

# The Effects of Organizational Structure on Selling Behaviors

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## Abstract

A national random sample of industrial salespeople was surveyed to assess the effects of centralization and formalization on selling behaviors. The responses from 241 salespeople were analyzed using ordinary least squares regression. The results indicated that hierarchy of authority positively affected job codification and rule observation. Job codification and rule observation had negative effects on customer orientation and adaptive selling. Since customer orientation and adaptive selling improved salesperson performance, it appears that sales managers engaged in strict monitoring and directing of salespeople's activities may be hurting their productivity by stifling their creativity to be customer oriented and adaptive. Apparently, salespeople preferred a decentralized and less bureaucratic organizational structure to implement the marketing concept and to tailor their sales messages to the uniqueness of each selling situation. However, for young and inexperienced salespeople, the negative effect of job codification and rule observation on adaptive selling became non-significant. Thus, the structure of selling organizations may need to be altered based on the age and experience of salespeople. Based on the findings, managerial implications and directions for future research were provided.

**Key Words:** Formalization, Centralization, Customer Orientation, Adaptive Selling

## Introduction

The structure of selling organizations, such as the degree of formalization and centralization is expected to affect the decision-making processes in the selling firm. In a highly formalized firm, the activities of salespeople are governed by rules and procedures (Agarwal and Ramaswami, 1993). Hage and Aiken (1967) conceptualized two dimensions of formalization, namely, job codification and rule observation. Job codification represents "the degree to which the job descriptions are specified," and rule observation refers to "the degree to which job occupants are supervised in conforming to the standards established by job codification" (Hage and Aiken, 1967, p. 79). In a highly centralized firm, the authority to make decisions regarding task performance is concentrated at higher levels of the organizational hierarchy, and "salespeople have restricted decision-making authority" (Sohi, Smith, and Ford, 1996, p. 199). High levels of formalization and centralization have its advantages and disadvantages. For example, a highly formalized sales organization may provide salespeople with needed guidance, clarify their roles, and reduce their role stress (Agarwal and Ramaswami, 1993). However, the bureaucracy of high formalization may also stifle creativity, foster dissatisfaction, and lower motivation (Adler and Borys, 1996). Similarly,

while highly centralized sales organizations can streamline information processing and expedite decision-making (Auh and Menguc, 2007), they lower salespeople's ability to meet customers' demands and adjust to changing customers' needs (Sohi, Smith, and Ford, 1996). Best performing salespeople, average performing salespeople and sales managers have been found to have "different beliefs concerning outcomes of sales control systems" (Quigley, Jr. and Bingham, Jr., 1999, p. 77). In their boundary spanning role, salespeople may require some decision-making authority. Given these conflicting effects of formalization and centralization in selling organizations, the lack of studies on the relationships among sales organizational structures and selling behaviors represents a significant gap in the sales literature.

In general, centralization leads to greater effectiveness and formalization leads to greater efficiency (Ruekert, Walker, Jr., and Roering, 1985). However, a decentralized organization empowers employees by providing them more autonomy in decision-making (Hempel, Zhang, and Han, 2009). Empowering leadership has been found to motivate employees to become more creative (Zhang and Bartol, 2010) and positively affect salespeople's self-efficacy and adaptability (Ahearne, Mathieu, and Rapp, 2005). Similarly, although highly formalized organizations are more efficient, job formalization may lower empowerment. According to Hempel, Zhang, and Han (2009, p. 7), "it is particularly critical to adopt low levels of job formalization with professional and knowledge employees, because these people must be allowed flexibility" to make decisions over work processes. For example, for salespeople, always use the customer's name is a good customer service rule. However, this rule may backfire if a salesperson uses the customer's name too often, mispronounces the customer's name, or becomes too formal or informal when using the customer's name (Brown, 2007). While enabling type of formalization "codifies best-practice routines so as to stabilize and diffuse new organizational capabilities," coercive type of formalization forces "reluctant compliance" and extracts "recalcitrant effort" from employees (Adler and Borys, 1996, p. 69). Consequently, the levels of centralization and the type of formalization in sales organizations may have significant effects on the selling behaviors of salespeople.

The current study sheds light on how selling organizations can choose between an organic model and a mechanistic model (Hage, 1965). An organic model emphasizes on adaptiveness by selecting low levels of centralization and formalization, whereas, a mechanistic model emphasizes on production by selecting high levels of centralization and formalization. Ideally, salespeople are responsible for both production (sales revenues) and adapting to the changing sales situations across customer interactions. Thus, research is needed to prescribe the levels of centralization and formalization that will optimize productive selling behaviors in sales organizations.

Among the characteristics of salespeople that may require different levels of centralization and formalization is age and work experience. Older and experienced salespeople can rely on their accumulated job-related knowledge (Quinones, Ford, and Teachout, 1995) to decide on how to carry out their tasks for maximum productivity. For such salespeople, higher levels of centralization may be associated with lower levels of perceived procedural fairness (Schminke, Ambrose, and Cropanzano, 2000). Experienced salespeople have been found to be better in practicing adaptive selling (Franke and Park, 2006) and higher levels of centralization and formalization has been proposed to lower the adaptiveness of organizations (Hage, 1965). In contrast, younger and inexperienced salespeople may need the guidance provided by rules and regulations (formalization) to optimize their performance. Their lack of experience may prevent them from making critical decisions regarding sales strategies, thereby requiring high levels of centralization. The current study examines whether the effects of organizational structure on selling behaviors differ based on age and work experience of salespeople.

Two of the most widely studied selling behaviors are customer orientation and adaptive selling (Franke and Park, 2006). A customer oriented salesperson implements the marketing concept at the customer-salesperson level by identifying and satisfying customer needs and avoiding behaviors that might sacrifice customer satisfaction in the long-run (Saxe and Weitz, 1982). In contrast, selling oriented salespeople

implement the selling concept by stimulating demand for the selling organization's products rather than responding to customer needs. Saxe and Weitz (1982, p. 344) asserted that "the selling concept in a company corresponds to a low level of customer orientation in a salesperson." Adaptive salespeople tailor their sales messages based on perceived information about the nature of the selling situation (Weitz, Sujan, and Sujan, 1986). Since these selling behaviors are expected to be positively related to sales performance, the structure of sales organizations should be designed to optimize these selling behaviors. Since salespeople engage in these behaviors, it is important to assess their perceptions of organizational structure, and the effects of these structural variables on their selling behaviors.

## **Background and Development of Hypotheses**

### **Centralization**

Centralization represents the degree to which the power to make work decisions is dispersed among hierarchical levels. In highly centralized sales organizations, the power to make decisions regarding the performance of tasks lies with the management. Salespeople have little input on how to perform their duties. Since these organizations rely on their hierarchy of authority, salespeople have less autonomy and they allocate their selling efforts based on "directives from superiors" (Sohi, Smith, and Ford, 1996, p. 199). Consequently, salespeople will expect their jobs to be codified by rules, procedures, and instructions. Hage (1965) proposed that centralization will be positively related to formalization, and Hage and Aiken (1967) found a positive correlation between centralization and job codification. Therefore,

*Hypothesis 1a: Centralization will be positively related to job codification.*

As centralization increases in selling organizations, the decisions regarding how to implement the selling strategies will be made by managers. However, salespeople will be forced to comply only if "task execution is observable and sanctions for deviations can be implemented easily" (John and Martin, 1984, p. 173). Hage and Aiken (1967) referred to this as "closeness of supervision" (p. 88) and found a significantly positive correlation between centralization and rule observation. As centralization increases, managers may exercise their legitimate authority to monitor and control salespeople by "close personal surveillance and direction" (Ouchi, 1979, p. 835). Thus, the following hypothesis is proposed.

*Hypothesis 1b: Centralization will be positively related to rule observation.*

### **Formalization**

Formalization can be defined as "the degree to which formal rules and procedures govern decisions and working relationships" (Olson, Slater, and Hult, 2005, p. 51). Hage and Aiken (1967) proposed two dimensions of formalization, namely, job codification and rule observation. With few exceptions (e.g., Hage and Dewar, 1973; Ramaswami, Agarwal, and Bhargava, 1993), researchers often combine these two dimensions while measuring formalization (e.g., Michaels, Cron, Dubinsky, Joachimsthaler, 1988; Jaworski and Kohli, 1993; Hartline, Maxham III, and McKee, 2000).

A high degree of job codification implies that "operationally useful rules and procedures" (Agarwal and Ramaswami, 1993, p. 53) are available for salespeople to guide their selling behaviors. Since working decisions made by salespeople are governed by rules and procedures, a high degree of job codification has been construed as a means of behavior control (Auh and Menguc, 2007), which might positively affect salespeople's customer orientation (Cravens, Ingram, LaForge, and Young, 1993). On the other hand, organizational learning theory predicts that bureaucratization stifles creativity, responsiveness, and innovativeness (Senge, 1990), and may lower perceived customer orientation in buying centers due to

reduced information processing (Hult and Ferrell, 1997). Given that customer oriented selling may require some decisions on the part of salespeople, their latitude of behaviors may be restricted if their jobs are highly codified. Since the advantages of formalization are evident only for routine, repetitive tasks of short duration conducted in a stable environment (Ruekert, Walker, Jr., and Roering, 1985), job codification may hinder customer orientation by restricting the creativity of salespeople. Job codification has been found to alienate workers by increasing role ambiguity (Ramaswami, Agarwal, and Bhargava, 1993). In addition, a high degree of job codification may be perceived by salespeople as organizational support which might obligate them “to prioritize organizational wants/needs above that of the customer” and negatively moderate the relationship between customer orientation and job performance (Stan, Evans, Arnold, and McAmis, 2012, p. 406). Formally stated,

*Hypothesis 2a: Job codification will be negatively related to customer orientation.*

Although selling orientation can be construed as a lack of or low levels of customer orientation, empirical research has confirmed that selling orientation is an independent dimension of selling behaviors (Plouffe, Hulland, and Wachner, 2009). Although market oriented selling firms are unlikely to endorse the selling concept, salespeople may be selling oriented to maximize short-term sales at the expense of long-term customer satisfaction. By specifying rules and procedures, selling firms might discourage and/or prevent salespeople from being selling oriented. Clearly specified rules and standardized procedures will reduce salespeople’s freedom to engage in discretionary behaviors. Essentially, job codification removes salespersons’ decision-making authority (Agarwal, 1993). Thus,

*Hypothesis 2b: Job codification will be negatively related to selling orientation.*

Job codification will also stifle adaptive selling by salespeople. Since adaptive selling requires altering selling behaviors based on the selling situation, strict adherence to specific rules and procedures will limit the flexibility of salespeople. While criticizing the traditional views of organizational structure in marketing, Ruekert, Walker, Jr., and Roering (1985, p. 14) noted that a highly bureaucratic structure “is not likely to be very adaptive or innovative.” Further, since professional jobs cannot be easily codified (Aiken and Hage, 1966), “it may constrain an employee’s options in responding and reacting to each and every contingency” (Agarwal and Ramaswami, 1993, p. 54). Therefore,

*Hypothesis 2c: Job codification will be negatively related to adaptive selling.*

Rule observation refers to the degree to which employees are monitored for rule violations. In selling organizations characterized by high levels of rule observation, salespeople will be closely monitored for deviations from specified rules and procedures. Based on a study of the effects of rule observation on salespeople, Agarwal and Ramaswami (1993) concluded that even in highly formalized sales jobs, close observation of rules is not recommended. According to these authors, “intense management surveillance (i.e., rule observation) reduces a salesperson’s interest in his or her job” (p. 54). The heavy reliance on monitoring, evaluating, and correcting needed to implement rule observation may offend salespeople’s sense of autonomy and self-control (Ouchi, 1979). Hartline, Maxham III, and McKee (2000, p. 38) proposed that the implementation of customer oriented strategies requires fostering “an environment in which contact employees believe they are not constantly watched.” High levels of rule observation may limit salespeople’s ability to adapt to non-routine task environments, which are typical of selling situations. This might undermine their ability to be customer oriented.

The relationship between rule observation and selling behaviors can also be explained by the theory of personal control (Greenberger and Strasser, 1986). Defined as “an individual’s beliefs, at a given point in time, in his or her ability to effect a change, in a desired direction, on the environment” (Greenberger and

Strasser, 1986, p. 165), personal control is desired by all employees of organizations. Thus, salespeople have an innate need to master their work environment and self-manage their daily sales-related tasks. The supervisory surveillance required for a high level of rule observation may threaten salespeople's perceptions of control and encourage reactance. According to the theory of psychological reactance (Brehm, 1966), salespeople will attempt to regain control by changing their selling behaviors. These behavioral changes may result in counterproductive work behaviors, particularly for salespeople who are under close surveillance while self-managing their daily tasks (Jensen and Raver, 2012). Therefore,

*Hypothesis 3a: Rule observation will be negatively related to customer orientation.*

Unlike its effect on customer orientation, rule observation may actually encourage selling orientation, since salespeople who are offended by the abrogation of their autonomy may rebel by implementing the selling concept regardless of the selling firm's orientation. Salespeople may consider rule observation as a threat to their autonomy and engage in counterproductive work behaviors, such as, pressuring customers to buy, as a form of organizational resistance (Lawrence and Robinson, 2007). Since salespeople mostly work in the absence of close supervision, they may construe rule observation as a breach of empowerment, resulting in undesirable self-managing behaviors (Lambe, Webb, and Ishida, 2009). Consequently, the following is proposed:

*Hypothesis 3b: Rule observation will be positively related to selling orientation.*

Adaptive selling requires salespeople to be flexible in their sales presentations and tailor the presentation to the uniqueness of each selling situation. Rule observation may limit salespeople's practice of adaptive selling since a given set of rules are unlikely to be effective in all customer interactions. Strict rules governing jobs and rigid enforcement of these rules may cause salespeople to lose interest and become estranged and alienated from work (Aiken and Hage, 1966). Thus:

*Hypothesis 3c: Rule observation will be negatively related to adaptive selling.*

## **Methodology**

### **Sample**

The respondents of this study consisted of a national random sample of industrial salespeople. Based on a mailing list purchased from Dun & Bradstreet, 3909 questionnaires were sent to salespeople representing firms which fall within Standard Industrial Classification (SIC) codes 20 through 39. These firms were manufacturers of food, textile, apparel, furniture and fixtures, paper and allied products, chemicals, rubber and plastics, and industrial and commercial machinery. They also represented firms in printing, publishing, and allied industries, petroleum refining and related industries, primary metal industries, electronics and other electrical equipment manufacturers, and manufacturers of transportation equipment. Along with the survey, a cover letter on University letterhead was included explaining the purpose of the study, requesting cooperation, and promising confidentiality. A reminder postcard was mailed to all salespeople four weeks after the original mailing. The mailing yielded 241 usable responses yielding a response rate of 6.2 percent. Although the response rate was low, early and late respondents did not differ significantly with regard to the study variables (Armstrong and Overton, 1977). Therefore, non-response bias was unlikely to affect the study findings. The respondents were predominantly male (90%) and educated (47.5% were college graduates). Their average age was 47 years, and their average selling experience was 19 years. Consequently, the salespeople were mature, well educated, and highly experienced. Table 1 presents a detailed profile of the sample.

Table 1: Sample profile

Variable		Frequency	Percent
Gender	Male	216	91.9%
	Female	19	8.1%
Age	Under 35	19	9%
	35 – 44	73	34.6%
	45 – 54	77	36.5%
	55 – 64	35	16.6%
	Over 64	7	3.3%
Experience	Under 15	24	10.8%
	15 – 24	68	30.5%
	25 – 34	92	41.2%
	Over 34	39	17.5%
Marital Status	Married	194	84%
	Single	14	6.1%
	Separated, Divorced	21	9.1%
	Widowed	2	0.8%
Education	Some Grade School/Grade School	2	0.9%
	Some High School/High School	12	5.3%
	Some College/College Degree	149	65.3%
	Some Graduate School/Graduate	65	28.5%
Race	White	224	96.5%
	Hispanic	3	1.3%
	Other	5	2.2%
SIC code	20 (Food & Kindred Products)	17	7.6%
	22 (Textile Mill Products)	4	1.8%
	23 (Apparel & Other Finished Products)	3	1.3%
	24 ((Lumber/Wood Products except Furniture)	8	3.6%
	25 (Furniture & Fixtures)	2	0.9%
	26 (Paper & Allied Products)	9	4%
	27 (Printing, Publishing, & Allied Industries)	26	11.6%
	28 (Chemicals & Allied Products)	21	9.4%
	29 (Petroleum, Refining, & Related Industries)	3	1.3%
	30 (Rubber & Miscellaneous Plastics)	14	6.3%
	32 (Stone, Clay, Glass, & Concrete Products)	7	3.1%
	33 (Primary Metal Industries)	11	5%
	34 (Fabricated Metal Products)	23	10.3%
	35 (Industrial & Commercial Machinery)	16	7.2%
36 (Electronic & Other Electricals)	31	14%	

37 (Transportation Equipment)	3	1.3%
38 ((Measuring & Analyzing Instruments)	5	2.2%
39 (Miscellaneous Manufacturing Industries)	20	9%

## Measures

Pre-existing scales were used to measure all the latent constructs. Centralization and formalization was measured by the scales developed by Hage and Aiken (1967). The end points ranged from 1 (very strongly disagree) to 9 (very strongly agree). Customer orientation and selling orientation was measured by the 24-item SOCO scale developed by Saxe and Weitz (1982). This was a 9-point scale ranging from 1 (true for none of your customers – never) to 9 (true for all of your customers – always). Robinson et al’s (2002) 5-item ADAPTS-SV scale was used to measure adaptive selling. The scale anchors were 1 (very strongly disagree) to 9 (very strongly agree).

## Results

Although established scales were used to measure the latent constructs, the scales were subjected to item-analyses and confirmatory factor analyses to assess reliability and validity. Item analyses required the elimination of one item, “I try to understand how one customer differs from another” from ADAPTS-SV due to very low item-to-total correlation. Respondents probably construed that item as representing how to adapt to customers rather than adaptive selling itself. All items of the remaining constructs were retained.

Following item analyses, the measurement properties of each latent construct were examined by confirmatory factor analyses. The covariance matrix of the items measuring each construct was input in LISREL 8.72. The initial fit of the 24-item SOCO scale was poor (GFI = .77). The scale consisted of 12 items measuring customer orientation and 12 items measuring selling orientation. According to Bagozzi and Heatherton (1994, p. 47), “when more than about five items per factor are treated as individual measures of factors in a multifactor CFA, it is difficult to achieve a satisfactorily fitting model that is interpretable in an unambiguous sense.” Scholars have either recommended (e.g., Thomas, Soutar, and Ryan, 2001; Periatt, LeMay, and Chakrabarty, 2004) or actually used (e.g., Brown, Mowen, Donovan, and Licata, 2002; Stock and Hoyer, 2005) shorter versions of the 24-item SOCO scale. Thus, a reduced version of the SOCO scale was used in this study. Based on the confirmatory factor analysis of the 24-item scale, five items per factor (customer orientation and selling orientation) with loadings greater than .70 were retained for further analysis.

The measurement properties of the remaining latent constructs were also assessed by confirmatory factor analyses. To achieve satisfactory fit, the models were respecified based on theoretical and statistical (modification indices and standardized residuals) bases. One item measuring centralization (I have to ask my boss before I do almost anything) needed to be deleted. The item may be too general since most of the remaining items of the centralization scale refer to decision-making authority of salespeople. For formalization, two items needed elimination. The item “people here are allowed to do almost as they please” may be too general, and the item “most people here make their own rules on the job” may be construed as some people are not allowed to make their own rules. Thus, theoretically, there may be reasons why salespeople may not consider these two items to be representing formalization. All of the remaining items measured their respective latent constructs satisfactorily. Table 2 presents the items measuring each construct and the fit statistics and Table 3 presents the descriptive statistics and correlations.

Table 2: Fit statistics of the latent constructs

Construct	Items	$\lambda$ (t-value)	Fit Statistics
Centralization	There can be little action taken here until a supervisor approves a decision.	.85 (15.84)	$\chi^2 = 8.35$ , $df = 2$ , $p < .05$ , $GFI = .98$ , $CFI = .99$ , $SRMR = .01$ .
	A person who wants to make his own decision would be quickly discouraged here.	.91 (17.77)	
	Even small matters have to be referred to someone higher up for a final answer.	.92 (18.10)	
	Any decision I make has to have my boss's approval.	.79 (14.24)	
	I feel that I am my own boss in most matters.	.58 (8.45)	
Formalization	A person can make his own decisions without checking with anybody else.	.82 (11.54)	$\chi^2 = 20.65$ , $df = 4$ , $P < .01$ , $GFI = .97$ , $CFI = .95$ , $SRMR = .07$ .
	How things are done around here is left up to the person doing the work.	.73 (10.44)	
	The employees are constantly being checked on for rule violations.	.93 (4.76)	
	People here feel as though they are constantly being watched, to see that they obey all the rules.	.87 (4.72)	
	I try to influence a customer by information rather than by pressure.	.81 (14.85)	
Customer Orientation	I try to figure out what a customer's needs are.	.73 (10.39)	$\chi^2 = 824.78$ , $df = 251^*$ , $p < .01$ , $GFI = .77$ , $CFI = .92$ , $SRMR = .07$ .
	I am willing to disagree with a customer in order to help him/her make a better decision.	.78 (13.39)	
	I offer the product of mine that is best suited to the customer's problem.	.73 (12.82)	
	I try to achieve my goals by satisfying customers.	.74 (12.85)	
	I spend more time trying to persuade a customer to buy than I do trying to discover his/her needs.	.76 (13.42)	
Selling Orientation	I begin the sales talk for a product before exploring a customer's needs with him/her.	.77 (13.72)	
	I paint too rosy a picture of my products, to make them sound as good as possible.	.81 (14.75)	
	I decide what products to offer on the basis of what I can convince customers to buy, not on the basis of what will satisfy them in the long run.	.81 (14.85)	
	I keep alert for weaknesses in a customer's personality so I can use them to put pressure on him/her to buy.	.81 (14.81)	



Adaptive Selling	When I feel that my sales approach is not working, I can easily change to another approach.	.82 (14.66)	$\chi^2 = .85$ , $df = 2$ , $p > .10$ , $GFI = .99$ , $CFI = 1.00$ , $SRMR = .01$
	I like to experiment with different sales approaches.	.71 (12.03)	
	I am very flexible in the selling approach I use.	.86 (15.70)	
	I can easily use a wide variety of selling approaches.	.81 (14.51)	

\* The fit statistics are for the 24-item SOCO scale. Only the items with loadings greater than .70 were retained.

Table 3: Descriptive statistics and correlations

	1	2	3	4	5	6
1. Centralization	1.00					
2. Job Codification	.31**	1.00				
3. Rule Observation	.70**	.16*	1.00			
4. Customer Orientation	-.19**	-.09	-.17**	1.00		
5. Selling Orientation	.27**	-.005	.29**	-.39**	1.00	
6. Adaptive Selling	-.19**	-.20**	-.27**	.23**	-.08	1.00
Mean	2.97	4.03	2.96	7.88	2.51	6.50
Standard Deviation	1.75	1.59	1.77	.89	1.17	1.64
Coefficient Alpha	.89	.71	.85	.67	.66	.81
Average Variance Extracted	.75	.64	.81	.44	.49	.50

\*\* Correlation significant at the .01 level

\* Correlation significant at the .05 level

Finally, the covariance matrix of all of the latent constructs (centralization, formalization, customer orientation, selling orientation, and adaptive selling) was input in LISREL 8.72 to assess the fit of the entire measurement model. Formalization was measured as two dimensions, job codification and rule observation. Only one item measuring adaptive selling required elimination based on modification indices and standardized residuals. The item, “when I feel that my sales approach is not working, I can easily change to another approach” may represent adaptive selling confidence (Román and Iacobucci, 2010), rather than adaptive selling behavior. The fit of this overall model was satisfactory ( $\chi^2 = 549.14$ ,  $df = 194$ ,  $p < .10$ ,  $GFI = .82$ ,  $CFI = .91$ ,  $SRMR = .07$ ). Table 4 presents the fit statistics of the measurement model.

Table 4: Measurement model (standardized path estimates)

Construct	Items	$\lambda$ (t-value)
Rule Observation	The employees are constantly being checked on for rule violations.	.88 (16.58)
	People here feel as though they are constantly being watched, to see that they obey all the rules.	.92 (17.76)
Job Codification	I feel that I am my own boss in most matters. <sup>f</sup>	.81 (13.83)
	A person can make his own decisions without checking with anybody else. <sup>f</sup>	.72 (11.94)

	How things are done around here is left up to the person doing the work. <sup>r</sup>	.86 (15.09)
Centralization	There can be little action taken here until a supervisor approves a decision.	.86 (16.23)
	A person who wants to make his own decision would be quickly discouraged here.	.92 (18.22)
	Even small matters have to be referred to someone higher up for a final answer.	.90 (17.78)
	Any decision I make has to have my boss' approval.	.77 (13.80)
Adaptive Selling	I like to experiment with different sales approaches.	.62 (9.32)
	I am very flexible in the selling approach I use.	.78 (11.92)
	I can easily use a wide variety of selling approaches.	.72 (11.03)
Customer Orientation	I try to influence a customer by information rather than by pressure.	.70 (11.28)
	I try to figure out what a customer's needs are.	.48 (7.16)
	I am willing to disagree with a customer in order to help him/her make a better decision.	.73 (11.94)
	I offer the product of mine that is best suited to the customer's problem.	.75 (12.25)
	I try to achieve my goals by satisfying customers.	.61 (9.46)
Selling Orientation	I spend more time trying to persuade a customer to buy than I do trying to discover his/her needs.	.70 (11.70)
	I begin the sales talk for a product before exploring a customer's needs with him/her.	.58 (9.14)
	I paint too rosy a picture of my products, to make them sound as good as possible.	.51 (7.94)
	I decide what products to offer on the basis of what I can convince customers to buy, not on the basis of what will satisfy them in the long run.	.87 (15.72)
	I keep alert for weaknesses in a customer's personality so I can use them to put pressure on him/her to buy.	.81 (14.19)

$\chi^2 = 549.14$ ,  $df = 194$ ,  $p < .00$ ,  $GFI = .82$ ,  $CFI = .91$ ,  $SRMR = .07$

<sup>r</sup> = reverse worded item

As Table 4 indicates, the measures met the criteria for convergent validity since each of the path estimates was significant (Anderson and Gerbing, 1988). Discriminant validity was assessed by comparing the average variances extracted to the square of the inter-construct correlations (See Table 3). For each pair of constructs, the average variances extracted exceeded the square of the correlation, thereby establishing discriminant validity (Fornell and Larcker, 1981). The research hypotheses were tested by ordinary least square regressions. The regression results appear in Table 5.

Table 5: Hypotheses tests

Hypotheses	Predictor → Criterion	$\beta$ (t-value)	Result
H1a	Centralization → Job Codification	.31 (5.09) <sup>***</sup>	Supported

H1b	Centralization→Rule Observation	.70 (15.18) <sup>***</sup>	Supported
H2a	Job Codification→Customer Orientation	-.09 (-1.48)	Not Supported
H2b	Job Codification→Selling Orientation	-.01 (-.08)	Not Supported
H2c	Job Codification→Adaptive Selling	-.20 (-3.14) <sup>**</sup>	Supported
H3a	Rule Observation→Customer Orientation	-.17 (-2.65) <sup>**</sup>	Supported
H3b	Rule Observation→Selling Orientation	.29 (4.64) <sup>***</sup>	Supported
H3c	Rule Observation→Adaptive Selling	-.27 (-4.24) <sup>***</sup>	Supported

<sup>\*\*\*</sup> Significant at the .01 level

<sup>\*\*</sup> Significant at the .05 level

H1a and H1b were tested by regressing job codification and rule observation on centralization, respectively. The hypotheses were supported since the standardized regression coefficient of the effects of centralization on job codification ( $\beta = .31, t = 5.09, p < .01$ ) and on rule observation ( $\beta = .70, t = 15.18, p < .01$ ) were significant. Therefore, centralization positively affected formalization in selling organizations. As decision-making authority became more and more concentrated, the sales organizations became more bureaucratic with specific rules and procedures for tasks.

H2a, H2b, and H2c were tested by regressing customer orientation, selling orientation, and adaptive selling on job codification, respectively. As Table 4 indicates, H2a and H2b were not supported as the standardized regression coefficients were non-significant. However, H2c was supported since the effect of job codification on adaptive selling ( $\beta = -.20, t = -3.14, p < .05$ ) was significant. Consequently, job codification had a negative effect on adaptive selling, but was unrelated to either customer orientation or selling orientation.

H3a, H3b, and H3c were supported since the standardized regression coefficients of the regression of customer orientation, selling orientation, and adaptive selling on rule observation, respectively, were significant. Rule observation reduced customer orientation ( $\beta = -.17, t = -2.65, p < .05$ ), increased selling orientation ( $\beta = .29, t = 4.64, p < .01$ ), and reduced adaptive selling ( $\beta = -.27, t = -4.24, p < .01$ ). It is noteworthy that the effects of formalization on selling behaviors depend on the specific dimension of formalization (job codification or rule observation) being considered, and the selling behaviors being studied (customer orientation, selling orientation, or adaptive selling).

Although the findings are intuitively appealing, the negative effects of job codification and rule observation on adaptive selling, and the negative effect of rule observation on customer orientation presents a dilemma. Behavior-based control systems require high levels of supervisory monitoring, direction, and intervention of salespeople's activities (Anderson and Oliver, 1987). But, the results of this study show that checking on salespeople significantly lower their customer orientation and adaptive selling, which are needed for higher sales productivity. It appears that although salespeople may benefit from prescribed rules and procedures based on decisions made by management, they want the freedom to enact these rules and procedures without close supervision. It is possible that salespeople want the freedom to bend these rules and procedures, if needed, to implement the marketing concept and to be flexible to changing customer needs. However, in theory, this autonomy defeats the purpose of job codification.

It appears that salespeople prefer an organic model of organizational structure where levels of formalization (job codification and rule observation) and centralization are low. However, younger and inexperienced salespeople may need the guidance provided by a mechanistic model. To explore this possibility, the hypotheses were tested on salespeople who were below the median age (46 years) and median work experience (25 years). The regression results appear in Table 6.

Table 6: Hypotheses tests for young and inexperienced salespeople

Hypotheses	Predictor→Criterion	$\beta$ (t-value)	Result
H1a	Centralization→Job Codification	.39 (4.00) <sup>***</sup>	Supported
H1b	Centralization→Rule Observation	.68 (8.63) <sup>***</sup>	Supported
H2a	Job Codification→Customer Orientation	-.009 (-.08)	Not Supported
H2b	Job Codification→Selling Orientation	-.03 (-.29)	Not Supported
H2c	Job Codification→Adaptive Selling	-.15 (-1.45)	Not Supported
H3a	Rule Observation→Customer Orientation	-.23 -(2.28) <sup>**</sup>	Supported
H3b	Rule Observation→Selling Orientation	.35 (3.58) <sup>***</sup>	Supported
H3c	Rule Observation→Adaptive Selling	-.13 (-1.26)	Not Supported

<sup>\*\*\*</sup> Significant at the .01 level

<sup>\*\*</sup> Significant at the .05 level

As Table 6 indicates, the negative effect of job codification and rule observation on adaptive selling became non-significant. The effects of formalization on customer orientation were not different from the entire sample. Consequently, sales organizations may have to use a mechanistic model for younger and inexperienced salespeople and an organic model for older and experienced salespeople.

## Discussion

This study makes several major contributions to the sales literature. The effects of formalization should be studied for each of its dimensions proposed by Hage and Aiken (1967), namely, job codification and rule observation. Combining these two dimensions (e.g., Michaels, Cron, Dubinsky, Joachimsthaler, 1988; Jaworski and Kohli, 1993; Hartline, Maxham III, and McKee, 2000) may mask the effects of this organizational structural variable.

The current study also reveals that centralization (hierarchy of authority) is an antecedent to formalization, as originally hypothesized by Hage and Aiken (1967). Scholarly research on centralization and formalization has modeled these structural variables as predictors (e.g., Olson, Slater, and Hult, 2005; Hult and Ferrell, 1997; Menon, Bharadwaj, and Howell, 1996; Boyle and Dwyer, 1995; John and Martin, 1984) or moderators (e.g., Auh and Menguc, 2007; Sohi, Smith, and Ford, 1996). The relationship between centralization and formalization should be accounted for while studying the effects of organizational structure.

The negative effect of formalization on selling behaviors presents a dilemma for sales managers engaged in a behavior-based salesforce control system. Since these managers are expected to monitor the behaviors of salespeople, they may be inadvertently hurting the productivity of their salesforce, since close supervision lowered the salespersons' customer orientation and adaptive selling. As reported by Agarwal and Ramaswami (1993, p. 54), industrial salespeople dislike "intense management surveillance." This effect is noteworthy since the mean score for rule observation was 2.96 on a 9-point scale, meaning, respondents of this study moderately disagreed that they are being closely watched for rule violations. Although rigid rules and procedures may help salespeople to become more productive, they need some flexibility to violate these rules to be effective. As Phillips (1982, p. 546) noted, "rules only delimit what constitutes allowable versus nonallowable behavior from the company's standpoint."

Since centralization was significantly positively related to formalization, which in turn decreased the extent to which salespeople are customer oriented and adaptive, sales organizations should be decentralized and less bureaucratic. Apparently, salespeople considered bureaucracy as an abrogation of autonomy rather than a cooperative endeavor (Adler and Borys, 1996). It is possible that sales jobs are

non-routine, non-repetitive, of long durations, and happen in complex environments, making formalization counterproductive (Ruekert, Walker, Jr., and Roering, 1985). As boundary spanners, salespeople may need flexibility and authority to make decisions on behalf of their organizations. It appears that they preferred an organic model for the sales organization.

Young and inexperienced salespeople appeared to prefer the mechanistic model for the sales organization. For these salespeople, job codification and rule observation did not affect adaptive selling (see Table 6). This is consistent with past research where the effect of supervisory initiation of structure was stronger for less experienced salespeople than for more experienced salespeople (Kohli, 1989). Kohli (1989, p. 47) concluded that “close supervision may be useful in working with inexperienced salespeople, but not very effective with experienced salespeople.” Therefore, sales organizations should consider individual differences among salespeople while designing their structures.

The non-significant effects of job codification on customer orientation and selling orientation reveal that the existence of rules of procedures for completing tasks by itself does not affect selling behaviors. Since salespeople often work independently without the direct supervision of managers, for them, “formalization can function as a leadership substitute in that formalization takes the place of instrumental and directive leadership behaviors” (Langfred and Moye, 2004, p. 940). Consequently, sales organizations should engage in job codification to foster organizational consistency. However, salespeople should be trusted to follow these rules and procedures. When salespeople are constantly watched and monitored for rule compliance, they may construe this high level of rule observation as a lack of trust in them. Empirical support exists for trust as a mediator of the interactive effect of self-management and surveillance on counterproductive work behaviors (Jensen and Raver, 2012). Thus, high levels of rule observation may threaten salespeople’s dignity, and they may react by engaging in counterproductive work behaviors, such as, less adaptive selling, less customer orientation and/or more selling orientation. In the current study, rule observation was negatively related to customer orientation and positively related to selling orientation even for young and inexperienced salespeople.

## **Limitations and Future Research**

Common method variance may have affected the results since the entire data was collected by self-reports from salespeople. However, as recommended by Podsakoff et al. (2003), confirmatory factor analyses were used to test the hypothesis that a single factor can account for all the variances in the data by developing a series of one two and three factor models. The fit statistics indicated a poor fit for these models compared to the hypothesized six-factor measurement model suggesting that common method variance was unlikely to bias the results. However, due to the cross-sectional study design and low response rate, caution should be exercised in inferring causality.

Future research should shed more light on the circumstances in which centralization and formalization actually benefits salespeople by making them more productive. Do salespeople always consider bureaucracy as an abrogation of autonomy? In this vein, Adler and Borys (1996) introduced the notion of two types of bureaucracy, enabling and coercive. An enabling type of formalization “codifies best-practice routines so as to stabilize and diffuse new organizational capabilities,” whereas in a coercive type of formalization “coercive procedures are designed to force reluctant compliance and to extract recalcitrant effort” (Adler and Borys, 1996, p. 69). Most studies focus on the degree of formalization and by codifying the entire job rather than just best practices, organizational formalization substitutes for rather than complementing employee commitment (Adler and Borys, 1996).

Future research should also reexamine the combined effects centralization and formalization by incorporating the relationship between these structural variables. For example, Sohi, Smith, and Ford

(1996) concluded that formalization and decentralization enables salespeople to cope better with role stress when they are being shared by multiple divisions of an organization. The authors did not specify the effects of centralization on formalization, and did not find support for the moderating effects of organizational structure on the relationship between the level of sharing of salespeople and performance. As stated earlier, the consequences of organizational structure should be revisited by modeling centralization as an antecedent to formalization.

The current study focused on one dimension of centralization, hierarchy of authority. Future research should extend this study by measuring the effects of the degree to which salespeople participate in decision-making. Sohi, Smith, and Ford (1996, p. 203) concluded that “companies need to give salespeople greater decision-making authority to lower role stress and improve their work satisfaction.” It will be interesting to see if the negative effects of job codification and rule observation on selling behaviors (customer orientation and adaptive selling) can be neutralized by inviting salespeople to participate in decisions. Schminke, Cropanzano, and Rupp (2002, p. 885) found that participation in decision-making and formalization improved justice perceptions of employees and noted that “the scope of formalized systems can be exceedingly broad, extending to the interpersonal interactions among employees, as well as between employees and customers.” Consequently, salespeople may construe the purpose of job codification and rule observation as benevolent, if their input was sought in making these work decisions.

Finally, future research should explore the effects of potential moderators of the relationships among organizational structure, selling behaviors, and salesperson performance. For example, the benefits of formalization and centralization are expected for short, repetitive tasks performed in stable environments (Ruekert, Walker, Jr., and Roering, 1985). Thus, environmental volatility may moderate the relationship between formalization and selling behaviors. In complex environments, young and inexperienced salespeople may actually need job codification and rule observation to implement the marketing concept. With the current data, post-hoc analysis with younger and inexperienced salespeople indicated that the negative effect of job codification and rule observation on adaptive selling became non-significant, meaning prescribing rules and procedures and supervisory monitoring of rule compliance did not affect adaptive selling behaviors. The effects of organizational structure on customer orientation did not change. This further highlights the importance of isolating the effects of job codification and rule observation while studying the effects of formalization. Besides environmental volatility, age, and experience, corporate strategy can also be a potential moderator of the effects organizational structure (Olson, Slater, and Hult, 2005).

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