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Title: How Social Capital Affects Sales Interaction

Abstract

The purpose of this study is to understand how social networks affect sales interaction. A small vendor with only one percent delivery share became a single provider of a management service for laboratory equipment. According to formal network theory, this success was regarded as the “fruits” of the vendor’s broker position bridging structural holes. Considering the practical needs of salespersons, however, this explanation proves insufficient. As a boundary spanner, they need to know how to gain an advantageous position in their networks. We’d like to explore how they can earn such an advantageous position within their networks. As we’ll subsequently explain later, once the network has changed, it leads to change in relationships between two parties. Changes in cognition could be the key to bring these changes. But they didn’t realize what would be the results of their actions. It could be said that some kind of tacit knowledge is another key. We’ll further discuss this within our directions for future research.

The main research questions

The purpose of this study is to understand how social networks affect sales interaction. Salespersons are regarded as boundary spanners. So, it is natural to assume their network affects their sales performance. The idea of relationship marketing and relationship selling seems to strengthen a researcher’s attention to social networks. Some researchers have begun applying theories of social network and social capital to sales management research (e.g., Flaferty et al. 2012; Ustuner and Iacobucci 2012; Bolander 2015).

However, most of them are trying to reveal social networks within their respective sales organizations. Although intra-organizational networks have a massive impact on salesperson performance, we should also study salesperson’s social network related to outside sales organizations. Even if intra-organizational networks bring social capital, such as information and resources, the skills and powers derived from them are revealed at sales meetings with their customers. In addition, salesperson’s skills and powers are also brought with their social networks outside sales organizations.

Basically, salespersons are boundary spanners and relationship managers. Therefore, we are trying to study the nature and effects of salesperson’s social networks in a broader context, i.e. among whole social networks. How they construct their social networks and utilize their social capital inside and outside sales organizations? How it affects salesperson’s behavior and their resultant performance?

Theoretical framework

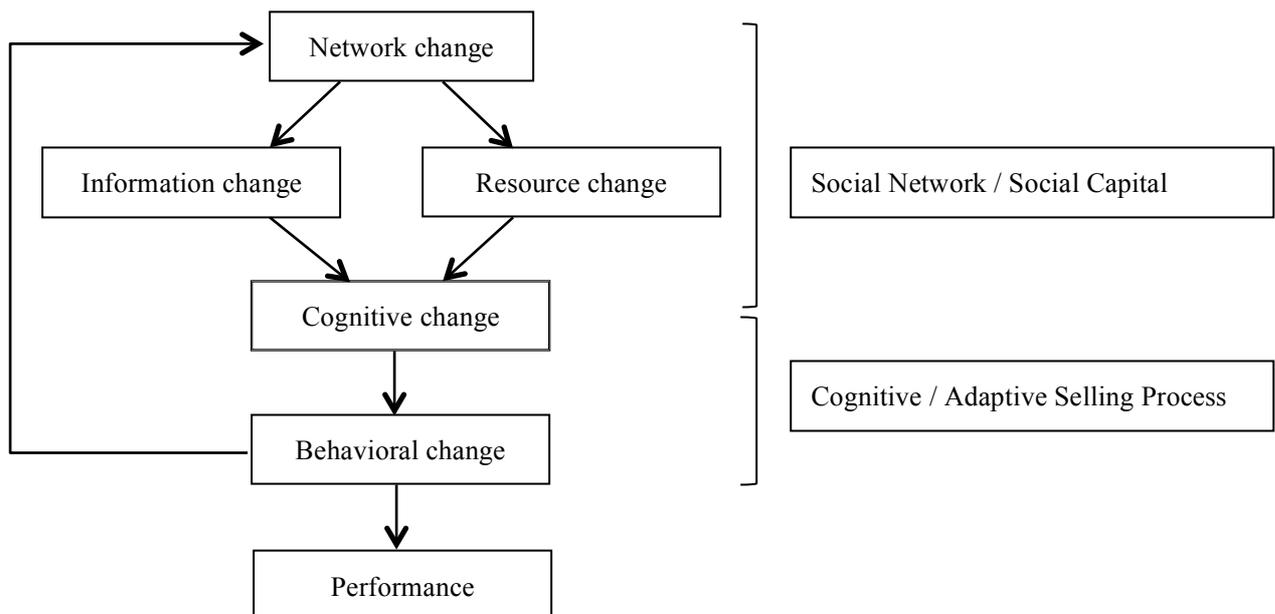
As a relationship manager, salespersons should lead a sales meeting. Salesperson behavior affects the consequence of sales meetings and a salesperson’s performance. Salesperson behavior is guided by their cognition of sales environments and salesperson adapt to their environments. Altering of sales behaviors during and among customer interactions based on perceived information about the nature of sales situation is called “adaptive selling” (Weitz et al. 1986; Spiro and Weitz 1990). If sales situation change, this will lead to changes in a salesperson’s cognition and subsequently salesperson behavior.

Of course, we can assume a wide variety of factors of sales situation. Among them, however, we’d like to focus on sales person’s social network. Social networks work as social capital mainly bringing information and resources (Lin 2001). If a salesperson receives novel information, they can discover a new opportunity. It is what Burt (2000) calls a “vision advantage,” which enables people to know about unobvious opportunities. And if salesperson secures new resources, they can utilize new methods to secure a successful sales call.

We’d like to show a framework shown in figure 1. As we mentioned above, Network changes leads to Salesperson’s behavioral changes. And the key to connect these two changes can be defined as cognitive change. Network changes leads to information change and resource change. But only when these changes are recognized and cognitive changes occurs, these changes leads to behavioral change. In addition, behavioral change sometimes causes network changes. Eventually, it starts another cycle of changes.

FIGURE 1

Theoretical Framework Linking Social Network Process to Adaptive Selling Process



We’d like to focus factors shown in fig.1. Among them, we believe cognitive change

is the key to trigger all changes. Even if network structure brings beneficial information and/or resources, nothing could happen until players know them. Thus, we'd like to explore how cognitions of seller and buyer have evolved or changed in case study.

Research Method

This study is based on the result of our field research observing the change in the relationship between two companies, GE Health Care Company and Chugai Pharmaceutical Co., LTD. (hereafter GEHC and Chugai, respectively), focusing their joint new business called SAS.

We gathered qualitative data about those two companies from the beginning of SAS to the end of the settlement of it in 2009. We conducted five interviews with four managers of both companies from 2008 to 2010 and gathered related documents. Then we report the interview results to two managers of both companies. And they approved the case in September 2010. The case we'll show here is the case they approved at that time. After the case was approved, we continued to contact them and to update the consequences within SAS.

Results: The Case study

We'd like to show an abbreviated case in this outline. We will further expound upon it in a subsequent complete paper.

Stage 1 Longitudinal Relationship: The case is constructed with six stages. At the first stage, Amersham Bioscience, one of the forerunners of GEHC, was a small vendor with only a one or two percent share of delivery for Chugai's gross purchase

Stage 2 Embryonic Movements in the Changing Relationship in the GE group: On April 2004, Amersham Bioscience, entered the GE group. At this time, GEHC received substantial backing from the GE group. GEHC learned a wide variety of know-how and amassed entire resources for business. Among them they learned "Enterprise Selling." It is a concept to sell not only the product itself but also the entire resources of the whole GE group. The new strategy, Enterprise Selling, would bear fruit eventually. GEHC invited executives of Chugai who were interested in the know-how of the GE group to the famous Crotonville training center, where they received training. This triggered new developments such as a personnel training program provided by GEHC for Chugai. These new developments did not lead to big business results. Yet during these new developments, GEHC gradually gained an understanding of what Chugai really desired and Chugai gradually began to regard GEHC as an equal partner with an assortment of capabilities

Stage 3 Proposition and Acceptance of SAS: On September 2006, GEHC put forth a new proposition, SAS (Scientific Assets Service). It is a management service for the laboratory equipment undertaking all equipment management as a single provider to improve

efficiency. At this time GEHC was not convinced of the existence of a need for such a service on laboratory equipment. However, GEHC's proposal fit completely with Chugai's assumptions. Chugai had been struggling with the restructuring of their business since had merged with Roche. So they had to improve their efficiency even among their research divisions.

Stage 4 New Problems and Solutions: In December 2006, Chugai decided to request that GEHC manage their laboratory equipment. At this time, nobody knew whether GEHC would be able to keep their promise. So it was just an agreement to start the project, not a contract for formal implementation.

Stage 5 Temporarily Unsettling and Final Decision: Chugai began to recognize the problem was far more important than they expected and began to be concerned about leaving the management of laboratory equipment to GEHC all alone. Chugai asked other vendors to provide the same service as SAS. Yet no vendor would comply with that request from Chugai, because this kind of service requires a huge cost of implementation. As a result, a small vendor with only one percent delivery share became a single provider of the management service for the laboratory equipment.

Stage 6 After the Introduction of SAS: After the introduction, SAS reduced administration and improved efficiency. Researchers were free from the job of managing equipment and they could devote more time to actual research. The efficiency of research jobs was highly improved. Chugai and GEHC discussed spreading SAS to the production department of Chugai.

Discussion

As we mentioned above, the relationship between GEHC and Chugai had been changing. The first turning point was Stage 2. At this stage, GEHC entered GE group. This change means that GEHC got a massive backing in terms of their resources and knowledge. In this stage, GEHC was still a small vendor but got an enough power to be an equal partner for Chugai. This situation was what Emerson (1962) called "operation two", i.e. getting the power through a backing network change.

Nonetheless, nothing had been changed at that time on the surface. In fact, their new strategy called "Enterprise Selling" didn't work well. But through this trial and error process, Chugai saw GEHC as a company with various capabilities. This cognitive change led to massive change for the relationship with both two companies.

Among them, inviting executives of Chugai to the Crotonville training center was the most important turning point. This caused change in cognition of Chugai. From that time Chugai regarded GEHC as an equal partner. After this, GEHC contracted personnel training program of Chugai. GEHC became a lecturer of the training program. As a lecturer, they got a lot of information about Chugai. This information had GEHC been able to find a new

opportunity i.e. SAS. These process was what Burt (2010) called “neighbor’s vision”. Network change, i.e. becoming a lecturer, caused novel information flow and then caused cognitive change, i.e. finding a new opportunity.

Eventually, GEHC got a position what Burt (1992) called broker position at stage 5. They bridged “structural holes (Burt 1992)” between Chugai and their equipment manufacturers. This unique position brought a great success for GEHC. After the success with Chugai, GEHC spread the service to other pharmaceutical companies, including the Japanese biggest pharmaceutical company, Takeda Pharmaceutical company, Ltd.

According to formal network theory, this success was regarded as a fruits of the GEHC’s broker position bridging the structural holes. Considering practical needs of salespersons, however, this explanation is not enough. As a boundary spanner, they need to know how to get such an advantageous position in their networks.

As we mentioned in our case, cognitive changes of both two parties, GEHC and Chugai, was the key to get the advantageous position. As we shown in figure 1, the key to rotate the cycle of changes in networks are cognitive changes. Hughes et al. (2013) found that an adaptive seller is able to absorb the competitive intelligence and employ it in such a way that is advantageous to both salesperson and customer. According to this findings, because GEHC’s salesperson is highly adaptive, they could utilize information gotten in stage 2 and then they could propose SAS in stage3.

Surprisingly, however, both two parties in our case study didn’t seem to notice exactly what was happening. Chugai was just intended to reduce their costs via managing their equipment. GEHC even didn’t know if Chugai wanted to do so or not. Even though, GEHC decided to propose SAS in stage 3. It’s just an intuition or some kind of tacit knowledge (Polanyi 1966). It’s not always explicit.

Anyway, we have to admit this research presupposes some limitations. Methodological validity is the biggest one. It’s just a one case study based on limited amount of qualitative data. Besides the limitations, we draw some initial “picture” of a complex process of network change and a triggers and results of said change. Among them, future studies should consider the role of cognitive changes in both buyer and seller as a key to form advantageous networks for salespersons

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