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Disincentives of Organizational Routines Transfer: Case of Adaptive Radiation in a Sales and Marketing Company

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Abstract: In the case of sales and marketing organization reform discussed in this paper, organizational routines with excellent results were created. Despite visibility and standardization in a form usable for other organizations, the routines were not transferred between sales offices due to the rules of the sales organization, where "autonomy is maintained if an organization achieves KPIs." In other words, in organizations where each sales office achieves KPIs and has good performance, the high level of autonomy in each office is preserved, and the offices (a) may make their own improvements to organizational routines and (b) will not have the organizational routines of other organizations forced on them. In organizations with good performance, it was observed that organizational routines (a) evolve uniquely in each sales office and (b) undergo an adaptive radiation where they are

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not rolled out to other sales offices.

Keywords: adaptive radiation, organizational routine, routine transfer, autonomy, sales and marketing division

Introduction

This paper explores, based on the case study of sales and marketing organization reform in Company X, the derivation of a hypothesis as to what mechanisms are at play in the phenomenon, wherein organizational routines that create outstanding results and are formed in sales and marketing organization reform are not transferred within a business group, despite those routines having been made visible and standardized in a usable form for other organizations.

There are various definitions for organizational routines. However, since Feldman and Pentland (2003), the most often used definition is "repeatable and recognizable patterns of interdependent organizational behaviors by multiple actors." Various studies have been conducted on how organizational routines are formed, take hold, and change (Inkpen & Tsang, 2005; van Wijk, Jansen, & Lyles, 2008). Management of the transfer (i.e., rollout) of organizational routines between organizations is an important issue for firms to gain competitive advantage (Kogut & Zander, 1993). Existing research notes that the primary factors, which impact the transfer of organizational routines, are the characteristics of the knowledge to be transferred, the characteristics of the transferring party, the characteristics of the receiving party, the characteristics of the context for the organization doing the transfer, cognitive factors, political factors, and institutional factors (Asakawa, 1999; Szulanski, 1996, 2000; von Hippel, 1994). However, these existing studies have not actually indicated the possibility of factors that promote the formation of excellent organizational routines negatively affecting the transfer of organizational routines. In other words, the conditions under which excellent organizational routines are formed are contradictory phenomena that can become conditions in which organizational routines are not transferred.

This paper examined the sales and marketing organization of a firm that has multiple offices. Regarding the case in question, the autonomy of offices that could achieve sales targets increased because the company used results-oriented KPIs where the headquarters would not get involved in sales and marketing processes if an office achieved its sales targets. A high level of autonomy in an office removed any incentive to accept new organizational routines created by, and transferred from, other offices. Meanwhile, however, if an office was deemed able to achieve sales targets because of its high level of autonomy, the middle manager responsible for that office would take the lead on creating optimal organizational routines for the office, enabling the office to generate excellent results.

The subject of analysis in this paper is an office in which a middle manager created unique organizational routines. This paper carefully examines the relationship between the transferability of organizational routines and the potential for outstanding organizational routines to form. This paper considers mechanisms at work behind the phenomenon in which organizational routines that generate outstanding results are not transferred within a division, from the perspective of two simultaneous possibilities for organizational routines.

Research Method

Sales and marketing processes that include selling to others are activities that connect the boundaries of markets and organizations (Matsuo, 1998). It is no exaggeration to state that, even within the activities of a firm, these sales and marketing processes are exposed to the most open of environments. In other words, they have a low level of reproducibility, making it difficult to prove causality. Thus, sales and marketing processes have been treated as implicit and individual. Due to their implicit and personal natures, the standardization of sales and marketing processes has not been a subject of research in business management. There are only limited opportunities to observe cases of firms that have standardized sales and marketing processes and achieved excellent results (Inamizu & Sato, 2018).

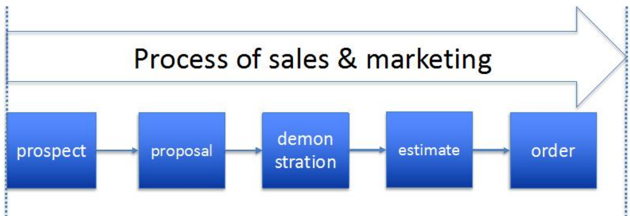
Given this situation, Process Management College (hereinafter, "PMC") managed by the Process Management Foundation organizes a training organization for large firms, and the author had the opportunity to observe case studies where standardized sales and marketing processes in multiple sales offices of firms participating in its training and performance was increased. Thus, this study analyzes the case of Company X through materials provided by PMC and the companies it trained, internal documents of Company X from 2014 to 2016, and four two-hour interviews.

What is Process Management?

PMC provides universal and effective, regardless of industry, sales and marketing process management methodologies that it has developed through providing sales consulting to thousands of companies as a curriculum to the companies with which it works. For their clients to get their desired results, PMC analyzes the sales and marketing activities of their offices and consults with the firms on visibility and standardization of those processes. Using a number of types of universal frameworks, PMC revisits the offices to form optimal organizational routines for sales and marketing and generate a high level of performance.

In the sales and marketing reform methodologies of PMC, actions are first analyzed, and then calculated backwards from goals. In other words, the sales and marketing processes of offices are classified into four or five processes: prospect, proposal, demonstration, quote, and order. The rate of conversion to the next process is calculated based on historical sales numbers.

There are two methods for improving the numbers in each process as calculated backwards from goals. The first is to increase the number of actions. To ensure there are sufficient actions to achieve goals, offices determine what they will and will not do in each process, and focus on specific work for sales and marketing staff during work hours. The second is to increase the conversion rate for subsequent processes. It is assumed that sales and marketing activities in each



	prospect	proposal	demonstration	estimate	order
Past record	1000	300	270	243	122
Conversion ratio		30%	90%	90%	50%

Inverse calculation of required action amount from the goal in case of willing to acquire 200 orders

Required action amount	1646	494	444	400	200

Required action amount per person in the case of 10 sales persons

Required action amount per person	165	49	44	40	20

Figure 1. Back calculation from goals

office will face differing environments; thus, the effective means of increasing the rate of transfer will differ by company and by office. Given this, there are no uniform methods for increasing the rate of transfer, and because of which PMC does not have a predetermined method, but provides various universal frameworks for discovering effective methods. Their client firms use these frameworks to create methods appropriate to their offices.

Typical of these are as follows: 1) a review of unique selling propositions (or USPs), for products based on characteristic value considerations; 2) creation of logic that removes resistance; 3) creation of attractive pitches; 4) role playing; and 5) creation of division of work charts to support customer sales; and others. For example, in the characteristic value consideration framework, companies rethink their products and services in the following four categories: (a) problems and needs; (b) products and services; (c) specifications; and (d) value (or merit), to derive a series of logical ideas. In this way, a firm can analyze, summarize, and integrate items related to sales into various frameworks to create effective methods for increasing conversion rate.

Case Study

Company X, the subject of this paper, has an information systems business. Mr. Y, an important individual in sales and marketing organization reform and manager of Office C in Business Unit Z (comprising Offices A, B, and C), was given the responsibility of overlooking all decisions and sales and marketing processes in the area of Office C. Moreover, Mr. Y has read many books on business and has participated in outside seminars. In doing so, he encountered PMC, which as an outside training firm had been successful in improving the performance of its customers, six months prior to the release of new products by Business Unit Z. It was through PMC's seminars that he learned about their methodology for standardizing sales and marketing processes. The seminars that Mr. Y attended was a course consisting of seven 7.5-hour classes held over the course of a year. Mr. Y attended these seminars of his own volition and at his own cost.

Mr. Y primarily learned about the following six initiatives at the seminar, which he actually implemented in Office C when releasing new products. These were based on the format and methodology of PMC. 1) Review the value of the product in question; 2) create logic that removes resistance; 3) create a unique selling proposition (USP) for Company X; 4) create an attractive pitch; 5) role play; and 6) create a division of work chart to support customer sales. The sales and marketing staff in Office C, comprised of about ten people, were left to their own devices when it came to the sales and marketing process, and the company appeals and product appeals for new and existing customers were all over the map. Through standardization, however, they shared what they felt were best practices at the time. In the role playing in which the entire sales and marketing staff participated every week, these best practices became entrenched, and a uniform appeal to customers began to take shape in the office. It took about three months for this new organizational routine to take root to a certain extent and Mr. Y put off new sales for all the sales and marketing staff, prioritizing the entrenchment of the new organizational routine. It took time to see the results, but only by engaging in support for existing customers, Office C could expect to achieve a certain portion of its sales targets. As such, Office C was able to put most of its man hours into the creation of new organizational routines, being patient until the effects of the organizational routines could be seen.

The results of the six initiatives of Mr. Y were a more than 140% increase in sales year over year for the office, and a 120% increase in contracts. The closing rate also increased. The number of orders per sales and marketing staff member was 10%–30% higher than other offices, and Office C was able to generate relatively high sales numbers. They were clearly different than other offices. Office C covered an extensively wide sales area and had a small sales and marketing staff, so the time they could spend on one company was limited. For their large customers, this required a high probability sales style that began with decision-makers. However, Office C was not the only office to do well; other offices also achieved their sales targets. Metrics for evaluating offices focused on whether sales targets were met in the first and second halves and did not evaluate the processes used to generate results or the number of contracts per sales and marketing person. Thus, even though Mr. Y would have announced excellent results, both quantitatively and qualitatively, in the monthly meetings for all business units, along with the efforts of Office C, no actual transfer of those efforts were made to other offices, even though other offices might have supported the sales and marketing methodologies employed by Office C.

That said, the achievements caused by the reforms made to the sales and marketing organization were recognized, and Mr. Y left Office C prior to the scheduled completion of his assignment. Mr. Y was able to take only a month for the handoff to his successor. Although he introduced a number of individuals related to his efforts and directed his sales and marketing staff on how to continue the efforts, despite his successor understanding the utility of the organizational routines, the routines that had taken hold under Mr. Y gradually reverted to their past forms.

Discussion

Sales and marketing is regarded as an area that is highly individualistic and implicit. It is difficult to prove causality, and because of the low level of reproducibility, little research has been done to analyze sales and marketing processes. Out in the field, results tend to be emphasized over processes compared to development or production organizations. Sales and marketing performance is relatively easy to ascertain, and there are many quantitative performance metrics such as sales productivity and thus many KPIs tend to be oriented to sales results.

In such cases, achieving KPIs, or rather generating results, increases the autonomy of an office without getting involved in sales and marketing processes and it is easy to form organizational routines that are optimized to offices. At the same time, as long as KPIs are achieved, there is no need to transfer organizational routines to other offices that are achieving results, creating a phenomenon where excellent organizational routines are not transferred. In other words, in high performing organizations, sales and marketing offices are ensured a high degree of autonomy, and thus, it is possible that organizational routines evolve uniquely in each office and are not rolled out to other offices. This is similar to the phenomenon of adaptive radiation in biology, where diversity increases explosively in closed environments.

However, the transfer of organizational routines can be classified into two modes——horizontal transfers and vertical transfers——depending on the power relationships within organizations. In the case of extending organizational routines related to customer community administration in sales covered by Yamashiro (2017, 2018), a sales hierarchy directed the roll out and demonstrated some ability to coerce. This is an example of a vertical transfer of an organizational routine. On the other hand, the case in this paper had no major differences in power relationships between organizations and had no direction from higher up in the hierarchy, thus making it a horizontal transfer of an organizational routine. It must be kept in mind that the premise of a horizontal transfer differs from that of a vertical transfer.

Conclusion

From the case examined in this paper, two mechanisms can be noted as being behind the phenomenon of organizational routines that generate excellent results that are then not transferred within a business group.

The first mechanism is the possibility of new organizational routines forming within an office where KPIs of a results-oriented office increase autonomy, while causing a loss of incentive to transfer the organizational routines to other offices. In Company X, offices were evaluated not on how far sales targets were exceeded, but on whether sales targets were achieved. If an office achieved a sales target, the company would not interfere with processes that enabled attainment, increasing the autonomy of that office. As a result, even with the organizational routines that caused outstanding results in Office C, other offices that also achieved their sales targets lost any incentive to implement Office C's organizational routines, which was a factor impeding the transfer of organizational routines. At the same time, because it was placed in this position, Office C was not bothered by headquarters concerning what was happening with sales and marketing processes, as long as existing customers allowed the office to achieve sales targets, even when the sales of new products temporarily stagnated. As a result, Office C bought time for themselves due to their autonomy and was able to create new organizational routines for their office.

The second mechanism increases the difficulty of transferring organizational routines because in an environment where autonomy is ensured, Office C created organizational routines that were optimized for that office, based on universal organizational routines that were implemented from an outside training organization and thus was not appropriate to the circumstances of other offices. In Office C, the small number of members on the sales and marketing staff needed to engage the decision-makers in large companies for sales of high probability, and to do so, they optimized the standardized sales and marketing process methodology of PMC. For example, Office C did not send the sales and marketing people out on calls until they could explain products and remake their USP appropriately, instead creating division of work charts of customers to support customers sales and, in some cases, having seminars for customers. Through these efforts, they focused on increasing the probability of business meetings, Mr. Y and his subordinates increased their sales results. However, the organizational routines that were optimized for the circumstances of Office C were not necessarily effective for Office A and Office B, which were in different circumstances. In actuality, Office A and Office B had many prospective customers and increased their sales by focusing on business meetings, or by expanding their base of customers through introductions by other customers. In addition, an excessive focus on optimization to an office results in success being viewed as “possible because of Mr. Y or possible because of Mr. C.” This means that the department or company would not recognize the organizational routines, instead positioning them as being optimized only for certain offices.

This paper explains the two aforementioned mechanisms by using the phenomenon of organizational routines for generating outstanding results being created but not transferred within a department despite the routines being made usable through visibility and standardization. These two mechanisms are considered to come about by a high level of autonomy in an office and by limiting KPIs for evaluating sales results.

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