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And a Miracle Happens!

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Two scientists are standing in front of a blackboard filled with formulas and math terms. At the end, just before the "equals" sign, there's a callout, "And a miracle happens!" One scientist says to the other, "I think we need to do a little more work on this step."

Like the blackboard filled with esoteric symbols, there has been a great deal of theoretical work done creating conceptual models, applying theories and pleading with both industry and governments to adopt sustainable development methods. Unfortunately, like the scientists in the cartoon--the last step, theory in practice, remains elusive for sustainability theory.

Firms struggle with transforming sales teams and sometimes resort to replacing sales people to accomplish business objectives. Sustainability theory provides a framework for analyzing the effects of replacing salespeople for all stakeholders. By applying sustainability theory to sales transformation, managers can improve understanding of externalities and thus the total cost of the hiring cycle.

Some of the challenges for sustainability theory stem from its myopic application to energy policy and its associated co-opting to support political agendas on taxation. Limiting sustainability theory to energy policy is unfortunate, as sustainability theory is broadly applicable and can add much to the discussion of cost allocation and corporate decision making well beyond carbon emissions. Another challenge for sustainability theory is the scale of the issues it seeks to solve. While big problems demand big solutions, initial theory applications are best done at small scale where control can be applied to the inputs, outputs and unintended consequences.

The following paper expands sustainability theory to the new problem domain of the hiring cycle for salespeople. The paper also applies the theory to practice as it relates to the decision to replace sales resources as a result of a business disruption.

Keywords: Sales, Salespeople, Sustainability, Sustainable Development, Externalities, Hiring, Firing, Hiring Cycle, Transformation, Organization Change, Change Management

Introduction

Gartner states that every business will be affected by digital technologies over the next decade (Cearley, Walker, & Blosch, 2015). These changes will bring new products and distribution for some firms, while for others entirely new value propositions and businesses will be created. In each of these cases, the sales force must transform to sell new products, support new distribution channels and pivot to embrace alternative ways of doing business. Unfortunately, not all sales people are able to meet the demands of these new business realities and as a result are replaced by the firm. The costs associated with replacing sales people are distributed across departments, company boundaries and time. Sustainability theory presents a novel way to organize and capture the costs associated with the sales hiring process. Sustainability theory expands the decision maker's perspective to include economic, environment, and society domains.

When replacing sales resources, a sales manager has numerous costs to consider. Some of these costs are allocated to the sales manager's cost center while others are external to the sales manager. These unallocated costs are called externalities in sustainability theory. For the sales manager, externalities exist within and outside the firm. Internal to the firm but external to the sales manager are expenses and headcount in human resources, legal, recruiting along with the employee time to support the hiring process. Bliss estimates the cost of replacing an employee is between 150% and 250% of the person's annual salary with higher level employees being on the top end of the scale (Bliss, 2004). Perhaps even greater are the lost sales for the firm. In the article, "Customer Loyalty to Whom? Managing the Benefits and Risks of Salesperson-owned Loyalty," the authors found that, "Only salesperson-owned loyalty, a newly identified construct, directly affects the more tangible seller financial outcomes of sales growth and selling effectiveness" (Palmatier, Scheer, & Steenkamp, 2007). Looking beyond the firm, there are more costs when we consider the broader group of stakeholders including family members, the town, and society. These costs are externalities to the firm in that the firm does not incur an accounting cost for its hiring cycle decisions to these stakeholders.

While normally applied to environmental concerns, the three domains of sustainability theory, economic, environment and society present an effective framework for examining the total cost of replacing sales resources across all stakeholders. In sustainability theory, the three domains are considered with equal weight. Equal weight is an interesting theory, but fails in practice. The reality of business is that widely desperate decision trade-offs are made by creating a common denominator of financial impact. Externalities whether they are just external to the decision maker's cost center, or external to the entire firm are examples of costs that have not been adequately assigned. The practical reality in the near-term is that implementing sustainable development means working within the constructs of accepted accounting principles and as such, establishing costs for externalities.

Sustainability theory is in stark contrast to the classical view of the enterprise, where business decisions are based on economic criteria, and the prime reason for a corporation's existence is to serve shareholders. According to Milton Friedman: "The purpose of the corporation is to make profits for stockholders" (Bowie, 1991). By applying sustainability theory to the salesperson hiring cycle, sales managers will obtain a more complete understanding of the costs to all stakeholders and as a result be able to make more informed hiring cycle decisions. This will also help Sales managers to properly value who to train and how to organize when faced with a business disruption.

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Review of Research

The World Commission on Environment and Development also known as the Burndtland Commission published its report "Our Common Future" in 1987. The report included the following definition for Sustainable Development, "Development that meets the needs of the present, without compromising the ability of future generations to meet their own needs" (Brundtland et al., 1987) (Russell, 2014). While the written definition is both reasonable and laudable, understanding is improved by creating a visual model of the theory. Todorov and Marinova depict the sustainability model as three intersecting circles. The three circles represent the three domains of sustainable development: economic, environment and social. A key tenant in sustainable development is that no one domain is more important than another. Todorov and Marinova go on to comment, "In other words, a model: 1) should not be representing only one of the components (e.g., the economy) against the other two" (Todorov & Marinova, 2009). Hahn and Figge make a similar argument in, "Beyond the Bounded Instrumentality in Current Corporate Sustainability Research: Toward an Inclusive Notion of Profitability" saying, "Trade-offs between the three pillars have to be solved without any systematic a priori predominance of any of the three dimensions" (Hahn & Figge, 2011).

Another important component of sustainable development theory is the idea of internalizing external costs. Mohammed commented, “In the context of the sustainability challenge facing most companies, this level of accountability is only possible by internalizing the externalities of their business models” (Mohammed, 2013). Externalities abound in the sales hiring process. First, consider the lost sales and impact to customers. Bendapudi & Leone, Czepiel, and Weitz & Bradford all provide evidence that the customer-salesperson relationship is critical.

> In many cases, customer relationships with the vendor firm’s key contact employees are stronger than their relationships with the firm itself” and “When a vendor firm key contact employee is no longer available to serve the customer, the loss may fundamentally alter the firm’s relationship with the customer. American Express estimates that, on average, 30% of a financial advisor’s clients would move with their advisor if he or she were to leave the firm (Bendapudi & Leone, 2002).

It is important to think broadly about what a salesperson knows about a customer and not just the direct friendly relationship. A salesperson who leaves for a competitor will likely take a vast set of knowledge about the customer’s needs, priorities, and decision processes as well as key personal relationships. On one dimension one could argue that the salesperson-customer relationship is important for commodity products due to the lack of differentiation in the offering. While on the opposite side of the argument, it’s equally possible that having a keen understanding of a customer’s buying process, needs, and priorities enhance the probability of success in a complex sale. Czepiel notes that “An individual exchange is viewed not so much as an entity unto itself as it is a continuation of a past series of exchanges likely to continue into the future” (Czepiel, 1990). And Weitz & Bradford add:

> Salespeople play a key role in the formation of long-term buyer-seller relationships. As the primary link between the buying and selling firms, they have considerable influence on the buyer’s perceptions of the seller’s reliability and the value of the seller’s service and consequently the buyers’ interest in continuing the relationship. Buyers often have greater loyalty to sales people than they have to the firms employing the salespeople (Weitz & Bradford, 1999).

Next, broaden the group of interest as suggested by Stakeholder theory. “Stakeholders typically are defined as individuals, groups and organizations that have an interest in the processes and outcomes of the firm and upon whom the firm depends for the achievement of its goals (Harrison, Freeman, & de Abreu, 2015). Applying this definition of stakeholders to the salesperson hiring cycle, we extend the parties affected to include: the firm, the salesperson, the managers, customers, spouse, children, family and society.

It is widely accepted that losing a job has an adverse effect on a person’s health. Barkley reported in 1994 that, “Lower levels of psychological wellbeing are found in all studies which compared unemployed people, at all ages and in both sexes.” The study found increased mortality, increased mortality for wives and interestingly the effects begin well before losing the job. “In fact one of the most consistently replicated findings in this area is that health begins to be affected at the time when people anticipate unemployment but are still at work” (Bartley, 1994).

Next, we can examine the firm’s costs associated with the hiring process. Bliss estimates the cost of replacing an employee is between 150% and 250% of the person’s annual salary (Bliss, 2004). This includes the cost of searching, hiring, training and lost productivity. The higher the level of the employee, the greater the cost will be. Depending on the particular business internal accounting, all or most of these costs would be external to the sales manager.

> **A salesperson who leaves for a competitor will likely take a vast set of knowledge about the customer’s needs, priorities, and decision processes.**

And finally, a key part of sustainability theory is the idea that the three domains are equal and no decision should be considered more important than another. Hahn and Figge argue that past efforts to implement sustainable development fail on the basis that environment and social are subjugated to economic terms in that the decision to act is based on profitability. The authors make an extensive argument for a market based opportunity cost approach where firms must achieve market efficiency to use the asset (Hahn & Figge, 2011). This lengthy effort ultimately ends in a similar place in that an externality is being costed to allow a common basis of comparison to allocate investment.

The Theory

The central point of sustainability theory are the three pillars: economic, environment and society and the balanced decision making across them. To accomplish this objective, the costs associated with a decision must be included in the decision process. The often cited example in sustainability theory of an externality is the environmental cost associated with pollution clean-up. Hahn and Figge provided a concise explanation saying, “Sustainable development originates from the macroeconomic level and is grounded in three principles – environmental integrity, economic prosperity, and social equity” (Hahn & Figge, 2011). The authors further explain, “Intergenerational equity is one of the key aspects of sustainable development.”

Achieving sustainable development is difficult. Mohammed commented, “In the context of the sustainability challenge facing most companies, this level of accountability is only possible by internalizing the externalities of their business models.” To capture the costs we must determine who is affected by the process. Mohammed continued with, “This definition of stakeholders includes not only the financial claimholders, but also employees, customer, communities, and governments” (Mohammed, 2013).

As we examine the sales hiring process there are costs that accounting systems for the sales manager and firm do not capture when the decision is made to replace a salesperson. First, in the economic realm, it is estimated that the direct costs of replacing an employee range from 150% to 250% of the person’s salary (Bliss, 2004). Second, the sales-customer relationship has a material impact on future sales. In one study a financial services firm believed that up to 30% of its clients would leave if an advisor went to another company (Bendapudi & Leone, 2002). And finally, there is the lost value of pursuing new sales or having competitors win a sale while the sales position is vacant. There are also costs in the second pillar of sustainability theory: society. Bartley provides numerous examples (see research section) where a lost job impacts both physical and mental health and that the effects are present for both the employee and spouse (Bartley, 1994). Next, consider the third pillar: environment. Here the impact is on the workforce. As noted by Bartley, losing a job affects a person before the position is lost. Essentially, job loss has a stressful effect on people not unlike other forms of bereavement. Moreover, the event impacts people even after they find new work. Bartley said, “A spell of unemployment is not usually a mere interlude, however unpleasant, which has no effect once it is over. On the contrary, we now know that losing a job can precipitate a self-perpetuating series of negative events well into the future, even after work has been regained.” Thus the effects of serially replacing salespeople has a detrimental effect on the sales population analogous to a habitual environmental polluter.

For the sales manager the benefits of sustainability are that it provides a better estimate of the costs associated with replacing a salesperson. In considering all of the costs, across sustainability’s three pillars, alternatives to replacing a salesperson may become feasible. Some of these alternatives might include: sales training, one-on-one coaching, contracting expertise, and segmenting the sales team based on product and customer.

Applications of the Theory

Like most business functions sales is a process--for sales the output of the process is revenue, and the inputs are other business processes and the sales people themselves. The sales people are raw materials that the company takes from the common pool of labor and uses to create revenue. As explained by sustainability theory, there are costs in acquiring and releasing sales people that sales management and the company do not pay. These costs are described as externalities in sustainability theory. Interestingly, the externalities in the sales hiring process occur both within the firm and outside of the firm. Accounting principles fail to capture all of the costs at either level.

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Internal to the firm, a sales manager/cost center owner rarely carries the full burden of the human resources department, recruiters, legal and other groups that are required to replace sales people. More broadly, the company is not burdened with the full cost of the externalities associated with replacing salespeople either. It is widely accepted that unemployed people have more mental and physical health problems. The costs of these illnesses are only partially shared by the company in health insurance and taxes. Most of the expenses are instead burdened on the family or society.

Core to sustainability theory is the idea that the three domains have no a priori priority or in other words no domain is considered more important than another. While an interesting concept, the practical application of such a complete separation is conceptually flawed. The foundational issue sustainability theory is trying to influence is determining how to (or not to) apply capital to produce a good or deliver a service. As such, all investment alternatives need to be compared on a common basis. The issue is not that environmental and societal externalities are converted to financial metrics, but rather that the costs are not being adequately accounted for in the investment analysis. There is also the practical reality that all business infrastructure, reporting, rules and systems are based on financial metrics. Business at its essence is financial. Changing these artifacts entirely and globally would truly require a miracle!

Recognizing all of its challenges and limitations, sustainability theory still provides an effective tool for generating a more complete view of the costs associated with replacing a sales person, versus today's cost center or business accounting standards. Expanding the definition of stakeholders and including the costs beyond the cost center and firm creates a more encompassing view of the costs of replacing salespeople. With a more complete view of the costs, sales managers have a better understanding of the need for finding alternatives to serial firing within firms as a mechanism to address business disruptions.

One such alternative to serial firing in the sales hire cycle was suggested by Hammond in the paper, "Today, I Fired my Salesforce." Here Hammond suggests that is important to segment the sales force based on the types of products and customer buying behavior to maximize business results. Hammond contends that there are different selling behavior types and that sales people will adopt change at different rates. Informing science and innovation diffusion theories are applied to sales transformation and training to explain the observed ineffectiveness of training an entire global salesforce at one time (Hammond, 2017).

Additionally, sales managers have a unique opportunity to make a significant difference in the future success of sales people. Hammond's paper also includes the finding that the best predictor of solution selling sales behavior was that the sales person had formal sales training on his first job. It is hypothesized that the early training changed the sales person's orientation from himself and the firm (internal orientation) to the customer and world (external orientation). In applying sustainability theory, one can think of training young sales people as building equity in the salesforce environment.

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Discussion

Returning to our scientists at the blackboard, let's do a little more work on the final step of applying sustainability theory to the sales hiring process and move from a miracle to practical implementation.

1. First, managers can consider more of the firm's costs associated with firing and hiring a salesperson. It is estimated that the costs to hire an employee range from 150% to 250% of the person's salary.
2. Next, internalize sales externalities. One easily recognized externality is the lost opportunity that results from a competitor improving its position as a result of a missing sales resource. Another externality is reflected in salesperson-customer relationships. Sales people play an important role in securing sales and growing deal size. Moreover, research suggests that some customers are more invested in the salesperson than the firm and would leave if the salesperson leaves the company.
3. Third, internalize the societal costs that come from ill health associated with unemployment. Research has shown a reduction in well-being (mental and physical) as a result of unemployment for both the employee and spouse. Some of these costs are already being incurred by the firm in insurance and health care costs even though they are likely outside the sales manager's cost center.
4. Fourth, consider the effects on the sales population. Research has also shown there is a sustained negative impact to unemployment that lasts after the person has been rehired. Serial hire/fire managers and companies cause harm to the sales population (environment). While impacts to the sales population in total is difficult to quantify, the ramifications are well understood by applying the "Tragedy of the Commons" to the situation (Hardin, 1968).
5. Rather than replacing the sales people, consider segmenting sales resources based on products and customers. While there are different sales behaviors, there are also different customer buying behaviors. By assigning sales people based on the product and customer, sales managers can achieve greater alignment in sales execution and maximize revenue.
6. Last, make an investment in the sales environment by training young sales people.

The aforementioned approach for managing sales through a business disruption is different from the classical approach of replacing sales people based solely on the costs assigned to the cost center and associated top line revenue. Like many sustainable development opportunities, applying sustainability in practice for the sales hiring cycle is challenging. Business cost allocation and accounting rules simply do not capture the total costs. That said, externalities and sustainable development provide a useful lens for more clearly seeing the total costs to the firm and how managers can manage the effects for business transformation. First, there are externalities to the cost center that are in fact costs that are internal to the firm. Second, sales productivity, revenue and customer relationships can be harmed by replacing salespeople. Third, a company can develop a negative image in the sales population that it must overcome with increased hiring costs. And finally, there are real costs for health care that current employees and employees who elect to maintain health coverage will incur as a result of being unemployed or being concerned they may become unemployed.

By considering these externalities a sales manager may arrive at a different conclusion as to the costs associated with replacing a sales person and chart a different course in managing the business disruption. Some of these alternatives have been described previously in this paper and include: one-on-one coaching, contracting resources, training and segmenting the sales force to align with customers or products.

Conclusions

Sustainability theory is an effective tool for organizing and capturing the costs associated with the sales hiring process across sustainability's three pillars of economics, environment and society. Applying sustainability theory to practice we find costs external to the business unit and costs external to the firm that are not included in the sales hiring process. These costs that are not considered as part of the process are called externalities in sustainability theory.

Another key to sustainability theory is the idea that no one of the domains is more important than any other. This tenant is flawed in practice. Businesses are financial entities by nature. Businesses must bring decisions to a common basis in order to compare choices. The idea that a manager can assess investments in infrastructure or people without a financial comparison makes no sense and neither does the idea that environment and society can be compared without a common basis. The issue is not subjugating environment and society to economics, but rather the inability of a manager to account for the cost of externalities.

Senior business leaders have an opportunity to improve decision making by allocating firm costs for the hiring cycle to the business unit. This allocation is like a system requirement to engineers. An engineer can design around many constraints if s/he knows the requirement before the product is built. In this case, a manager can consider alternatives to replacing a sales person like: segmenting a salesforce, aligning products to capabilities and training if s/he has an understanding of the costs before making a hiring cycle process decision.

> By considering externalities a sales manager may arrive at a different conclusion as to the costs associated with replacing a sales person

Externalities beyond the firm are more difficult to address in the near term. At one end there is an altruistic appeal to business leaders to build equity in future generations by training young sales people and at the other there is a need for more research. Research is urgently needed to develop an effective means to address impacts on society and the environment that accounting practices simply don't address today. Like the environmental externalities being researched in energy sustainability, environment and society externalities in the sales hiring cycle require the collaborative research of public policy, academicians and business. The need for additional research does not invalidate the opportunity to improve business decisions by applying sustainability theory to the sales hiring process for managers and senior business leaders, rather it highlights the opportunity for growth in the theory and the theory's potential to impact business decision making.

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Review

This article was accepted under the ***constructive peer review*** option. For futher details, see the descriptions at:

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