Volume 12, Number 2 *2007*

Allied Academies
International Conference

Reno, NV
October 3-5, 2007

Academy of Marketing Studies

PROCEEDINGS

Table of Contents

WAITING AT RETAIL ENCOUNTER AND CONTROL OVER A RETAIL SITUATION: IMPACT OF CUSTOMERS' PERSONALITY TRAITS 1
M. Meral Anitsal, Tennessee Tech University
Ismet Anitsal, Tennessee Tech University

SERVICES MARKETING: THE MEDIATING ROLE OF CUSTOMER LOYALTY IN THE HAIR CARE INDUSTRY. 3
Ulysses J. Brown, III, Savannah State University
Ruby L. Beale, Hampton University

HOW CAN CURVES INTERNATIONAL OVERCOME THE CHALLENGES OF A SATURATED MARKET?. 5
Barbara Dalby, University of Mary Hardin-Baylor
Patrick Jaska, University of Mary Hardin-Baylor
Chrisann Merriman, University of Mary Hardin-Baylor
Ashley Walters, University of Mary Hardin-Baylor

MARKET ORIENTATION AND FORMALIZED STRATEGIC MARKETING – COMPLEMENTARY OR ALTERNATIVE APPROACHES IN THE CASE OF UNIVERSITY BUSINESS SCHOOLS?. 7
Kevin L. Hammond, The University of Tennessee at Martin
Robert L. Webster, Ouachita Baptist University

THE RELATIONSHIP BETWEEN ATTRACTIVE MODELS AND ADVERTISING EFFICACY. 9
Jennifer S. Hospodor, Mississippi College
J. Bryan Hayes, Mississippi College

INFORMATION SEARCH AND PURCHASE CHANNEL CHOICE ACROSS IN-HOME SHOPPING RETAIL FORMATS.. 11
Young-Hyuck Joo, Hansung University
Michael Hyung-Jin Park, University of Tennessee at Martin

INTERNAL RELATIONSHIP QUALITY: THE IMPACT OF RELATIONSHIP QUALITY ON INTERNAL CUSTOMER PERCEPTIONS 13
Ashley J. Kilburn, University of Tennessee at Martin
Brandon R. Kilburn, University of Tennessee at Martin

HEURISTICS AND BIASES RESEARCH IN MARKETING JOURNALS 15
Wayne A. Roberts, Jr., Southern Utah University

AN ANALYSIS OF FACTORS AFFECTING LIFE INSURANCE AGENT SALES PERFORMANCE 17
James H. Turner, Xavier University

USING A MARKET ORIENTATION STRATEGY TO IMPROVE ORGANIZATIONAL PERFORMANCE: A VIEW FROM ACADEMIC MARKETING DEPARTMENT CHAIRS, BUSINESS SCHOOL DEANS, AND COMMERICAL BUSINESS MANAGERS 19
Robert L Webster, Ouachita Baptist University
Kevin L. Hammond, University of Tennessee at Martin

A HUMAN CAPITAL THEORY PERSPECTIVE OF SALES FORCE TRAINING, PRODUCTIVITY, COMPENSATION, AND TURNOVER 21
Khalid M. Dubas, Fayetteville State University
Inder P. Nijhawan, Fayetteville State University

THE OPTIMAL RATE OF SALES FORCE TURNOVER 27
Khalid M. Dubas, Fayetteville State University
Lewis Hershey, Fayetteville State University

WAITING AT RETAIL ENCOUNTER AND CONTROL OVER A RETAIL SITUATION: IMPACT OF CUSTOMERS' PERSONALITY TRAITS

M. Meral Anitsal, Tennessee Tech University
manitsal@tntech.edu
Ismet Anitsal, Tennessee Tech University
ianitsal@tntech.edu

ABSTRACT

Services marketing literature on waiting at retail encounter indicates that customers' willingness to wait for the service varies with customers' perceptions about the importance of the service, their moods and emotions, and overall environment of the service encounter. Extant literature also indicates that there is little empirical research on customers' role on the co-production of service and customers' willingness on taking control of the service process and outcome. Situational factors make it difficult to integrate research results to form a coherent picture in this area. Customers' personality traits may have an effect on how they perceive and respond to waiting in line and taking control of a retail situation. This paper presents an exploratory study that investigates how personality traits, namely extraversion, agreeableness and conscientiousness, influence customers' behavior with regard to waiting in and control over a retail situation. Results indicated that among these three personality traits, extraversion most strongly influences waiting in retail situations. Both conscientiousness and extraversion had an impact on consumer behavior with regard to control over a retail situation. No relationship was found between any of the three personality traits and use of technology based self-checkouts.

SERVICES MARKETING: THE MEDIATING ROLE OF CUSTOMER LOYALTY IN THE HAIR CARE INDUSTRY

Ulysses J. Brown, III, Savannah State University
brownu@savstate.edu
Ruby L. Beale, Hampton University
ruby.beale@hamptonu.edu

ABSTRACT

This research explores the relationship between customers' loyalty and satisfaction with their hair care professionals. Although the marketing literature is replete with studies that examine the interaction between service providers and customers, the extant literature is almost silent regarding hair care service providers and their clients' loyalty and satisfaction. Latent variable modeling was employed to evaluate the research hypotheses. We posited that the relationship between customer satisfaction and its antecedents was mediated by customer loyalty. This claim was supported by our findings. The paper should have impact on services marketing and profit in the billion dollar hair care industry. We discussed implications, limitations, and future research suggestions.

HOW CAN CURVES INTERNATIONAL OVERCOME THE CHALLENGES OF A SATURATED MARKET?

Barbara Dalby, University of Mary Hardin-Baylor
bdalby@umhb.edu
Patrick Jaska, University of Mary Hardin-Baylor
pjaska@umhb.edu
Chrisann Merriman, University of Mary Hardin-Baylor
chrisann.merriman@umhb.edu
Ashley Walters, University of Mary Hardin-Baylor
ashleywalters@yahoo.com

ABSTRACT

Once a company has successfully saturated its market, new challenges with how to grow appear. This study addresses five key questions to which Curves International's executives needed answers. Since Curves had some experience in diversifying its offerings, it seemed appropriate to consider what other areas would provide value to its members. One potential area which aligned itself with Curves' mission is in the area of providing its members with health care information. To provide answers, a pilot project consisting of a survey and sample health-related information was used to gather information from members in four facilities in the Central Texas area. The findings suggest that women's health care information may offer possibilities for new offerings if the delivery format is carefully constructed to match the preferences of its members.

MARKET ORIENTATION AND FORMALIZED STRATEGIC MARKETING – COMPLEMENTARY OR ALTERNATIVE APPROACHES IN THE CASE OF UNIVERSITY BUSINESS SCHOOLS?

Kevin L. Hammond, The University of Tennessee at Martin
khammond@utm.edu
Robert L. Webster, Ouachita Baptist University
websterb@obu.edu

ABSTRACT

Previous research by the authors has focused on investigating levels of university business school market orientation, as measured by a reworded Narver and Slater (1990) market orientation scale, and the impact that those levels may have on university business school performance (Jaworski and Kohli 1993). Additional research by the authors has focused on the use of formal strategic marketing planning practices at the university level and at the university business school level, and the possible impact of those formal plans on university business school performance. Results of the previous research indicated a significant positive impact on business school performance by market orientation and by formal planning at the business school level.

This research is an extension of those previous efforts. We pose and answer one research question:

> *In the perception of university business school deans, are university business school market orientation (toward students, parents, and employers) and formal strategic marketing planning efforts (enrollment management plans, advertising plans, and marketing plans) perceived as complementary marketing approaches which should correlate, or alternative (non-complementary) approaches to marketing which, then, would demonstrate an inverse correlation?*

We gather data through use of a national survey of AACSB and ACBSP affiliated business school deans. Addressing the research question, we calculate Pearson correlation coefficients between the market orientation measures and respondent school use or non-use of the marketing planning practices. Part of a much larger research effort, we ask respondents to describe the actual (not desired) behaviors and activities at their schools. We analyze the data and report the results, answering the research question through application of correlation analysis. Limitations and suggestions for future research are provided.

REFERENCES

Jaworski, Bernard J., and Ajay K. Kohli (1993). Market Orientation: Antecedents and Consequences. *Journal of Marketing*, 57 (July), 53-70.

Narver, John C., and Stanley F. Slater (1990). The Effect of a Market Orientation on Business Profitability. *Journal of Marketing*, 54 (October), 20-35.

THE RELATIONSHIP BETWEEN ATTRACTIVE MODELS AND ADVERTISING EFFICACY

Jennifer S. Hospodor, Mississippi College
J. Bryan Hayes, Mississippi College
bhayes14@bellsouth.net

ABSTRACT

The current study assessed the impact of physical attractiveness on attitudinal evaluations of print advertisements. In a preliminary study, college students determined model attractiveness using McCroskey's Measure of Interpersonal Attraction. The results provided 2 models for each experimental treatment condition – highly and normally attractive. In an experiment, a separate sample of female college students responded to questions concerning 3 components of attitudes towards the advertisements. Beliefs, feelings and purchase intentions were solicited to measure the cognitive, affective and conative components respectively. Results show that advertisements featuring highly attractive models received statistically significantly higher mean scores than advertisements featuring normally attractive models on each of the 3 attitudinal components. Practical implications are discussed.

INFORMATION SEARCH AND PURCHASE CHANNEL CHOICE ACROSS IN-HOME SHOPPING RETAIL FORMATS

Young-Hyuck Joo, Hansung University
Michael Hyung-Jin Park, University of Tennessee at Martin
mpark@utm.edu

ABSTRACT

Under the recent multi-channel circumstances, in-home shopping channels (TV, catalog, and Internet) have been getting more attention from academicians and practitioners. This study examines the relationship between information search and shopping channel choice behavior across in-home shopping channels. Specifically, we investigate that information search channel is also selected as shopping channel (channel lock-in) and shopping channel choice is influenced by other information search channels (cross-channel synergy).

We collected the channel choice (information search and shopping) data of past 3 month from the survey of 346 randomly selected housewives. Based on the MVP (multivariate probit) analysis, we discovered that as the channel is selected for information search, the possibility that the channel is chosen for purchase will increase and the synergy between information search and purchase across channels does not exist. In addition, we found that, in terms of shopping channel, TV is substitute of catalog and Internet, while catalog is complement of Internet. Our research has implications for helping the firms managing multi-channels to coordinate and integrate across channels and to build multi-channel customer relationship.

INTERNAL RELATIONSHIP QUALITY: THE IMPACT OF RELATIONSHIP QUALITY ON INTERNAL CUSTOMER PERCEPTIONS

Ashley J. Kilburn, University of Tennessee at Martin
Brandon R. Kilburn, University of Tennessee at Martin
akilburn@utm.edu

ABSTRACT

The quality of internal exchange relationships within organizations between internal customers and suppliers on customerjob satisfaction, job embeddedness and intentions to turnover are examined using psychological contract theory and analyzed using data collected across two organizations (n=46 and 154, respectively). Internal markets refer to exchange structures comprised of individuals who are recipients (i.e., customers) or providers (i.e., suppliers) inside the organization (Bowen & Schneider, 1988; Foreman & Money, 1995; Lings, 2004). Psychological contracts between internal customers and suppliers serve to control exchange-related behavior by outlining promises, whether implicit or explicit, regarding terms and conditions of a reciprocal agreement between an individual and another (Rousseau, 1989).

Relationship quality is proposed here as a 3-dimensional construct: an aggregate assessment of quality, and also assessments of trust and commitment to the relationship. Major determinants of voluntary turnover intentions examined here include employee job satisfaction, (Hom & Griffeth, 1995;) and job embeddedness (Mitchell, Holtom, Lee, Sablynski & Erez, 2001). Mobley (1977) believes that a number of job characteristics, including co-worker relationships, influence job satisfaction. Therefore, the quality of internal exchange relationships should help form an internal customer's job satisfaction.

H1: The higher the quality of relationship an internal customer shares with their internal supplier, the higher internal customer job satisfaction. (supported)

Embeddedness reflects how individuals become part of a social web and how that web connects them to the organization (Lee, Mitchell, Sablynski, Burton & Holtom, 2004). As the links are improved by internal exchange psychological contract fulfillment, the more likely an internal customer is to feel enmeshed in that relationship and the organization.

H2a: The higher the quality of relationship an internal customer shares with their internal supplier, the higher internal customer on-the-job embeddedness. (supported)
H2b: The higher the quality of relationship an internal customer shares with their internal supplier, the higher internal customer off-the-job embeddedness. (supported)

Turnover refers here to the voluntary exit of an employee from the organization. Individuals who are satisfied are less likely to search for alternative opportunities (Mobley, 1977). Likewise,

as employees become enmeshed in a web of relationships connecting them to their organization, job, co-workers, and community, the less likely they are to turnover. Lee, Mitchell, Sablynski, Burton & Holtom (2004) argue that as an individual's attitude toward their job (i.e., job satisfaction) is controlled, on-the-job considerations do nothing to change the quit decision while off-the-job considerations do (Lee, et al, 2004).

> *H3a: The greater internal customer global job satisfaction, the less the internal customer intends to turnover. (supported)*
> *H3b: As job satisfaction is controlled for, off-the-job embeddedness will decrease the internal customer's intentions to turnover while on-the-job embeddedness will not impact turnover intentions. (partially supported in Sample 1, fully supported in Sample 2)*

Further, Rousseau (2001) finds a co-worker influence on the employer-employee psychological contract and the employee's decision to turnover. When psychological contracts with internal partners are fulfilled, relationships among the colleagues improve, thus increasing employee retention.

> *H4: The relationship between relationship quality and decreased internal customer intentions to turnover is mediated by internal customer job satisfaction and job embeddedness. (Model shows ill-moderate fit in Sample 1: NFI =.68, GFI = .76, CFI = .69 and in Sample 2: NFI =.48, GFI = .83, CFI = .47).*

HEURISTICS AND BIASES RESEARCH IN MARKETING JOURNALS

Wayne A. Roberts, Jr., Southern Utah University
Robertsw@suu.edu

ABSTRACT

The heuristics and biases literature, which addresses key aspects of decision-making by individuals, is deep and rich. Given the focus of the work, it is very appropriate to consumer behavior and marketing decision-making. The purpose of this work is to assess the extent marketing thought has incorporated concepts and findings from this research as expressed through academic publications. Combining an understanding of the heuristics and biases literature with an awareness of the extent to which is has influenced academic marketers will facilitate finding opportunities for developing meaningful research.

AN ANALYSIS OF FACTORS AFFECTING LIFE INSURANCE AGENT SALES PERFORMANCE

James H. Turner, Xavier University
turnerj3@xavier.edu

ABSTRACT

Several factors affecting life insurance agent production were tested in an effort to produce a predictive model of agent and agency production. Surprisingly, formal education, professional education, and training showed no affect on production. The number of policyholders and smaller management span of control both proved predictive. The most important predictors, however, proved to be prior performance.

USING A MARKET ORIENTATION STRATEGY TO IMPROVE ORGANIZATIONAL PERFORMANCE: A VIEW FROM ACADEMIC MARKETING DEPARTMENT CHAIRS, BUSINESS SCHOOL DEANS, AND COMMERICAL BUSINESS MANAGERS

Robert L Webster, Ouachita Baptist University
Kevin L. Hammond, University of Tennessee at Martin
websterb@obu.edu

ABSTRACT

The market orientation strategy is based upon the acceptance and adoption of the marketing concept. The market-oriented organization recognizes the importance of coordinating the activities of all departments, functions, and individuals in the organization to satisfy customers by delivering superior value. The market-oriented organization continually monitors customer information, competitor information, and marketplace information to design and provide superior value to its customers. Theory and empirical research suggest that higher levels of market orientation result in a greater ability of the organization to reach its objectives, in other words, higher levels of organizational performance. This paper extends the current research on the use of the market orientation strategy by determining and reporting market orientation levels within college and university schools of business at the school level and the marketing department level and comparing these levels of market orientation to levels previously reported in the literature for commercial businesses. School of Business deans and marketing department chairs within schools of business were surveyed by way of a national mail survey. All deans and marketing department chairs were from four year colleges or universities and were from schools holding membership in AACSB-International. 141 deans and 94 Marketing chairs responded. The market orientation scores of these deans and department chairs were measured for two separate customer/stakeholder groups. One group was students; the other group was employers of students. The scores were compared to each other and to scores previously reported in the literature for business managers. The paper presents details of the research process, findings, statistical inferences, and discusses the implications of the research for schools of business and academic marketing departments.

A HUMAN CAPITAL THEORY PERSPECTIVE OF SALES FORCE TRAINING, PRODUCTIVITY, COMPENSATION, AND TURNOVER

Khalid M. Dubas, Fayetteville State University
kdubas@uncfsu.edu
Inder P. Nijhawan, Fayetteville State University
inijhawan@uncfsu.edu

ABSTRACT

Sales management literature has recognized the importance of sales force training, productivity, compensation, and turnover. Each of these factors constitutes an important aspect of sales management and exerts a significant impact on the performance of an organization. Each of these factors has been discussed at length in the literature. However, few attempts have been made to develop a unifying theoretical framework or a theory that would link all these important dimensions of sales force management. Most of the literature has utilized Fishbein & Ajzen's theory of reasoned action (TRA) to explain and predict intention to quit and/or quits. However, TRA is quite limited in its explanation and prediction of turnover. Becker's human capital theory (HCT) provides a comprehensive framework to link training, productivity, compensation, and turnover. This article discusses HCT and applies it to sales management.

HCT has significant implications about salesperson training in general and specific skills, sharing of the costs of training, salesperson productivity and compensation, salesperson quits and discharges, and optimal rate of sales force turnover. HCT offers rich insights about sales force behavior. Future researchers should further develop and test HCT in the context of sales management.

INTRODUCTION

Sales management literature offers few theoretical frameworks to organize knowledge or make predictions. The sales force turnover literature utilizes the theory of reasoned action to predict sales force intention to quit or actual quits. However, this theory does not explain or predict involuntary turnover of salespeople. Further, this theory does not link training, productivity, compensation, quits and discharges and thus suffers from serious limitations. This paper considers human capital theory (HCT) as a unified framework in the context of sales management and discusses its implications for sales force training, productivity, compensation, quits and discharges.

LITERATURE REVIEW

A recent review of sales force literature showed plenty of research articles on sales force training, productivity, compensation, and turnover. However, no unified framework for all of these

important aspects of sales management was found in the literature. Thus, we need to either develop a unified theory or search for it in the literature of other disciplines. Becker (1962, 1975) developed human capital theory that provides a unified framework to consider all the above mentioned aspects of sales management. HCT has received limited attention in the marketing literature (Dubas & Strong 2002; Dubas 1990). However, HCT has been extensively developed and tested in economic and business literature (Kulkarni & Fiet 2007; Whitaker & Wilson 2007; Gowan & Lepak 2007; Slaughter, Ang & Boh 2007; Ang, Slaughter & Ng 2002; Boris 2002; Dess & Shaw 2001).

The literature on human capital theory has the following major limitations: First, it is difficult to measure specific human capital. Second, although layoffs are an important contributor to unemployment, we have a limited understanding of why firms discharge employees instead of reducing work hours or wage rate. May be the costs of reduced morale due to a general wage reduction is higher than the cost of layoff of a few employees. Finally, the sales management literature has paid little attention to human capital theory as an explanation of salesperson training, productivity, compensation, quits and layoffs. In fact, the layoff component of turnover is least understood. There is no unifying framework in sales literature to address these important aspects of sales management.

HUMAN CAPITAL THEORY

In the classical short-run economic model, all factors are classified as either variable or fixed. However, in practice, each factor may possess a different degree of fixity along some continuum rather than lie at one extreme or the other. Oi (1962) defined a quasi-fixed factor as one whose total employment cost is partially variable and partially fixed. From a firm's viewpoint, sales force is a quasi-fixed factor. Sales force compensation represents variable costs paid for a flow of productive services. In addition, a firm incurs certain hiring and training costs which could be considered as fixed costs. Hiring costs have no effect on a rep's productivity and include costs for recruiting and selection. Training costs, on the other hand, are investments in salespeople, specifically designed to improve their productivity. Training could be formal and/or informal on-the-job during the production (selling) process. OJT occurs incrementally over a long period of time. OJT is the main way in which most reps acquire their sales skills (Learning International 1989). Both formal and informal training are costly. Levitan et al. (1972) note the costs of OJT to a firm:

Workers undergoing OJT might be unproductive for a period and waste material and productivity of supervisors and skilled craftsmen might be impaired if they spend much time teaching trainees. At the same time, craftsmen often make poor teachers because they resent having to train "greenhorns" or because they frequently have trouble explaining what they do or are reluctant to impart "trade secrets" which give them some job protection. And there might be economies of size and scale in a classroom where a number of workers must acquire the same kinds of training.

Turnover becomes important when costs are imposed on workers or firms, which are precisely the effects of specific training. Suppose a firm paid all the specific training costs of a worker who quit after completing it. Assume that this worker had been receiving the market wage and a new employee could be hired at the same wage. If the new employee were not given training,

his marginal product would be less than that of the one who quit since presumably training raised the latter's productivity. Training could raise the new employee's productivity but would require additional expenditures by the firm. In other words, a firm is hurt by the departure of a trained employee because an equally profitable new employee could not be obtained. In the same way an employee who pays for specific training would suffer a loss from being laid off because he could not find an equally good job elsewhere.

Human capital theory makes a distinction between general and specific human capital (Becker 1962, 1975; Fleisher & Kniesner 1984). General human capital is acquired through schooling and work experience on the job. These skills are easily transferable across similar jobs at many firms and make people about equally productive at these firms. Specific capital, on the other hand, is acquired through formal and informal on-the-job training. This includes firm-specific and job-specific skills which make people more productive at the firm providing the training than at a different firm. Specifically trained workers are paid a premium for specific skills. Specific skills include knowledge about the corporate culture, the communication channels, the products of the firm, and an understanding of the personalities of co-workers, managers, and needs of the customers of a firm. Purely specific skills are not transferable across firms.

Specifically trained workers accumulate some bargaining power compared with people with purely general skills. Gains due to increased productivity will ordinarily be divided between the firm and the worker through an appropriate compensation scheme. Thus, the volume of specific human capital and the sharing ratio of the rewards to specific capital will have significant implications for quits and discharges. HCT addresses the following questions: How do firm and salespeople divide the costs and rewards of specific training? How does the volume of specific training affect layoffs and quits of salespeople? How does the sharing ratio of returns to specific training affect layoffs and quits of salespeople? What are the optimal organizational costs of turnover? What is the optimal rate of turnover? How much should a firm invest in specific training?

According to human capital theory, labor productivity depends on schooling, experience, and on-the-job training -- formal and informal (Becker 1962, 1975). Schooling increases employee productivity but few recruits are as efficient as an experienced employee. It is necessary to acquire occupation-specific knowledge, for example, how to sell life insurance to a customer or a supercomputer to an industrial buyer. Moreover, each firm has its own corporate culture and special way of doing business that requires firm-specific knowledge and product-specific and task-specific skills to perform properly (Williamson et. al 1975; Schein 1988). Williamson et al (1975) note that:

> More generally, task idiosyncrasies can arise in at least four ways: (1) equipment idiosyncrasies, due to incompletely standardized, albeit common, equipment, the unique characteristics of which become known through experience; (2) process idiosyncrasies, which are fashioned or "adopted" by the worker and his associates in specific operating contexts; (3) informal team accommodations, attributable to mutual adaptation among parties engaged in recurrent contact but which are upset, to the possible detriment of group performance, when the membership is altered; and (4) communication idiosyncrasies with respect to information channels and codes that are of value only within the firm.

Training for idiosyncratic jobs is typically acquired through learning on the job. Job training goes beyond formal training programs. It is likely that informal training or learning by doing constitutes a larger investment in the skills of an employee than formal training. Thus, a proper

understanding of OJT should include both formal and informal aspects of training. Training for idiosyncratic jobs is an on going process where changes in the environment call for retraining. For example, shifts in demand due to changes in consumer incomes or tastes and product innovations require retraining (Williamson et al. 1975). In the case of salespeople, this would require keeping up with the changing demands on the job, knowing product improvements, knowing purchasing managers, knowing people whose demands are being satisfied.

The selling process itself makes salespeople more experienced in general and specific skills. Sales reps will be more productive at firms which provide formal sales skills training and invest in informal OJT, than sales reps at firms which provide no formal training and do not invest in OJT. On average, a new rep will prefer to be given formal training about the products and sales skills required to do the job well. Although, in practice, it is difficult to separate (and measure) purely general OJT from purely specific OJT, for analytical reasons, we will assume that we could separate the two types of OJT. The employer's decision whether to invest in OJT depends on expected returns. If a sales rep is likely to quit soon after receiving training to take a job elsewhere, it will not pay an employer to invest in training. Other things being equal, an employee will quit to take a new job if it pays more than the current job. More generally, an employee will quit if he feels that in the long run, he will be better off at the new job than at the present job. When OJT increases value marginal product (VMP) in a large number of jobs by the same amount, we say that the rep receives general training. A profit-maximizing firm will not invest in general OJT. When training is general, the employees, not employers, must bear the cost (and reap the returns) of general OJT (Becker 1962, 1975).

Work experience with a firm may raise a rep's VMP to the current employer, but not to others. For example, work practices differ among firms, and reps become more productive as they learn the firm's culture, adjust to the personalities of supervisors and co-workers, learn trade secrets, understand how the firm's products fit into the particular needs of the buyers, and learn to coordinate well with the home office. Human capital investments in specific OJT raise reps' VMP at the current jobs, but not elsewhere since these skills are not transferable across firms. Purely specific OJT does not increase sales force compensation in other firms. Thus, an employer can gain by investing in specific OJT.

Predictions of Human Capital Theory

Here is a list of some predictions of the specific human capital theory.

Layoffs

1. The higher the firm-financed specific OJT, the lesser the likelihood of a layoff.
2. The greater the rep's sharing ratio in the returns to specific OJT, the more likely that he will be laid off.
3. Firms will more readily lay off all types of reps, whether trained or not, if unemployment is high than when unemployment is low (Becker 1962; Parsons 1972).

Quits

1. The higher the share of rep-financed specific OJT, the lesser the likelihood that he will quit.

2. The greater the rep's sharing ratio in the returns to specific OJT, the lesser the likelihood that he will quit.

Wage Adjustment
1. The higher the specific OJT, the higher the wage rate.
2. The higher the specific OJT, the higher the percentage wage cut during a recession (Hashimoto 1975).
3. The greater the worker's sharing ratio in the returns to specific OJT, the larger is the likelihood and the percentage magnitude of a wage reduction during a recession (Hashimoto 1975).

FUTURE RESEARCH

Future researchers should further develop and test HCT in the context of sales management. A few research questions are offered for future researchers.

Research Questions

1. How do firm and salespeople divide the costs and rewards of specific training?
2. How does the volume of specific training affect layoffs and quits of salespeople?
3. How does the sharing ratio of returns of specific training affect layoffs and quits of salespeople?
4. What are the optimal organizational costs of turnover?
5. What is the optimal rate of turnover?
6. How much should a firm invest in specific training?
7. How to improve the measurement of specific human capital?
8. A model of optimal costs of turnover and optimal rate of turnover should developed and the parameters of the model should be estimated.
9. What is the optimal level of investment in human capital and how does it relate to retention costs of salespeople?
10. How to better measure the different components of the costs related to turnover?
11. What is the role of learning in the unified framework of HCT?

REFERENCES

References are available upon request.

THE OPTIMAL RATE OF SALES FORCE TURNOVER

Khalid M. Dubas, Fayetteville State University
kdubas@uncfsu.edu
Lewis Hershey, Fayetteville State University
lhershey@uncfsu.edu

ABSTRACT

Sales force turnover could be voluntary or involuntary. In either case, turnover is an expensive aspect of sales management due to various types of costs related to turnover. Accordingly, sales force turnover has significant implications for organizational performance. While the literature recognizes the importance of sales force turnover, little research has been conducted to identify the optimal rate of sales force turnover. This paper discusses the various aspects of costs related to turnover and presents a framework to understand and manage sales force turnover. In proposing a framework for predicting an optimal rate of turnover, this paper utilizes direct as well as indirect costs related to turnover to offer a better understanding of turnover. Simply focusing on either direct or indirect costs of turnover alone would lead to a suboptimal solution.

Minimizing total costs of turnover shows that zero turnover is not optimal since it is associated with very high retention costs. So the optimal rate of turnover is a positive number. The direct and indirect costs of turnover are balanced at the optimal rate of turnover. This study also shows that the optimal level of investment in training should be less than the direct or indirect costs related to the optimal rate of turnover. Future researchers should integrate human capital theory (Becker 1962, 1975) with the cost-based turnover framework developed here, to provide an improved understanding of the optimal rate of salesperson turnover.

INTRODUCTION

Jack Welch, the former Chairman and CEO of General Electric, served at GE during 1981 till 2001. During 1981 to 1985 he laid off 100,000 people at GE. Jack Welch was well known for firing the bottom 10% of his employees after performance appraisals each year. He was also called the "Neutron Jack," with a reference to the neutron bomb that kills people but leaves buildings intact. During Jack Welch's time at the helm, GE added over $400 billion to its market capitalization and was one of the most admired companies. Does this indicate that the optimal rate of employee turnover is the bottom 10% of poor performers? Is this number "bottom 10%" an arbitrary number or is there a rationale behind it? In the context of sales management, the question would be "What is the optimal rate of sales force turnover?" Since turnover could be voluntary or involuntary and the performance of salespeople varies, we need to link the type of employee turnover with their performance level to identify an optimal rate of turnover. Further, there are various costs involved with employee turnover. So a good estimate of optimal rate of turnover should consider all types of costs related to turnover, employee productivity, and organizational

needs. This paper develops a framework to identify the optimal rate of sales force turnover based on various types of costs related to turnover.

LITERATURE REVIEW

The first major project on sales force management can be traced to 1916. A Bureau of Salesmanship Research was founded at the Carnegie-Mellon University by 30 industrial and business firms. These firms had to hire 30,000 new salespeople annually to maintain a total number of 48,000 salespeople (Patten 1971). Scott et al (1949) describe the research staff of the Bureau. Sales force turnover has, however, remained a serious problem through the years. Literature on sales management has recognized the significance of sales force turnover for an organization (Weitz 1979; Futrell & Parasuraman 1984). Emphasizing the seriousness of the sales force turnover, Jolson et al. (1987) noted:

> A high frequency of personnel entries and exits within a sales force can have an unhealthy impact upon the firm's sales planning program including the areas of recruitment and selection of personnel, training, supervision, deployment, employee benefits, sales support, and budgeting. When numerous members leave the sales organization following low lengths of service (1) there are often negative effects upon the morale of incumbent employees, (2) substantial investments are required to train and educate replacement sales personnel, (3) abrupt interruptions to customer service may occur, and (4) new relationships are required to link managers, experienced salespeople, trainees, customers, and sales support personnel. The resultant decrease in sales and/or profits could be sizable.

Futrell and Parasuraman (1984) estimated total turnover costs for an organization between $50,000 to $75,000 per salesperson. According to O'Connell (1988), average first year investment in a salesperson was $66,494 while average investment after 4.7 years was $295,555. Learning International (1989) sponsored a major study of sales force turnover at large U. S. and Canadian firms. The study reported an average turnover rate of 27% and an average cost of $40,000 to find a replacement for each salesperson that left a firm. The average firm lost five salespeople a year - an investment of $100,000 - and spent another $100,000 to hire, train, and supervise their replacements. Hence, turnover could cost a company nearly a quarter of a million dollars a year (Coleman 1989). Weitz (1979) estimated that it cost firms in the United States more than $5 billion per year just to recruit and train replacements for salespeople who either quit or were fired.

Some of the job changing is voluntary in the sense that it is initiated by the employee; the remainder is involuntary because it is employer-initiated. Voluntary separations are termed quits and involuntary separations are layoffs. Layoffs can be temporary separations or permanent discharges. At first blush, it might appear that firms will seldom discharge salespeople since revenues are directly linked with the number of salespeople employed. Also, the notion of discharging salespeople may suggest unoccupied territories. However, firms do discharge salespeople during a recession or due to poor performance. Also, during a recession, salespeople may quit either due to reduced compensation at the present job or due to better opportunities elsewhere. *Dartnell's Biennial Survey of Sales Force Compensation* regularly reports data on quits and discharges of salespeople. Also, a study by Peck (1982) showed a substantial number of discharges and quits of salespeople at a large number of manufacturing firms during 1980. Peck

noted that training and compensation played a key role in the performance of salespeople. These two factors are also very important in understanding their turnover behavior.

Learning International (1989) studied both quits and discharges of salespeople at large U. S. and Canadian corporations. It found that of all the firms surveyed, over three-fourths said that the kind of sales training offered by their company was essentially "on the job," and nearly half said that this was their primary method of training new sales reps. Of all managers surveyed only 45% provided formal sales skills training. Also, salespeople rated their firms lowest in sales training while evaluating their companies in a variety of areas. And those salespeople who saw room for improvement in their company's training program, the largest percentage said that they wanted more training. The study suggested that sales training could be used as an instrument to reduce turnover since it positively influenced both job performance and job satisfaction.

MEASUREMENT OF TURNOVER

The Bureau of Labor Statistics defines turnover components as follows:

1. Accessions = additions to the payroll
    - New hires = additions of workers not previously employed in the establishment
    - Rehires = recalled workers plus transfers
2. Separations = termination of employment
    - Quits = employee initiated terminations
    - Layoffs = employer initiated terminations without prejudice to the worker
    - Other = the remainder of all separations, including death, retirement, and entrance into the armed services.

COSTS RELATED TO TURNOVER

Turnover costs could be classified into two categories: direct turnover costs and retention costs (Abelson & Baysinger 1984). Direct turnover costs vary directly with turnover and are a result of turnover. Some examples of direct turnover costs are advertising costs for a vacancy, application processing, screening, interviewing, and paper work costs. Additional components of direct turnover costs are more difficult to measure and include such items as reduced morale of the incumbent reps, lost sales due to empty territories, substandard production during the time it takes to train new recruits to reach proficiency of a trained rep. Retention costs vary inversely with turnover and are incurred in an effort to reduce or avoid turnover. These costs include such items as salary increases, increases in commission rates, bonuses, draws against commission, training costs, sales support tools, etc. In theory, turnover could be reduced to zero at very high retention costs. However, a better strategy would seek to balance both direct turnover costs and retention costs by minimizing overall turnover costs.

OPTIMAL RATE OF TURNOVER

Let us define the rate of turnover, X, as the number of reps who experience turnover per period of time. Then direct turnover cost function, DC will be

$DC = f(X), \; f' > 0.$ (1)

It is positively sloped to indicate an increase in direct turnover costs as a result of higher rate of turnover. The retention cost function, RC, will be

$RC = g(X), \; g' < 0.$ (2)

It is negatively sloped to indicate that turnover could be reduced by increasing retention costs. Total turnover costs, TC, will then be

$TC = DC + RC$

$= f(X) + g(X).$ (3)

These cost functions are in a general form. In order to estimate these functions, we need to put additional constraints on the parameters of these functions. Let us assume, therefore, that direct turnover costs are a positively sloped, linear function of turnover rate. Also, DC function starts at the origin indicating that DC is zero when there is no turnover. Then, DC will be

$DC = aX, \; a > 0.$ (4)

Further, assume that the retention costs function is a rectangular hyperbola asymptotically approaching the two axes. A rectangular hyperbola is negatively sloped indicating that turnover could be reduced by increasing retention costs. RC approaches the y-axis asymptotically, indicating that turnover could be reduced to zero at extremely large retention costs. RC approaches the x-axis asymptotically, indicating that as retention costs are reduced toward zero the company will experience a 100% turnover of its employees. Thus,

$RC = b/X, \; b > 0.$ (5)

Therefore, the total turnover costs, TC, will be

$TC = DC + RC$

$= aX + b/X.$ (6)

It follows that TC is convex and reaches a minimum at $X^* = \sqrt{\frac{b}{a}}$. X* is the optimal rate of turnover for the firm. At the minimum, $TC^* = 2\sqrt{ab}$. Also, DC and RC intersect each other at $\sqrt{(ab)}$ corresponding to X* i.e., the two types of costs are balanced at the optimal rate of turnover, X*. A few observations can now be made based on this analysis.

1. It is the total turnover cost which is more important than either the direct turnover cost or the retention cost. A manager should try to balance direct turnover costs and retention costs. An excessive emphasis on one at the expense of the other will not be the best approach. Thus, overall costs of turnover should be minimized.

2. At the minimum level of overall turnover costs, there will be some positive rate of turnover which is optimal. Zero turnover at excessively high retention costs will not be optimal.

3. A manager will need to estimate the parameters, a and b, of the total turnover costs in order to undertake optimality analysis by estimating TC*, DC*, RC*, and X*.

INVESTMENT IN TRAINING

Since training costs are a component of the retention costs, at the optimal rate of turnover, optimal training costs will be less than the optimal retention costs. Also, since optimal retention costs are equal to direct turnover costs at the optimal rate of turnover, it follows that optimal training costs will be less than the optimal direct turnover costs.

DISCUSSION AND FUTURE RESEARCH

This manuscript discussed both voluntary and involuntary turnover of sales force and developed a model of optimal costs of turnover and optimal rate of turnover. Involuntary turnover of salespeople (discharges/layoffs) is the least understood component of turnover. Future research should focus on a better measurement of different components of the costs related to turnover. Significant theoretical work has been produced by Becker (1962, 1975) on the concept of human capital. It has many useful implications for employee turnover. Becker's human capital theory should be integrated with the cost-based framework developed here to provide a better understanding of optimal rate of salesperson turnover.

REFERENCES

Abelson, M. and B. Baysinger (1984), "Optimal and Dysfunctional Turnover: Toward an Organizational Level Model," *Academy of Management Review* 9(2), 331-341.

Becker, G. S. (1962), "Investment in Human Capital: A Theoretical Analysis," *Journal of Political Economy,* 70 (Suppl.; October), 9-49.

_________ (1975), *Human Capital.* New York: Columbia University Press. Reprinted in 1983 by the University of Chicago Press.

Bureau of Labor Statistics (1989) *Employment and Earnings, United States, 1909-88.* Washington: Government Printing Office.

Coleman, L. G. (1989), "Sales Force Turnover Has Managers Wondering Why, *"Marketing News,* 23(25), pp. 6, 21.

Futrell, C. M. and A. Parasuraman (1984), "The Relationship of Satisfaction and Performance to Sales force Turnover," *Journal of Marketing,* 48 (Fall), 33-40.

Gould, J. P. and C. E. Ferguson (1980) *Microeconomic Theory.* Homewood, IL: Richard D. Irwin, Inc.

Jolson, M. A., A. J. Dubinsky, and R. E. Anderson (1987), "Correlates and Determinants of Sales Force Tenure: An Exploratory Study," *Journal of Personal Selling & Sales Management,* 7 (November), 9-27.

Learning International (1989), *What Does Sales Force Turnover Cost You?* Stamford, CT: Learning International.

O'Connell, W. (1988), *Dartnell's 24th Biennial Survey of Sales Force Compensation.* Chicago, IL: The Dartnell Corporation.

Parsons, D. O. (1972), "Specific Human Capital: An Application to Quit Rates and Layoff Rates," *Journal of Political Economy,* 80 (6), 1120-1143.

Patten, T. H. (1971), *Manpower Planning and the Development of Human Resources.* New York, NY: Wiley & Sons, Inc.

Peck, C. (1982), *Compensating Field Sales Representatives.* New York, NY: The Conference Board.

Scott, W. D. et al. (1949) *Personnel Management.* New York, NY: McGraw-Hill, pp. 233-234.

Weitz, B. A. (1979), "A Critical Review of Personal Selling Research: The Need for Contingency Approaches," in G. Albaum and G. A. Churchill, Jr. (Eds.), *Critical Issues in Sales Management: State of the Art and Further Research Needs,* Eugene: College of Business Administration, University of Oregon, 76.