and implement the changes needed to improve their performance and thus receive better rewards. This control approach relies on a 'market' mechanism, whereby the involvement of sales managers is limited to adjusting the reward system so their salespeople will meet organizational goals by achieving the performance levels needed to earn the compensation they desire. On the other hand, in a more behaviour-based control system, sales managers are more directly and actively involved with salespeople, and work with them in various ways as needed to improve their performance. The underlying argument is thus that behaviour-based control should lead to improved salesperson behavioural performance, and the empirical support for this association is the basis for our hypothesis in this area.

It should be noted, however, our research results are likely to be more representative of organizations using behaviour-based salesforce control approaches. The average fixed-salary component for the firms in the sample was more than 80%, which is suggestive of behaviour-based control rather than outcome-based control (Anderson and Oliver, 1987; Oliver and Anderson, 1994). Although a limitation to the generalizability of our findings, the argument developed probably applies most particularly to sales organizations using behaviour-based control. None the less, faulty territory design is likely to inappropriately penalize some salespeople and reward others in outcome-based control systems.

Sales territory design

There has been wide support for the importance of effective sales organization design, and critical commentary regarding the lack of attention received by these issues (Babakus *et al.*, 1996; Bailey, 1989; Piercy, 1985). Indeed, Dickson (1994) suggests that the design of the sales organization should be a precursor or prototype for developing effective corporate marketing structures at a broader level. None the less, the contingent factors and relationships associated with the development of effective sales territory designs have received scant analytical attention by researchers.

It is likely that sales managers employing behaviour-based control of salespeople will pay closer attention to sales territory design, because the territory determines the scope and potential for the salesperson to undertake the behaviours desired. Also, salespeople paid mainly by fixed salary represent substantial investments, and their productivity is directly affected by the appropriateness and efficiency of sales territory design. On the other hand, the use of outcome-based control means that a high proportion of total salesperson payment is variable commission/bonus, so fixed costs are relatively low. In this situation, we suggest managers are less likely to emphasize territory design issues like territory boundaries and salesforce size/allocation. This is because the primary focus is on generating sales volume (or an equivalent commission-earning outcome measure). For example, in a commission-based sales organization, there may be barriers to modifying salesforce size or territory allocations in ways attractive to overall company sales and profitability, because these factors impact on the individual's commission potential. This is a consequence of using the reward system as the primary management tool for salesforce control. This is not to suggest that territory design issues will ever be unimportant to a sales manager. As long as there are not large design imbalances (e.g. in sales potentials), sales managers in outcome-based control approaches will be primarily interested in maximizing sales.

Operating with a behaviour-based control system, the sales manager is likely to be more concerned with having the right structure, the optimal number of salespeople, effective territory designs, and the productive allocation of sales effort, because these factors affect the performance of

salespeople and the effectiveness of the sales organization (Babakus *et al.*, 1996). The construct in our study – satisfaction with sales territory design – indicates sales managers' assessment of the appropriateness of the structure. This is an important measurement because managers' assessment of sales territory designs helps to guide them in improving designs and results in greater satisfaction with designs. The more behaviour-based the control system, the more emphasis there will be on improving all aspects of sales territory design. Based on this logic, and the support it has received in the literature, we propose the hypothesis:

- H4: The greater the extent of behaviour-based sales management control, the higher the level of satisfaction with the sales territory design.

It has been widely suggested that many companies operate with various sales-territory design imbalances, and empirical evidence suggests there are often opportunities to improve the effectiveness of decisions regarding sales organization structure, salesforce size, territory design and the allocation of selling effort (Beswick and Cravens, 1977; LaForge and Cravens, 1985; Lodish, 1974; Rangaswamy *et al.*, 1990; Zoltners and Sinha, 1983). Such studies are suggestive of significant potential increases in productivity from improvements in sales territory design. If productivity increases affect sales effectiveness, then satisfaction with sales territory design should have a direct relationship with sales organization effectiveness. On the basis on this proposition, we advance the following hypothesis:

- H5: The greater the extent of satisfaction with sales territory design, the higher the level of sales organization effectiveness.

The available studies of sales territory design flaws also suggest that territory design affects the performance of salespeople. It is reasonable to expect that inappropriate structures, too many or too few salespeople where needed, poorly designed territories, the unproductive allocation of available selling efforts and other organization issues, will influence what salespeople do (behavioural performance) as well as the results they achieve (outcome performance). Some of these

effects may be addressed in evaluating salesperson performance by establishing quotas or using other mechanisms to control for externalities not directly controllable by salespeople. However, such mechanisms are normally unable to address such issues as the negative impact of sales territory design imbalances on salesperson motivation or role perceptions.

For example, it is possible that a firm may advocate customer-oriented relationship selling, and yet inhibit the sales behaviour desired, simply by assigning too many customers to each salesperson. The situation could lead to extreme role conflict, which has been identified as a source of psychological stress linked to lower levels of salesperson satisfaction and performance (Churchill *et al.*, 1985; Sager, 1994; Siguaw, Brown and Widing, 1994). The same underlying problem with the sales organization design may also lead salespeople to have low performance expectations (i.e. because they do not believe that greater effort will bring enhanced results), thereby decreasing overall motivation levels – the salesperson may reasonably conclude that since s/he cannot establish strong relationships with customers because s/he has been assigned too many, it is not even worth making the effort to do so (Babakus *et al.*, 1996).

There is earlier empirical evidence supporting a link between effective sales territory design and salesperson performance (Cravens *et al.*, 1992), where it was suggested that effective sales organization design decisions provide salespeople with the opportunity to perform well. It would seem that sales organization design may affect both what salespeople do, and what they achieve, and that design may impact on both behavioural and outcome performance. We propose the following hypotheses:

- H6: The greater the extent of satisfaction with the sales territory design, the higher the level of salesforce behavioural performance.
- H7: The greater the extent of satisfaction with the sales territory design, the higher the level of salesforce outcome performance.

Research methods

Our research involved a study of sales organizations located in the United Kingdom, to test

the hypotheses developed above. The data were collected by means of a postal questionnaire completed by field sales managers in the participating organizations, and the field sales unit was the unit of analysis. The questionnaire used was adapted from one developed and utilized in other countries, including the USA, Canada and Australia (Babakus *et al.*, 1996; Cravens *et al.*, 1993; Grant and Cravens, 1996). Since the instrument and the scales used had been validated in these earlier studies, pre-testing in the UK was limited to testing the understandability and colloquiality of question wording, leading to some minor adjustments. Participants were offered the incentive of a copy of the research results.

The research focus was the field sales unit, which typically comprises a group of salespeople reporting to a first-line field sales manager. This organizational form is common to many sales organizations. Our study did not address issues relating to the number of levels or structuring of the broader sales organization, but focused on the field sales unit.

The sampling aimed to include sales organizations operating in a variety of different selling environments. The variety in selling environments is important to thoroughly investigating the research questions. The sampling frame was initially drawn from the Dun & Bradstreet directory of British firms, but supplemented with respondent recommendations and other additions, in a judgement sampling methodology similar to that used in other inter-company studies (Cravens *et al.*, 1993; Grant and Cravens, 1996).

The sampling approach generated responses from 144 respondents representing salesforces in 62 different companies. The sample represents approximately 25% of the companies approached. This response rate and sample size is considered acceptable compared to other comparable studies (e.g. see Babakus *et al.*, 1996). The research instrument consisted of a detailed eight-page questionnaire, which is likely to have adversely affected response rate. This does limit claims to general descriptive representativeness of our findings, and our analysis is confined to exploring relationships between the constructs within the companies studied.

The sampling succeeded in generating responses from several different selling environments. The types of salesforce included: generalists (11%); product/service specialists (34%); and

product-customer specialists (55%). The types of product market represented were: consumer products (28%); industrial products (49%); consumer services (8%); and, industrial services (15%). However, on the constructs reported here, there were no significant differences between companies based on salesforce type or product-market type, and the sample is analysed as a whole throughout our discussion. The constructs and measures used in the analyses are shown in the Appendix, and since they are replicative we indicate the sources of the scales there.

Construct measures

Sales-management control system. The extent to which sales management control is behaviour-based is evaluated by a series of questions measuring the extent of sales manager activities in monitoring, directing, evaluating and rewarding salespeople. The extent to which activity is carried out was measured on a 10-point scale, anchored by 'to a great extent' and 'not at all'.

Sales territory design. This construct was measured using a multiple-item scale based on the salesforce deployment and territory design literature (Beswick and Cravens, 1977; LaForge and Cravens, 1985; Lodish, 1980; Rangaswamy *et al.*, 1996; Ryans and Weinberg, 1979, 1987; Zoltners and Sinha, 1983). The specific items are shown in the Appendix. Sales-manager respondents indicated a level of satisfaction with the design of sales territories in his/her sales unit. A 7-point scale was used, anchored by 'very satisfied' and 'not at all', to evaluate satisfaction. It should be noted that our measurement of the construct 'sales territory design' does not consider all possible aspects of territory and field sales unit design. For example, the multiple-item scale does not specifically consider such issues as product and/or market specialization, major account and team selling approaches, or vertical organization structure. None the less, the items included were considered to be the most appropriate aspects for examining a wide range of different selling environments. We believe these deficiencies in measuring product and/or market specialization issues and other design problems are likely to be reflected in the responses to several of the design scale items used in the study.

Salesforce performance. The salesforce performance constructs were measured using a

modified and extended form of the multiple-item scale developed by Behrmann and Perreault (1982, 1984). Since the original Behrmann and Perreault work, additional dimensions of salesperson behavioural performance have been identified (Anderson and Oliver, 1987; Cravens *et al.*, 1993; John and Weitz, 1989; Spiro and Weitz, 1990). The measures used included technical knowledge, adaptive selling, teamwork, sales presentations, sales planning and sales support. The specific items are shown in the Appendix and were evaluated with a 7-point scale anchored by 'outstanding' and 'needs improvement'. Salesforce outcome performance was assessed with a multiple-item scale, using the items also shown in the Appendix, to assess achievements in market share, sales, profitability and exceeding sales targets and objectives.

Sales organization effectiveness. Our research follows Cravens *et al.* (1993) in measuring sales organization effectiveness as a summary rating of sales, market share, profitability and customer satisfaction achievements, compared to the major competitor and compared to sales unit objectives. The eight items were measured using a 5-point scale anchored by 'much worse' and 'much better', and the items used and their sources are shown in the Appendix. Relative measures were used to enable comparisons to be made across different sales units and industries.

Research results

The sequence of analysis involved a correlation analysis of the constructs, followed by regression models and a simple path analysis. The summated scales are shown in Table 1, and the alpha coefficients are all above 0.76, with eleven of the thirteen multiple-item measures displaying coefficients greater than 0.80, indicating good reliability (Nunnally, 1978). The correlation matrix in Table 1 allows an initial evaluation of the hypotheses developed.

H1 proposed that salesforce behavioural performance would be particularly associated with salesforce outcome performance. This hypothesis is strongly supported by high, positive correlations between outcome performance and the various components of behavioural performance: technical knowledge ($r = 0.32$), sales presentations ($r = 0.46$), adaptive selling ($r = 0.43$), teamwork ($r = 0.41$), sales planning ($r = 0.31$) and sales support ($r = 0.34$). This evidence is strongly suggestive of a high degree of association in the expected direction between outcome performance and behavioural performance.

Second, H2 suggested that salesforce outcome performance would be positively associated with sales organization effectiveness. This proposition also finds substantial support in the significant

Table 1. Correlation matrix and construct reliability

Constructs**	Coefficient alpha																
		1	2	3	4	5	6	7	8	9	10	11	12	13			
1. Technical knowledge (TECHKNOW)	0.83	1.00															
2. Sales presentation (PRES)	0.81	0.59	1.00														
3. Adaptive selling (ADAPT)	0.91	0.42	0.65	1.00													
4. Teamwork (TEAM)	0.79	0.33	0.43	0.41	1.00												
5. Sales planning (PLAN)	0.84	0.29	0.51	0.44	0.26	1.00											
6. Sales support (SUPPORT)	0.80	0.27	0.44	0.35	0.51	0.43	1.00										
7. Monitoring (COMMON)	0.86	*	*	*	*	0.24	*	1.00									
8. Directing (CONDIR)	0.91	*	0.30	0.41	0.24	0.30	*	0.55	1.00								
9. Evaluating (CONEVAL)	0.86	*	0.24	0.35	0.30	0.31	*	0.58	0.80	1.00							
10. Rewarding (CONREW)	0.92	*	0.23	0.36	0.23	*	*	0.57	0.79	0.81	1.00						
11. Outcome performance (OUTPERF)	0.76	0.32	0.46	0.43	0.41	0.31	0.34	*	0.41	0.37	0.38	1.00					
12. Sales territory design (TERR)	0.90	0.28	0.24	0.27	0.28	0.37	0.32	0.12	0.24	0.25	*	0.27	1.00				
13. Sales organization effectiveness (EFFECT)	0.85	0.28	0.23	0.30	0.28	0.23	0.35	*	0.32	0.30	0.26	0.35	0.42	1.00			

* Not significant at 0.05.

** Items 1, 2, 3, 4, 5 and 6 produce a summated scale 'Salesforce behavioural performance' (BEHPERF) with coefficient alpha = 0.92. Items 7, 8, 9 and 10 produce a summated index 'Sales-management control system' (CONTROL) with coefficient alpha = 0.95.

correlation ($r = 0.35$) between outcome performance and effectiveness.

H3 proposed that the greater the extent of behaviour-based sales management control, then the higher would be the level of behavioural performance. This hypothesis finds substantial support, but with interesting exceptions. The correlations between sales management monitoring, directing, evaluating and rewarding activities, and the six components of behavioural performance indicate mixed results concerning H3. While sales manager directing, evaluating and rewarding activities show strong relationships with all of the elements of behavioural performance, except technical knowledge and sales support, sales management monitoring does not show significant relationships with any of the components of behavioural performance. Thus, while the hypothesis does not receive total support, there is convincing evidence of the expected positive relationship between most elements of behaviour-based sales management control and most of the dimensions of salesforce behavioural performance.

H4 suggested that behaviour-based sales management control would be related to a higher degree of satisfaction with sales territory design. This hypothesis receives convincing support for

the directing and evaluating components of sales management control, but not for the monitoring and rewarding components. Thus, the support for this hypothesis is mixed. H5 proposed a link between satisfaction with sales territory design and sales organization effectiveness. This proposition receives strong support in a significant correlation ($r = 0.42$) between those two variables.

H6 suggested that the greater the level of satisfaction with sales territory design, the higher would be the level of salesforce behavioural performance. This hypothesis also receives strong support. Satisfaction with sales territory design correlates significantly and positively with all the dimensions of salesforce behavioural performance. Lastly, H7 suggested that the greater the satisfaction with sales territory design, the higher would be salesforce outcome performance. This hypothesis also finds strong support in a significant correlation ($r = 0.27$) between these two indices.

However, while the correlations found provide substantial support for the hypotheses developed, a more complete test of the hypothesized relationships is shown in the simple path analysis in Figure 1. This model is based on the standardized

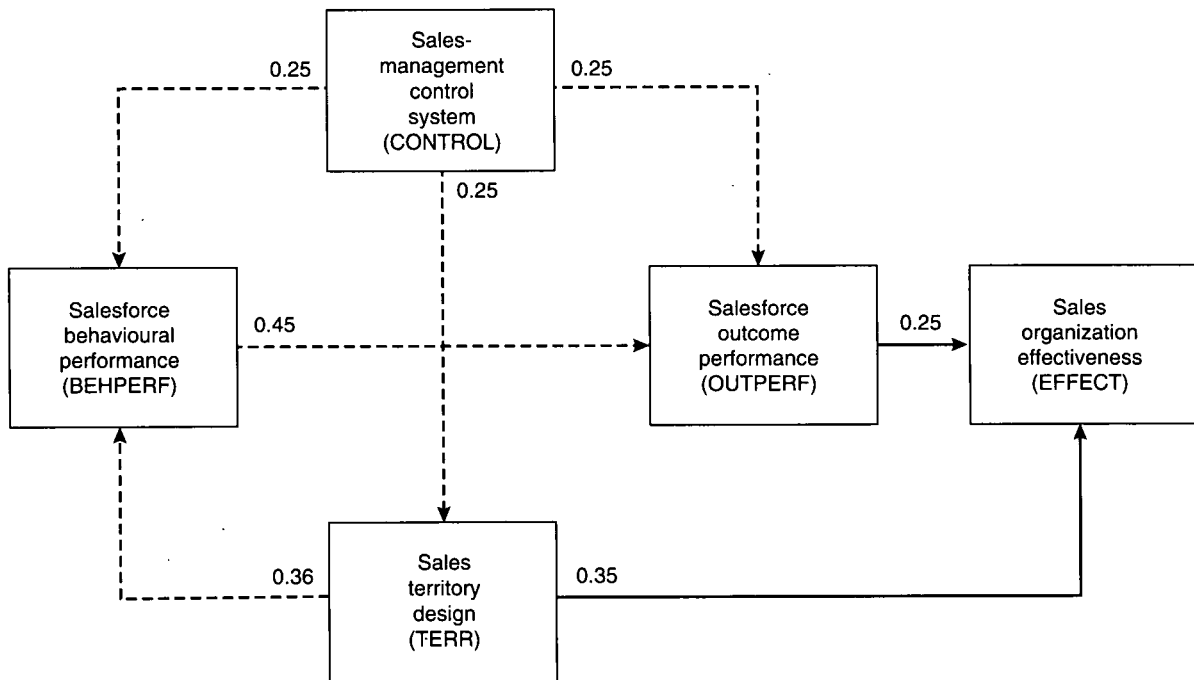


Figure 1. Path model

Table 2. Regression* of independents on sales organization effectiveness

Dependents	Independents	Beta	Sig.	Adjusted r square
EFFECT	TERR	0.35	0.00	0.24
	OUTPERF	0.25	0.01	
OUTPERF	BEHPERF	0.45	0.00	0.32
	CONTROL	0.25	0.00	
BEHPERF	TERR	0.36	0.00	0.21
	CONTROL	0.25	0.00	
TERR	CONTROL	0.25	0.00	0.06

Notes:

* Stepwise regression of variables with probability F-to-enter = 0.05 and F-to-leave = 0.10.

Index codes are shown in Table 1.

Table 3. Direct and indirect effects of independents on sales organization effectiveness*

Independents	Direct effect	Indirect effect	Total effect
Sales territory design (TERR)	0.35	0.04	0.39
Sales management control system (CONTROL)	-	0.18	0.18
Salesforce outcome performance (OUTPERF)	0.25	-	0.25
Salesforce behavioural performance (BEHPERF)	-	0.11	0.11

Note:

* Total effects of independents on sales organization effectiveness are calculated using the Simon-Blalock technique, with indirect effects calculated by the multiplication of path coefficients.

regression coefficients shown in Table 2. Collectively, the hypotheses developed for testing provide the basic model in Figure 1, containing the five variables that may directly or indirectly affect sales organization effectiveness. (For clarity, the model uses summated indices for salesforce behavioural performance and sales management control system, constructed as described in Table 1.) The framework of relationships hypothesized was tested by path analysis, using the decomposition and interpretation of linear relationships among a set of variables by assuming that a weak causal ordering can be postulated (Blalock, 1971; Duncan, 1975).

The model in its testable form is presented in Figure 1, showing the path coefficients (i.e. the beta weights from the individual regression models in Table 2). All the coefficients are significant at a reasonable level, which offers some confirmation of the model as hypothesized. In particular, this model demonstrates the impact of the sales-management control system on salesforce behavioural performance as well as outcome performance, and on the satisfaction with sales territory design. The model also shows the large impact of the sales territory design variable directly on sales organization effectiveness.

To summarize the impact of each independent variable on sales organization effectiveness, Table 3 identifies the direct and indirect effects of each variable on the dependent. The indirect effects are calculated as a simple multiplicative measure of the magnitude of sequential beta weights (the Simon-Blalock technique).

These data suggest that the satisfaction with sales territory design has the greatest impact on sales organization effectiveness, mainly through its direct relationship, but also indirectly through the impact of sales territory design on salesforce behavioural performance and outcome performance. The next largest impact of sales organization effectiveness is from salesforce outcome performance, but the most pervasive indirect effects on effectiveness come from the sales-management control system, which impacts on behavioural and outcome performance, but also on the satisfaction with sales territory design. The smallest effect is from behavioural performance, indirectly through its relationship with outcome performance.

Most of the relationships are as hypothesized: sales territory design relates directly to sales organization effectiveness, but also affects salesforce behavioural performance; salesforce outcome

performance impacts directly on sales organization effectiveness, but is strongly associated with levels of behavioural performance; and, the sales management control system relates to both behavioural and outcome performance, but also to the level of satisfaction with sales territory design.

Discussion and implications

The general pattern of the findings represented by our model in Figure 1 offers strong support for recent suggestions that sales management control systems play a critical role in: (1) designing effective field sales organizations and (2) influencing behavioural and outcome performance (Babakus *et al.*, 1996; Cravens *et al.*, 1993; Grant and Cravens, 1996). Our model suggests strongly that the greater the extent of behaviour-based management control, the more satisfied sales managers tend to be with their sales territory designs and the higher the behavioural and outcome performance of the salespeople concerned. Moreover, effective territory designs are linked directly to behavioural performance, outcome performance and sales organization effectiveness. These findings are supportive of several past sales management principles that have not previously been tested empirically.

Most significantly, the findings highlight the critical role of the field sales manager in influencing salesforce performance and effectiveness. While certain elements of the sales management process have received prior attention, this present study adds to a significant new research stream (Babakus *et al.*, 1996; Cravens *et al.*, 1993) analysing how sales management control impacts on design, performance and effectiveness. The research gives weight to several sales management principles relating to the sales management/performance relationship for which existing support was either dated or non-empirical (Davis, 1957; Henry, 1983).

The strong relationship found in this study between salesforce behavioural performance and outcome performance is also of some importance in adding to the research stream. In our study it is apparent that managers expect salespeople to perform well on both performance dimensions – they describe a positive relationship between behaviour (which includes several activities which

are not direct selling tasks) and outcome results. These findings add to the weight of the argument by Babakus *et al.* (1996) and Cravens *et al.* (1993) favouring a positive behaviour/outcome relationship. This contradicts in an important way the relationship proposed by Anderson and Oliver (1987), who predicted that salespeople operating under behaviour-based control systems would perform poorly on outcome measures of performance. This is of some importance given the pervasiveness of the Anderson and Oliver (1987) model in the modern sales-management prescriptive literature and executive development activities. A key implication is that relevant salesforce behavioural activities (e.g. sales planning, sales presentations and so on) when performed well should lead to favourable outcome performance. (Clearly the time-frame for such outcomes is likely to vary according to the selling situation, for example selling capital goods compared to consumable products.)

The study results also highlight the important relationship between the design of field sales organizations and salesforce performance. The relationships shown on Figure 1 strongly suggest that salespeople perform better, and effectiveness is greater, where managers are more satisfied with sales territory designs. Indeed, sales territory design has the largest overall effect on sales organization effectiveness – larger than either behavioural performance or outcome performance. This finding differs significantly from those in earlier studies. Babakus *et al.* (1996) found that outcome performance had a far greater effect on effectiveness than did territory design. Our findings suggest that, in our sample of British companies, while well-designed field units are associated with salespeople performing better, leading to superior sales organization effectiveness, as in Babakus *et al.* (1996), our study also shows a stronger direct link between territory design and effectiveness. This may reflect a number of cross-country or cross-cultural differences: possibly there has been less restructuring occurring in British companies in seeking effectiveness in recent years, leading to greater dissatisfaction with sales territory designs (we were not able to evaluate the possible impact of the number of changes in territory design in the period in question in this study); British managers may simply be more concerned than those in other countries with structural rather than behavioural

issues; differences in the timing of the studies may also be significant. However, whatever the eventual explanation, our study suggests an even greater impact of territory design issues on performance and effectiveness than was found in the earlier studies in this research stream. We believe that the study model provides important new insights into how design influences performance and sales organization effectiveness. Importantly, the findings add weight to the Babakus *et al.* (1996) argument that this research stream provides empirical support for basic sales-management principles previously only supported by observation and logical prescription.

The study results point to the importance of field sales management taking a proactive role in monitoring, directing, evaluating and rewarding salespeople on the one hand, and designing territories that facilitate salespeople performing well on the other hand. Faulty territory design may substantially constrain competent salespeople from performing well, even though they have good management control, relevant skills and experience, and high levels of motivation. Conventional sales management practice may focus on motivating and incentivizing salespeople, without making adequate allowance for whether management has provided salespeople with the opportunity to perform well. Our study findings imply that regarding sales territory design as a management tool to leverage effectiveness should be encouraged, since we have demonstrated that sales organizations that are better designed are more effective.

Lastly, it should be noted that the study results suggest strongly that the effective sales organizations are those that are both well-designed *and* have high performance salesforces. Achieving sales organization effectiveness requires sales management to recognize and manage all of the relationships shown in Figure 1. The findings have important implications for sales manager selection and training. The implication is that sales managers need skills in behavioural control and territory design issues, which traditionally have not featured strongly in their development activities, compared to selling skills and outcome-control skills. In particular, the results suggest that sales managers' skills in directing, evaluating and rewarding may be especially significant to influencing the performance of salespeople and overall sales organization effectiveness.

The study results indicate that sales managers can apparently distinguish good from not-so-good territory designs, and also recognize differences in salesperson performance and organizational effectiveness. This suggests that senior management needs to actively involve field sales managers in decisions to change the size of the salesforce, territory assignments, selling effort allocations across field units and other actions leading to improved territory designs.

Research directions

We concur with Babakus *et al.* (1996) in suggesting that studies of this kind in extending this new research stream suggest a number of potentially productive research directions. First, the study results emphasize the importance of considering uncontrollable factors in assessing salesperson performance. The evidence from earlier studies at the sales-territory level indicates the importance of considering such factors (Cravens *et al.*, 1972), and it has been argued that when uncontrollable factors are not considered, performance evaluations are not very useful (Churchill *et al.*, 1985). The present study confirms earlier findings that the sales territory design impacts on salesforce behavioural and outcome performance, and hence sales organization effectiveness. Clearly, while it has been demonstrated to impact on performance, the design of the sales territory is not normally a factor within the control of the individual salesperson and to some extent not under the control of the field sales manager. A question raised is the extent to which ineffective or outdated sales territory designs represent an uncontrollable factor that should be assessed in salesperson performance evaluations. By bringing into sharper focus the important role played by organizational design on the sales management process, these studies suggest that future evaluations of salesforce performance and sales organization effectiveness should include explicit consideration of the role and impact of sales organization design factors.

Second, this research stream highlights the opportunity to refine and extend the important work of Walker *et al.* (1979) in studying the sales management process. The Walker *et al.* (1979) conceptualization has guided much of the scholarly work in the sales management area, but

most of these studies have concentrated on the salesperson rather than the sales manager. However, the relationships proposed in our model in Figure 1 are not specifically addressed by the Walker *et al.* (1979) work. An important contribution would be to more explicitly integrate the sales management behavioural control processes of monitoring, directing, evaluating and rewarding salespeople into the Walker *et al.* (1979) conceptualization. The suggestion is that there is a need to extend the Walker *et al.* conceptualization to more fully and explicitly recognize different aspects of the sales management process.

Third, the research suggests that there is a need to better understand the relative impact of sales manager monitoring, directing, evaluating and rewarding, in the context of an overall sales-management control system adapted to varying situation contingencies. It was notable that in our study the sales manager activity of monitoring showed far less relationship with behavioural or outcome performance than was the case for the other elements of behaviour-based sales management control. It would be valuable to understand better these interrelationships as a basis for designing effective sales management control systems. In other words, while the present study concurs with Babakus *et al.* (1996) in showing that the greater the extent that the behaviour-based control activities are pursued, the better the sales territory design evaluation and the better the salesforce behavioural performance, it would be useful to understand more thoroughly the mix of such activities that leads to better territory design decisions and higher behavioural performance. While it is frequently suggested that sales manager coaching activities are important, linking different degrees and types of coaching to outcomes would be of great value to researcher and manager.

However, it may also be argued that a better understanding of the influence of sales management on design decisions and salesforce performance may require that sales manager effectiveness be incorporated into the Figure 1 conceptualization. For example, while we have evaluated the extent of behaviour-based control activities, we have not measured the quality of such activities. It would be useful to examine the relationship between sales manager performance and satisfaction with territory design. Performance could be measured in various ways, including

supervisor ratings, self ratings and sales unit output measures (e.g. sales, market share, customer satisfaction).

Lastly, there may also be value in examining the sales territory design issue from the perspective of the individual salesperson, rather than the field sales manager. It would be useful to understand better the sales-territory design issues with the greatest impact on salesperson motivation and behaviour, and hence effectiveness. There is some evidence that in less effective sales organizations, staff turnover is higher, i.e. in poorly designed sales territories salespeople are more likely to leave the company (Cravens *et al.*, 1992), but we have little understanding of the relative importance of different organization design issues in determining salesperson retention or performance.

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Appendix: construct operationalization

Scale items

Scale	Items	Source
Behaviour-based sales management control		
To what extent do you:		
<i>Monitor</i>	<ol style="list-style-type: none"> 1. Spend time with salespeople in the field. 2. Make joint calls with salespeople. 3. Regularly review call reports from salespeople. 4. Monitor the day-to-day activities of salespeople. 5. Observe the performance of salespeople in the field. 6. Pay attention to the extent to which salespeople travel. 7. Closely watch salespeople's expense accounts. 8. Pay attention to the credit terms that salespeople quote customers. 	Based on Cravens <i>et al.</i> (1993)
<i>Direct</i>	<ol style="list-style-type: none"> 1. Encourage salespeople to increase their sales results by rewarding them for their achievements. 2. Actively participate in training salespeople on the job. 3. Regularly spend time coaching salespeople. 4. Discuss performance evaluations with salespeople. 5. Help salespeople develop their potential. 	
<i>Evaluate</i>	<ol style="list-style-type: none"> 1. Evaluate the number of sales calls made by salespeople. 2. Evaluate the profit contribution achieved by each salesperson. 3. Evaluate the sales results of each salesperson. 4. Evaluate the quality of sales presentations made by salespeople. 5. Evaluate the professional development of salespeople. 	
<i>Reward</i>	<ol style="list-style-type: none"> 1. Provide performance feedback to salespeople on a regular basis. 2. Compensate salespeople based on the quality of their sales activities. 3. Use incentive compensation as the major means for motivating salespeople. 4. Make incentive compensation judgements based on the sales results achieved by salespeople. 5. Reward salespeople based on their sales results. 6. Use non-financial incentives to reward salespeople for their achievements. 7. Compensate salespeople based on the quantity of their sales activities. 	Based on Cravens <i>et al.</i> (1993)

Satisfaction with sales organization design

My level of satisfaction with:

1. The number of accounts in my territories. New Scale
2. The number of large accounts in my territories.
3. The number of calls made in my territories.
4. The amount of travel required in my territories.
5. The market potential in my territories.
6. The number of territories in my sales unit.
7. The assignment of salespeople to my territories.
8. The equivalence in workload across territories.
9. The overall design of my territories.

Salesforce performance

How well are the salespeople in your unit performing:

- | | | |
|----------------------------|--|---|
| <i>Outcome performance</i> | <ol style="list-style-type: none"> 1. Producing a high market share for your company. 2. Making sales of those products with the highest profit margins. 3. Generating a high level of £ sales. 4. Quickly generating sales of new company products/services. 5. Identifying and selling to major accounts. 6. Producing sales or blanket contract with long-term profitability. 7. Exceeding all sales targets and objectives during the year. | Based on Behrman and Perreault (1982); and Cravens <i>et al.</i> (1993) |
| <i>Technical knowledge</i> | <ol style="list-style-type: none"> 1. Knowing the design and specifications of company products/services. 2. Knowing the applications and functions of company products/services. 3. Keeping abreast of your company's production and technological developments. | |
| <i>Adaptive selling</i> | <ol style="list-style-type: none"> 1. Experimenting with different sales approaches. 2. Being flexible in the selling approaches used. 3. Adapting selling approaches from one customer to another. 4. Varying sales style from situation to situation. | Based on Spiro and Weitz (1990) |
| <i>Teamwork</i> | <ol style="list-style-type: none"> 1. Generating considerable sales volume from team sales (sales made jointly by two or more salespeople). 2. Building strong working relationships with other people in our company. 3. Working very closely with non-sales employees to close sales. 4. Coordinating very closely with other company employees to handle post-sales problems and service. 5. Discussing selling strategies with people from various departments. | Based on John and Weitz (1989) |
| <i>Sales presentation</i> | <ol style="list-style-type: none"> 1. Listening attentively to identify and understand the real concerns of customers. 2. Convincing customers that they understand their unique problems and concerns. 3. Using established contacts to develop new customers. 4. Communicating their sales presentation clearly and concisely. 5. Working out solutions to a customer's questions and objections. | Behrman and Perreault (1982) and Cravens <i>et al.</i> (1993) |
| <i>Sales planning</i> | <ol style="list-style-type: none"> 1. Planning each sales call. 2. Planning sales strategies for each customer. 3. Planning coverage of assigned territory/customer responsibility. 4. Planning daily activities. | |
| <i>Sales support</i> | <ol style="list-style-type: none"> 1. Providing after the sale service. 2. Checking on product delivery. | |

3. Handling customer complaints.
4. Follow up on product use.
5. Troubleshooting application problems.
6. Analysing product use experience to identify new product/service ideas.

Sales organization effectiveness

Sales organization effectiveness

1. Sales volume compared to your major competitor (past 24 months)
2. Market share compared to your major competitor (past 24 months)
3. Profitability compared to your major competitor (past 24 months)
4. Customer satisfaction compared to your major competitor (past 24 months)
5. Sales volume compared to sales unit objectives.
6. Market share compared to sales unit objectives.
7. Profitability compared to sales unit objectives.
8. Customer satisfaction compared to sales unit objectives.

Based on Cravens *et al.* (1993)

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