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Customer Challenges in Times of Global Risk and Uncertainty

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1. Introduction

Rapidly changing business conditions have made it more difficult and challenging for managers to keep customers (Carter, 2008). To build this process it is necessary to consult customers for preferences, build familiarity and knowledge to build a relationship and conduct business in a customized fashion. The process takes every opportunity to build customer satisfaction with each customer contact. It is an important process to have, since customers today are more demanding, sophisticated, educated and comfortable speaking to the company as an equal (Belk, 2003). Customers have more customized expectations so they want to be reached as individuals (Raymond and Tanner, 1994).

Also, a disproportionate search for new business is costly. The cost to cultivate new customers is more than maintaining existing customers (Cathcart, 1990). Other reasons that Customer Retention is necessary is because many unhappy customers will never buy again from a company that dissatisfied them and they will communicate their displeasure to other people. These dissatisfied customers may not even convey their displeasure but without saying anything just stop doing business with that company, which may keep them unaware for some time that there is any problem (Cathcart, 1990).

2. Causes of crisis

Poor customer relationship building can be a cause for crisis. About 91% of unhappy customers will never buy again from a company that dissatisfied them and they will communicate their displeasure to other people. There can be various reasons that customers become dissatisfied with a company. It can be on the basis of product or service quality, price, poor location, lack of attentiveness, complacency, not having a customer complaint system or a weak public image. In addition, about one third of all customers are dissatisfied because they were unappreciated and some of those customers will never complain to the company. Companies that offer employees a sense of long-term stability may satisfy customers and prosper at the expense of less effective competitors. So, the failure of managers to have a process to monitor and meet customer satisfaction needs can be devastating to a company. One particular cause of crisis is that senior executives too often do not understand the fundamentals of their business. They neglect to ask central questions, such as what precisely is their company's core expertise, what are reasonable long and short-term goals, what are the key drivers of profitability in their competitive situation.

The occurrence of a crisis and its aftermath can have a devastating effect on a company's sales. For every \$100 million in revenue, two incidents per year occur that call on a company's emergency response plan. For every \$8 billion of revenue, there is one major loss per year, representing about one percent of annual sales. One catastrophic loss every 10 years, equals 1.5 times annual profit.

Why do corporations fall short of objectives? Why do strategies that seemed eminently sensible turn out to be disasters? Just why do successful organizations, which once could do no wrong, suddenly begin to lose their way? As seen from the Barings Bank financial debacle, the role of sales management is crucial in today's global business arena role. Nick Leeson, as the trader who caused the Baring's Bank scandal in London, essentially performed in a sales role. To guard against billion dollar catastrophes and a host of lesser risks, the best line of defense is a solid crisis management process.

2.1 The consequences of crisis

Crisis can be characterized as a major unpredictable event that has potentially negative results. It can also be thought of as a turning point for better or worse. The crisis event and its aftermath may significantly change a sales organization and its salespeople, products, services, financial condition and reputation. So, the real consequences of crisis events to managers can mean the loss of future sales and reputation, the loss of consumer confidence, prolonged negative publicity, exposure to lawsuits, declines in stock values and increases in operating expenses.

2.2 Union Carbide

In the area of crisis management, few firms have experienced more than Union Carbide. In 1984, gases released from a pesticide plant of an affiliate — owing to a deliberate act of sabotage — killed about 2,000 people in Bhopal, India, and injured many more. The "Crisis" as such obliged the company and its Indian affiliate to pay \$470 million to the Indian government to compensate victims and survivors. The "Crisis" also ultimately depressed the stock price so much that they were subject to an unfriendly takeover attempt. To fight it off, they had to sell off significant portions of the company and use the proceeds to pay a special dividend to the stockholders. To forestall another tragedy of such proportions, Union Carbide's management resolved to create the world's best episodic risk-management system (ERMS), one that ensures senior executive review of substantial risks. This incident really indicates what can be at stake with a crisis.

Starting in 1985, Union Carbide spent five years building a database of information that catalogs hazardous materials stored on site, size of storage tanks, vulnerability of local people to an explosion, and so on. Arthur D. Little, Inc. of Cambridge, Massachusetts, weighed the variables and ranked every one of the company's 1,400 operations. So, when the company initiated its ERMS program, responsibility was assigned to the senior line managers, not the risk manager. The company spent between \$5 million to \$10 million to develop its ERMS and spends about \$1 million a year to manage it.

Another customer-tracking technique that can help prevent a crisis is considering the needs of customers all along the value chain, not just the end user. Every company must please the whole series of customers and target audience. Depending on the business this can be consumers, wholesalers, shippers, retailers, independent distributors, employees, stockholders and the financial community. By failing to meet the "customized" needs and

expectations of their customers, companies will find that over time they will lose these customers.

2.3 The success of Rohm Co.

Rohm Co., a Japanese firm, earned a record \$267 million in the fiscal year ended March 31, on revenues of \$2.8 billion. Its 17% pretax earnings margin compares with around 4% for Japan's electronics industry as a whole. Rohm is Japan's leading producer of laser diodes, semiconductors that function like phonograph needles in compact disc players. Rohm is also the leading producer of the chips used in computer floppy disk drive motors.

In a country where businessmen often wait for crisis to strike and then react, Rohm's management has demonstrated an ability to anticipate crisis. Most important, their managers assess the sales effort rigorously, even ruthlessly. Rohm's after-tax profit margins were slipping into the 2% range, which is not drastically low by Japanese standards. That same year Sony's net margins were around 3%, but Rohm's management was thinking ahead concerning what would happen to margins if sales started to slip?

Not content to wait for answers, Rohm's management shook up the company. They forced Rohm's salesmen to refuse unprofitable and low-margin orders. This was almost unheard of in Japan, where suppliers tend to do just about anything to please a customer. As a result of the changes, Rohm's sales rose by 21%, after tax margins were 9% and profits will grow about 10% annually over the next 3 years.

2.4 Summary

Success with customers in business globally, must be viewed as an evolutionary process. Growth within an organization stems from a few basic core strategies that result in maximized profit. For example, In Vilnius, Lithuania, outdoor common food vendors advertise their unique products by offering free samples of any food item customers are interested in. In Moshi, Tanzania, E. Africa, the Chaga tribe markets their freshly brewed banana beer by placing a branch of the yucca plant on the ground outside and in front of their brewery. This lets fellow Chaga tribe members know that freshly brewed banana beer is inside. The validity and appropriateness of risk policies need to be re-evaluated constantly. In addition, organizations must develop customer relationship building, have interaction with top executives from top customers, help customer satisfaction and loyalty, encourage top management to develop, a crisis management culture and philosophy that permeates the company.

3. Other causes of crisis: the global crisis Of 2007-2009

An economy is said to be in crisis often during the recession or depression stages of the business cycle. The basic characteristics of economic crisis are slow down in production and distribution of goods and services, increase in unemployment due to layoffs, decrease in consumer confidence and hence expenditure, decrease in availability of credits, etc. An economic crisis can be caused by several factors. The 2008 global economic crisis is referred to as financial crisis because it started in the financial services sector. The trigger of the crisis is decline in the market prices of houses. The Standard and Poors' Case-Shiller home price index showed an aggregate decline in home prices of more than 20% since 2007.

Why would decline in home prices cause global financial crisis instead of just crisis in the real estate sector? Three factors contributed to the escalation of the housing crisis into global

financial crisis. These are (1) the loosened financial regulation, (2) the increasing securitization of loans including mortgage loans, and (3) the expectation that house prices would continue to increase.

3.1 The regulatory environment

In 1933, the US Congress passed the Glass-Steagall Act that separated commercial banking, investment banking and insurance services. The objective of the Glass-Steagall Act was to minimize conflict of interest when the same institution acts as lender as well as securities broker. In 1999, Congress passed the Gramm-Leach-Bliley Act that repealed the Glass-Steagall Act. This allowed commercial banks to engage in investment banking activities. For example Citicorp, a commercial bank expanded into investment banking by acquiring Smith Barney, an investment bank. Subsequently, it merged with Traveler's Insurance, which already acquired Solomon Brothers, and formed CitiGroup, a bank holding company with multiple financial services¹. The trend seemed toward increasing integration of financial services industry and the creation of multi-tasked one-stop-shop companies.

There are two main reasons for the repeal of the Glass-Steagall Act. First there is no such law in other countries. Increasing globalization of the financial services industry put the US companies at a competitive disadvantage. Second, there was pressure to deregulate the financial services on the assumption that the companies themselves put in place adequate risk management systems. This assumption is based on the increasing application of computer systems and complex mathematical models in the design and implementation of risk management systems. These facts not only loosened regulatory rules but also reduced the ability of bank regulators to enforce the existing rules. Financial institutions were able to classify complex assets to suit their purpose.

One of the safety and soundness regulatory tools is risk based capital adequacy requirement. Bank assets are classified into risk categories and risk weights assigned with risky assets having higher weights. The risk-weighted total asset is the basis for determining capital adequacy. The Basel Committee on Bank Supervision proposed a minimum capital requirement of 8%². This ratio has been implemented in the US for many years.

Maintaining high level of equity capital is good for safety of the financial institution. But its return on equity will be enhanced if the bank is financed with a greater proportion of debt. The return on equity is related to the proportion of capital by the following formula:

$$ROE = ROA \times A/E$$

Where ROE = Return on equity (to the shareholders)

ROA = Return on assets (return on total investment)

A/E = ratio of assets to equity, which is the reciprocal of capital ratio.

For example, if a bank earns a rate of return on assets of 4% and its capital ratio is 8%, its return on equity will be $4\% \times 1/0.08 = 50\%$. If the capital ratio is decreased to 5%, the ROE would increase to $4\% \times 1/0.05 = 80\%$. So the motive of the banks not to invest more of own

¹ The mergers actually took place in 1998, before the repeal of the Glass-Steagall Act in 1999. The merger was allowed on the condition that Citi would divest some of the divisions within the following five years. But the passage of the Gramm-Leach-Bliley Act rendered enforcement of the divestment unnecessary.

² Basel Committee on Banking Supervision (2004) "International Convergence of Capital Measurement and Capital Standards." (<http://www.bis.org/publ/bcbs107.htm>).

equity capital is to lever up profitability by using debt to finance operations. But low capital ratio reduces the capital cushion and increases risk.

Just like the bank assets are grouped into risk categories, bank capital is also grouped into two tiers. Tier 1 capital is made up of contributed common stock plus retained earnings. Tier 2 capital is composed of preferred stocks and some subordinated long-term debentures. With the complexities of the securities the banks issue directly and through their brokerage arms and the assets in which they invest, it is difficult to enforce capital adequacy rule satisfactorily. Banks created special purpose entities for the purpose of carrying risky assets on their balance sheets instead of on the balance sheets of the banks. Profits from such risky assets accrue to the banks through intercompany transfers of profits but since the banks are not maintaining adequate capital and regulators find it hard to implement capital adequacy requirements based on off-balance sheet assets, the risk would be very high. It is a high risk game with inadequate cushion for emergency. When house prices declined in 2008 and the mortgage loans became non-performing, many banks went bankrupt or were taken over at fire-sale prices.

3.2 Securitization

Securitization is a process by which a tradable security is created and issued supported by a pool of other assets. The tradable security so created is sometimes referred to as asset backed security (ABS). The pool of assets that support the ABS could be any financial instruments with streams of cash flows. A typical example is the securitization of mortgages. ABSs supported by a pool of mortgage loans are known as Mortgage Backed Securities (MBS).

Securitization of mortgages helps increase the volume of funds available to finance home purchases. Financial institutions can issue the MBS in the capital markets, raise more funds and lend to finance more real estate purchases. Fannie Mae and Freddy Mac are instrumental in the purchase of mortgages and their securitization. Securitization also bundles assets of different risk categories. For example some sub-prime mortgages may be bundled together with high quality mortgages to create an MBS. Such MBSs are very risky even if the proportion of sub-prime loans included is small.

The objective of the banks in securitization is to remove the loans from their balance sheets. Loans are assets for banks. Capital adequacy regulation requires banks to maintain capital based on risk-weighted assets. Loans have higher risk weights than cash for capital adequacy purposes. So securitization and removal of loans from bank balance sheets help them reduce the amount of capital they need to maintain. In many cases, the banks transfer the loan to their securities brokerage arm and in some cases, they establish special purpose entities that finance the securities purchase with commercial paper issues of their own³. The funds raised by selling MBS are then used to finance more home purchases, which are in turn securitized, and the expansion continued.

According to Acharya and Richardson (2009), securitization worldwide went from \$767 billion at the end of 2001 to \$1.4 trillion in 2004 to \$2.7 trillion in 2006. Although there are AAA rated tranches in the MBS, there are many which are supported by sub-prime mortgages. The rating agencies are accused of giving high ratings to many sub-prime supported MBS because of self interest. These mortgages also have different sub-categories. Some are fixed rate conforming mortgages where periodic payments by the borrower

³ Acharya, V.V. and Richardson, M. (2009) "Causes of the Financial Crisis." *Critical Review*, 21(2-3) 195-210.

include interest plus principal. There are also variable rate mortgages, where interest rate is variable for the first several years and then reset to a fixed rate after that. There are also interest only mortgages, where the borrower pays interest only for the first several years and then interest plus principal repayment starts thereafter.

The increase in supply of loans for home purchases due to securitization increased home purchases. Real estate prices also rose resulting in what is referred to as the house price bubble. Many people cashed the equity on their homes. Banks were attracted by the profitability of mortgage loans that could be securitized and removed from the balance sheet and increased lending liberally. The relatively low interest rates of the 2001-2003 and the expectation that home prices would continue to increase attracted both the lenders and the borrowers.

In 2006, interest rates started rising and many of the adjustable rate and interest only mortgages were ready to reset to a fixed rate. At the new high interest rate, many home owners couldn't afford to pay their new monthly obligations. Default rates increased and the demand for houses decreased. Banks could not sell repossessed homes at high enough prices to recover their loans. With huge amount of outstanding mortgages that were securitized and put on the balance sheets of special purpose entities, with banks that were not adequately capitalized, and with decrease in real estate prices, the stage was set for the bubble burst and the financial crisis. Many banks tightened credit, which made refinancing difficult and further reduced home prices. This in turn decreased consumer confidence and consumer expenditure. Consumer expenditure accounts for about one third of the US economy. Decrease in expenditures decreased demand for goods and services and the crisis spread to all the sectors of the economy. Businesses reduced inventory restocking in the event of decreased demand, and also reduced expenditures on machinery and equipment investments. Decrease in sales affected companies across the economy. Banks wrote off billions of dollars worth of MBS and other real estate related loans. Many companies filed for bankruptcy. Business bankruptcy filings increased from 4,086 in the first quarter of 2006 to 16,014 in the second quarter of 2009⁴.

3.3 House price expectations

The third factor that contributed to the crisis is the expectation of continuous increase in home prices. With the increase in the supply of real estate loans and liberal credit policies, home prices increased continuously. According to FHA home price index data, home prices more than doubled from the early 1990s to 2006. See figure 1.

As Figure 1 shows, house price increase accelerated after 2001 and surpassed the GDP growth. Such increase in real estate prices enticed banks to lend liberally with the assumption that any mortgage defaults would be recovered by repossessing the property and selling it at higher price than the loan balance. Many of these loans are sub-prime loans with various liberalization incentives such as variable rate mortgages and interest only mortgages. These mortgages usually reset to fixed rate in five years time. The growth in home prices started stabilizing in 2006 and reached a peak in the second quarter of 2007. Then the decline started triggered by reset of mortgage rates to a fixed and a higher level, which caused defaults. Banks tightened credits. Businesses and consumers lost confidence and decreased expenditures. These decreased the overall economic activities.

⁴ American Bankruptcy Institute (<http://www.abiworld.org>).

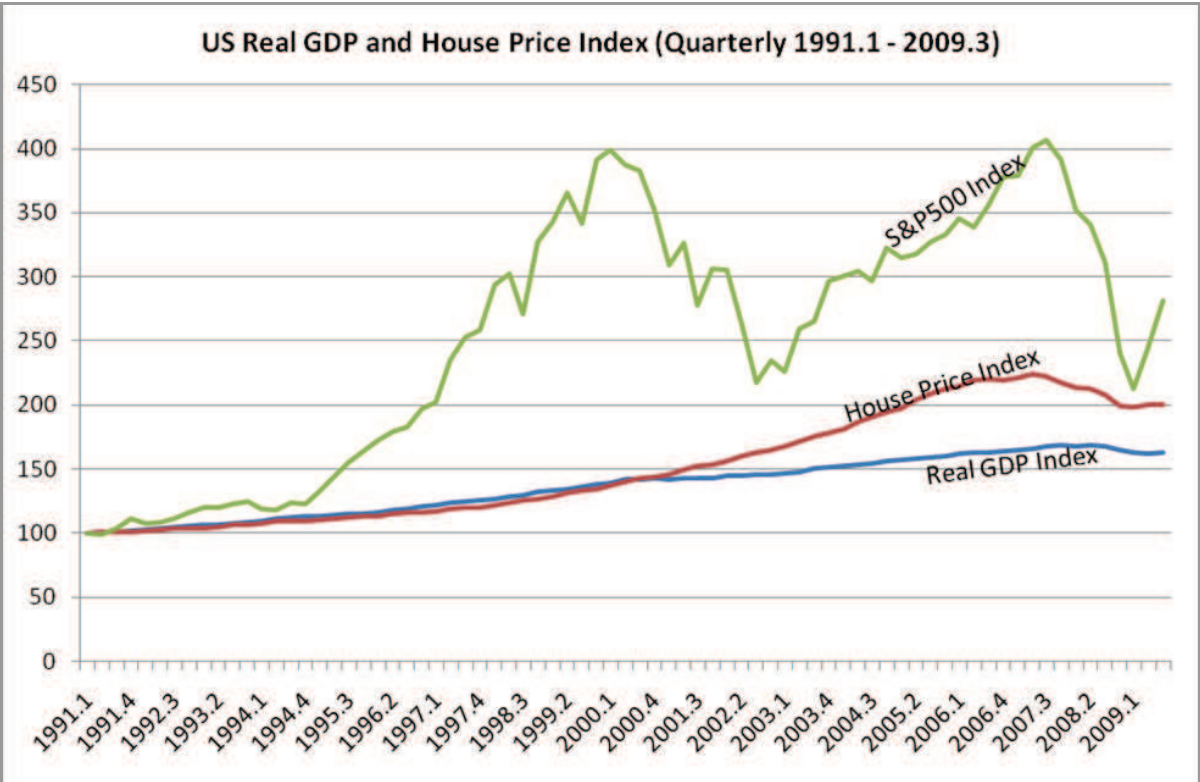


Fig. 1. Comparison of Real GDP, home prices and stock market index in the USA from first quarter of 1991 to the third quarter of 2009. The graphs represent the three indexes rescaled by setting 1991.1 to 100 to facilitate comparison. GDP data are obtained from Bureau of Economic Analysis (<http://www.bea.gov>), home price index data are obtained from Federal Housing Finance Agency (<http://www.fhfa.gov/Default.aspx?Page=87>) and the stock price index data are from Morningstar EnCorr database

As Figure 1 shows, decline in house prices preceded decline in real GDP and decline in the stock prices. Clearly, the cause of the crisis is the decline in house prices. Stock indices lost about half of their pre-crisis value.

3.4 Consequences

Financial institutions specifically got stuck with huge amounts of illiquid MBS that they couldn't sell. Many wrote them off. Some couldn't sustain the losses and made strategic moves such as merger with other companies. Bear Sterns, Merrill Lynch, Countrywide Financial and Wachovia were taken over by other financial institutions. Lehman Brothers went bankrupt. JP Morgan Chase and Morgan Stanley became bank holding companies in the hope that they could attract deposits and get access to the Federal Reserve's Discount Window facilities. Fannie Mae and Freddie Mac, the two government-sponsored entities established to provide home financing through the purchase of mortgages, were taken over by the government. The US Government spent billions of dollars to bail out banks and insurance companies. American International Group (AIG) and Citigroup were saved by government bailout. Many other regional financial institutions had to make similar strategic moves. Some went bankrupt and others were taken over by other stronger institutions. Outside the financial services industry, the auto industry was severely affected. The three major auto makers sought government assistance to avoid bankruptcy. General Motors and

Chrysler obtained massive government assistance in the form of loans or acquisition of preferred stocks. Still General Motors filed for Chapter 11 bankruptcy protection. Several other companies in the auto industry were affected. Lear Corporation, supplier of car seats, filed for Chapter 11 bankruptcy protection and wiped out original shareholders' value and reorganized by issuing new shares. The main cause of weakness in the auto industry is also decrease in consumer expenditure. In addition, the US automakers are not up to date in terms of innovation compared to European and Japanese auto makers.

The retail industry also suffered a great deal. Retail sales declined by up to 12% because of decrease in consumer confidence and hence consumer expenditures. Consumer confidence index fell below 30 in the first quarter of 2009 (see Figure 2). Consumer confidence below 50 indicates recession (contraction). When the banks restricted credit, some of the weaker retail businesses couldn't sustain and went bankrupt. Examples include Circuit City Stores, Linen and Things, and Bernie's. These companies couldn't secure financing from banks and neither could they attract any acquirer. Blockbuster tried to buy Circuit City, but it withdrew the offer after getting access to the latter's books during the due diligence investigation. Many people also thought it would be a strategic mismatch to merge Circuit City with Blockbuster.

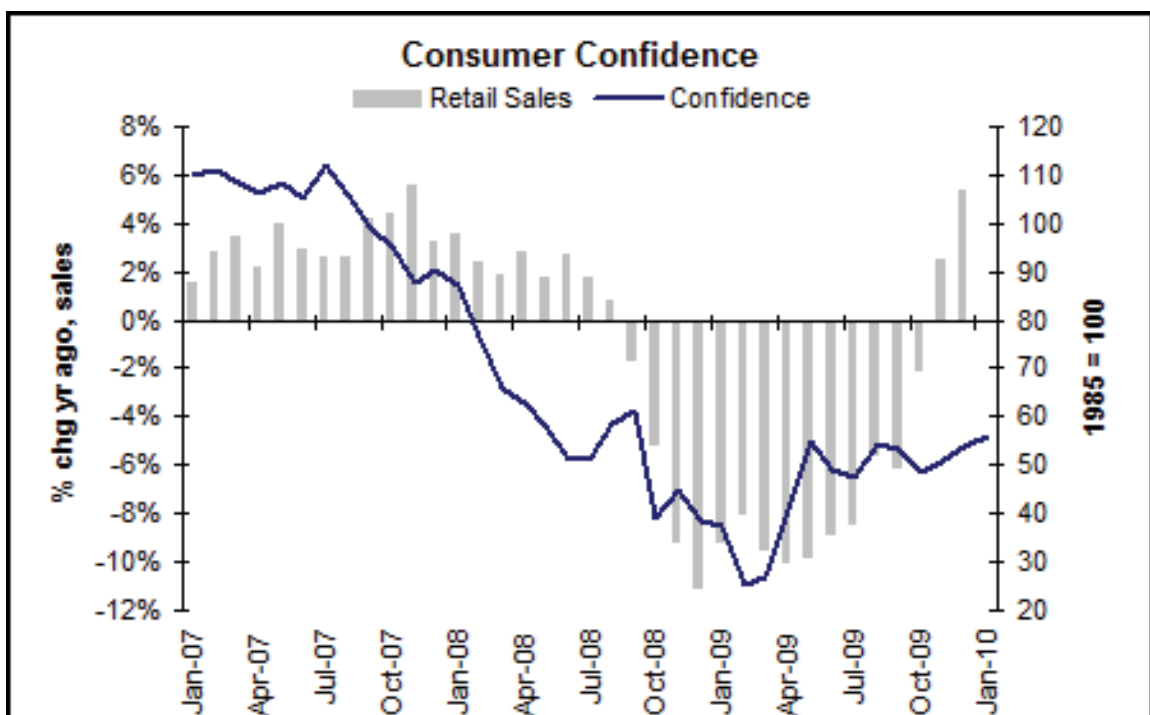


Fig. 2. Percentage change in retail sales (left scale) and level of consumer confidence (right scale) 2007 – 2009. Source: <http://www.bloomberg.com/markets/ecalendar/index.html>

The hi-tech industry suffered loss of sales and loss of value, but there are no major bankruptcies. The industry suffered decline in sales due to decline in expenditures by individuals as well as businesses. Most of the computer makers and software developers had adequate cash on hand that helped them withstand the adverse consequences of the recession. But there have been some consolidations with relatively stronger companies acquiring the relatively weaker ones. For example, Oracle took over BEA Systems in 2008 and Sun Microsystems in 2009. Microsoft Corporation's bid for Yahoo, Inc. faced resistance

and failed, however. The decline in stock prices increased merger and acquisition activities in other industries too.

In general, the crisis started in the financial services sector spread to all the other industries and across the globe and resulted in loss of confidence, loss of sales to businesses, loss of wealth to investors, loss of jobs and bankruptcy of many companies. Unemployment rate exceeded 10% in the third quarter of 2009, a record for several decades. Stock markets lost about half of their value.

3.5 Government reaction

The US Government reacted to the crisis swiftly and on a scale unprecedented in recent memory. The Department of the Treasury, the Federal Reserve Bank and the Federal Deposit Insurance Corporation (FDIC) are the main government agencies directly involved. All the three made significant changes in terms of both the magnitude and nature of their involvement in the economy.

Department of the Treasury: The Department of the Treasury developed the Troubled Assets Relief Program (TARP) through which it engaged in outright bailout of companies in the form of lending, acquisition of securities and guaranteeing of loans. The initial capital set for the TARP amounted to \$800 billion. As of September 2009, \$364 billion of this capital had been disbursed. The major recipients are AIG⁵ (\$70 billion), Citigroup (\$45 billion), Bank of America⁶ (\$45 billion), General Motors Corporation⁷ (\$49.5 billion), Wells Fargo (\$25 billion), JP Morgan Chase (\$25 billion), Goldman Sachs (\$10 billion), Morgan Stanley (\$10 billion) and several regional banks⁸. These assistances came with restrictions on the part of the companies in the form of restrictions on executive compensation, dividend payments, corporate expenses and other measures. Banks could repay these loans only after passing a stress test assessment, which included ability to raise debt and equity capital in the financial markets without government guarantees. The lions' share of the Treasury's assistance went to the financial services industry because they wanted the banks to release funds to businesses and individuals in the form of increased credit facilities and reinvigorate the economy. But assistance also went to the auto industry and local governments.

In addition to loans and investment in companies, the Treasury undertook consumer and business lending initiatives. Tax credit of up to \$8,000 is offered to households who purchased homes in 2008 and 2009. The cash-for-clunkers program offered credit for

⁵ Treasury's assistance to AIG took the form of \$40 billion purchase of preferred stock and about \$30 billion loan facilities, out of which AIG drew only about \$3.2 billion. AIG received additional credit facilities of up to \$85 billion from the Federal Reserve Bank.

⁶ This sum represents preferred stock purchases of Bank of America and Merrill Lynch in October 2008 of \$15 billion and \$10 billion respectively. After Bank of America completed its acquisition of Merrill Lynch, the Treasury purchased an additional \$20 billion preferred stock in January 2009.

⁷ These include a total of \$19.4 billion loans before GM filed for bankruptcy on June 1, 2009 and \$30.1 billion debtor-in-possession loans with the bankruptcy. GM filed for bankruptcy restructuring on June 1, 2009 and subsequently reorganized under a New GM. Old GM common equity was wiped out. Treasury's loans to the Old GM were transferred to new GM in the form of preferred stock and common stock. The US Government owns about 61% of the New GM.

⁸ These figures represent aggregate amounts disbursed under different programs. Some are loans and some are Targeted Investment Programs. See the details in United States Department of the Treasury, Office of Financial Stability "Agency Financial Report, Fiscal Year 2009" available at <http://www.treas.gov/press/releases/OSF%20AFR%2009.pdf>.

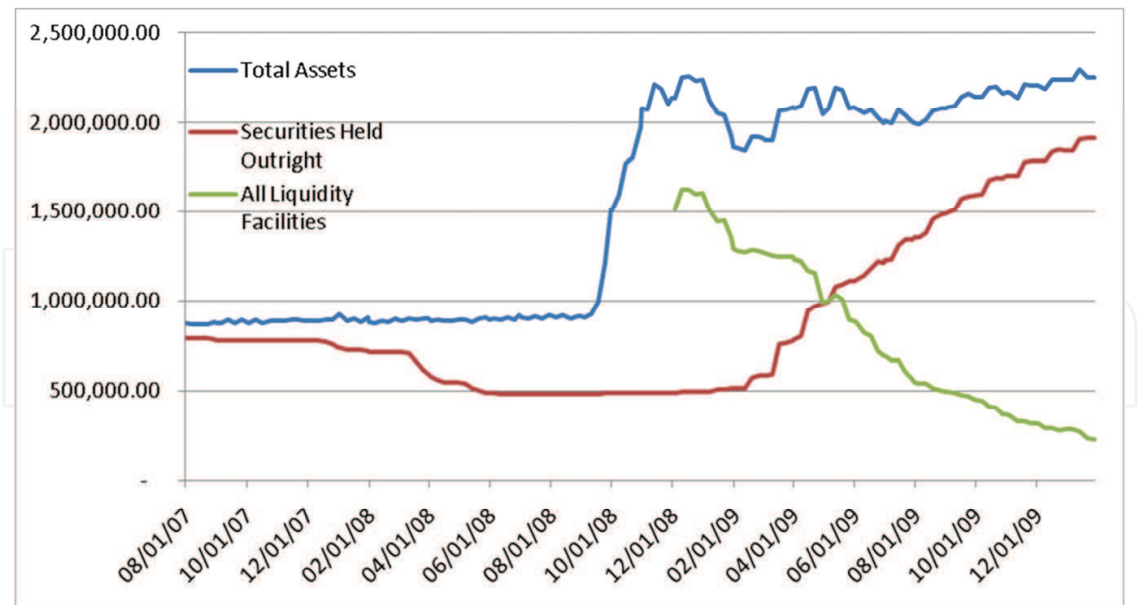
trading-in less gas efficient cars for more gas-efficient cars for a limited period during 2009. Both programs were popular and received high publicity.

The results have been encouraging. The economy started recovery in mid 2009. Real GDP grew by an annualized 4.6% during the third quarter and 5.7% during the fourth quarter of 2009. By the end of 2009, several of the financial institutions that received government assistance repaid the loans and redeemed the preferred stocks. These include Goldman Sachs, JP Morgan, Morgan Stanley, and Bank of America.

The Federal Reserve Bank: As the monetary policy maker of the country, the Federal Reserve Bank controls money supply, regulates financial institutions and acts as bank of banks. Its monetary policy tools are the federal funds rate, an overnight interest rate at which banks borrow from each other, open market operations through which it monitors amount of money in circulation, reserve requirement on commercial banks deposits, and discount window facilities, through which it lends short-term funds to commercial banks. The Fed increases the federal funds rate when there is fear of increased inflation and decreased the federal funds rate when there is fear of economic contraction. The Fed enforces its interest rate policy through open market operations. If it buys Treasury securities thereby releasing more currency into circulation, it reduces interest rate, and if it sells Treasury securities thereby reducing the amount of money in circulation, it increases interest rate. Buying Treasuries is expansionary monetary policy and selling Treasuries is contractionary monetary policy. Thus the size of the balance sheet of the Federal Reserve shows whether it is following expansionary or contractionary monetary policy. The assets of the Federal Reserve include securities it purchased, loans to financial institutions and governments, and any gold and foreign currency reserves. Its liabilities are currencies in circulation and deposits of financial institutions and government agencies.

To mitigate the impact of the financial crisis, the Fed obviously followed an expansionary monetary policy. The magnitude and the composition of its balance sheet changed tremendously. As Figure 3 shows, total assets of the Federal Reserve increased from around \$870 billion in August 2007 to about \$2.24 trillion in December 2009. The biggest jump was made in September 2008. This is the largest expansion in the history of the Fed and resulted from the Fed's attempt to fight the recession. The composition of its assets also changed.⁹ Traditionally, the Fed bought and sold only short-term Treasury securities and overnight secured agency debts in the form of repos. This time, its purchases included long-term Treasuries and government agency securities with up to ninety day maturity. The *Securities held outright* in Figure 3 represent Treasuries as well as agency and agency-guaranteed MBS and loans extended to AIG. These agencies are mainly Fannie Mae, Freddie Mac and Ginnie Mae. These securities holdings increased from around \$500 billion during the pre-crisis period to over \$1.90 trillion in 2009. The Fed also extended short-term liquidity facilities to support commercial paper loans, collateralized debt obligation (CDO) loans, and other term loans. These facilities are new and amounted to over \$1.6 trillion in the late 2008 and early 2009. These loans focused on large companies with systemic impact on the economy. Traditionally, the Fed acted as lender of last resort for depository institutions. Lending to some non-depository institutions was a departure from this traditional policy. These loans gradually decreased as the economy recovered and repayments are made on the loans.

⁹ For a brief discussion of the Fed's actions and the composition of its lending facilities, see Statement by Ben S. Bernanke for the Committee on Financial Services, US House of Representatives, February 10, 2010 available at <http://www.federalreserve.gov>.



All Liquidity Facilities includes: Term Auction credit; primary credit; secondary credit; seasonal credit; Primary Dealer Credit Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Term Asset-Backed Securities Loan Facility; Commercial Paper Funding Facility; support for American International Group, Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC, and central bank liquidity swaps.

Securities held outright include Treasury, agency, and agency-guaranteed mortgage-backed securities under the large scale asset purchase program announced by the Fed.

Fig. 3. Total Assets and selected assets of the Federal Reserve Bank (2007-2009). Figures are in millions of dollars.

Source: The Federal Reserve website
(http://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm)

In addition to the expansion of its balance sheet, the Fed decreased the federal funds rate to an unprecedented level. In 2008, the federal funds rate was reduced to 0-0.25% range and it has been kept that way since then. The federal funds rate is a conduit that influences the general level of interest rate in the economy. The objective of the Fed in keeping the federal funds rate so low is to encourage banks to lend and businesses and individuals to borrow and invest and speed up the economic recovery.

Federal Deposit Insurance Corporation: If a bank fails, the available cash is distributed to the depositors on a first-come first-serve basis. So depositors have to act fast to get their money. Then the depositors will lose confidence in the banking system and start withdrawing their deposits even from healthy banks and cause bank run. To minimize such bank runs, the Federal Deposit Insurance Corporation (FDIC) guarantees deposits up to \$100,000 per depositor in each insured bank. If a bank is in trouble, the FDIC either bails it out or let it fail and pays depositors up to a maximum of \$100,000. With the advent of the financial crisis, many banks failed. The number of bank failures was exceptionally high compared to other years (see the table of bank failures). In 2008, 25 banks failed and in 2009, 140 banks failed. FDIC facilitated the takeover of some of these banks by other relatively healthy ones. Merger with other healthy banks were facilitated by FDIC in cooperation with the Federal Reserve and the Department of the Treasury.

To mitigate the probability of depositors causing bank runs, the FDIC increased the deposit insurance limit to \$250,000 per depositor in 2008. This limit increase will last until the end of

2013. In addition, the FDIC implemented a temporary liquidity guarantee program in 2008 to provide liquidity to banks and also guarantee some loans.

Year	Count
2001	4
2002	11
2003	3
2004	4
2005	0
2006	0
2007	3
2008	25
2009	140
2010	15*
Total	205

*2010 frequency is for the month of January only.

Table 1. Frequency of bank failures by year (2001 – 2009) closed by the FDIC
Source: Compiled based on data from the web site of FDIC at <http://www.fdic.gov>

Such coordinated effort and the scale of intervention by the government is unprecedented. The efforts appear to be successful for the stock market gained about 40% during the last three quarters of 2009 and real GDP increased during the third and fourth quarters. The efforts saved the economy from falling into the scale of the Great Depression. With the increased liquidity in the economy, there is fear of increased inflation in the near future. The Fed may have to reverse its policy and tighten monetary policy to fight such fears.

3.6 Crisis management at firm level

What should companies do to minimize the impact of crisis on their performance? Crisis of the 2007-09 proportion, affect every company. Some companies do not survive while others emerge stronger. What are the basic characteristics of companies that survive the crisis and what are the basic characteristics of those that don't survive the crisis? Two basic features stand out when we compare the survivors and the vanquished. These are having good fundamentals and maintaining adequate liquidity.

Good fundamentals: companies with good fundamental financial positions have the strength to withstand adversities in the event of crisis. Companies with poor fundamentals will find it harder to get credit and maintain adequate customer base. In the 2007-09 crisis, financial institutions tightened credit across the board. Companies with poor financial positions find it harder to get the usual credit because they are not qualified based on the new stringent criteria the banks have established. For example, Bernie's is liquidated for this reason. Companies with good fundamental financial positions may not be desperate for external financing and even if they seek external financing, they qualify. The following tables present comparisons based on fundamentals for selected group of companies. The companies selected for comparison are in the same industry. For example Best Buy and Circuit City Stores are competitors and the former survived and the latter went bankrupt.

Panel A. Revenue Growth of selected companies: 3-Year compound annual growth rate (%)

Company Name	2000	2001	2002	2003	2004	2005	2006	2007	2008
BANK OF AMERICA CORP	38.615	0.866	-3.459	-5.399	7.183	22.422	33.152	22.119	9.963
COUNTRYWIDE FINANCIAL CORP*	25.504	16.205	50.54	40.863	30.399	19.099	20.948	21.986	n.a.
WACHOVIA CORP*	16.883	1.303	2.225	2.269	7.814	15.031	24.13	25.537	n.a.
WELLS FARGO & CO	41.979	11.478	10.273	4.875	6.085	11.403	14.694	16.521	8.528
BEAR STEARNS COMPANIES INC*	19.137	2.926	-4.381	-10.387	-1.167	18.796	30.805	24.349	n.a.
GOLDMAN SACHS GROUP INC	17.326	11.475	-3.413	-10.545	-1.41	23.826	43.189	43.388	7.283
LEHMAN BROTHERS HOLDINGS INC*	16.138	4.022	-4.037	-13.214	-1.73	24.547	39.282	40.552	n.a.
MERRILL LYNCH & CO INC*	12.244	2.622	-6.893	-14.807	-5.604	19.286	35.236	24.514	-29.482
MORGAN STANLEY	18.732	11.992	-1.685	-8.374	-3.292	17.333	29.889	29.217	3.524
BED BATH & BEYOND INC	30.978	27.968	24.969	23.166	20.693	16.596	13.903	11.046	7.456
LINENS N THINGS INC*	21.618	19.595	18.872	15.057	13.426	n.a.	n.a.	n.a.	n.a.
BEST BUY CO INC	22.399	24.872	18.795	17	11.865	13.774	13.545	13.417	13.425
CIRCUIT CITY STORES INC*	9.357	0.89	-1.87	-2.216	2.996	5.009	8.327	3.875	n.a.

Panel B. Return on Investment (%)

Company Name	2000	2001	2002	2003	2004	2005	2006	2007	2008
BANK OF AMERICA CORP	7.446	6.467	8.459	9.724	7.506	8.602	7.994	4.715	0.635
COUNTRYWIDE FINANCIAL CORP*	3.197	2.299	3.373	4.943	5.116	4.737	5.271	-1.261	n.a.
WACHOVIA CORP*	0.285	2.472	5.355	6.363	5.674	6.634	4.431	3.167	n.a.
WELLS FARGO & CO	7.933	6.128	8.996	7.224	7.241	7.528	7.171	6.264	0.758
BEAR STEARNS COMPANIES INC*	3.206	2.248	3.274	3.451	3.319	3.009	3.375	0.3	n.a.
GOLDMAN SACHS GROUP INC	6.905	4.691	3.663	3.738	4.232	4.276	4.959	4.608	0.811
LEHMAN BROTHERS HOLDINGS*	4.551	2.982	2.245	3.211	3.508	3.975	3.826	2.805	n.a.
MERRILL LYNCH & CO INC*	5.361	0.696	3.02	4.105	3.361	3.402	3.929	-3.822	-16.922

MORGAN STANLEY	10.919	5.805	4.532	4.575	4.07	4.124	4.612	1.306	0.881
BED BATH & BEYOND INC	21.043	20.067	20.812	20.066	22.914	25.32	22.431	21.969	14.169
LINENS N THINGS INC*	14.148	5.971	10.355	9.823	7.478	n.a.	n.a.	n.a.	n.a.
BEST BUY CO INC	19.763	17.097	17.482	20.492	18.766	20.975	20.173	27.315	15.966
CIRCUIT CITY STORES INC*	6.517	7.411	1.767	-0.035	2.854	7.531	-0.553	-20.597	n.a.

*company did not survive the crisis. It either went bankrupt or is taken over by other company at low price.

Table 2. Comparison of Fundamentals for Selected Companies
Source: Compiled based on data from Research Insight

Table 2 shows three year compound annual growth rate in sales (Panel A) and return on investment (ROI) (Panel B) for selected groups of companies. The first group has commercial banks. The second group has investment banks. There are no significant differences in the sales growths and ROIs of companies in these groups. Although Countrywide Financial Corp and Wachovia Corp didn't survive the crisis, their fundamentals in terms of revenue growth and profitability are not different from the other banks. Similarly, from the investment banking group, Bear Sterns, Lehman Brothers and Merrill Lynch didn't survive the crisis. But their revenue growth and ROI are not any worse than the other investment banks that survived.

When we compare the retail groups, Linens N Things clearly performed worse than its competitor Bed Bath and Beyond. For example in 2004, Linens N Things compound annual sales growth rate was 13.43% compared to 20.7% for Bed Bath and Beyond. Similarly, the ROI of Linens N Things was only 7.5% compared to Bed Bath and Beyond's 22.9% in 2004. Similar differences can be observed for the other years for which data are available. Similarly Best Buy's sales growth and ROI significantly exceeded those of Circuit City Stores. In fact, Circuit City Stores incurred negative ROIs of -0.55% and -20.6% compared to Best Buy's 20.17% and 27.32% for 2006 and 2007 respectively. Unlike the comparison of financial services firms, here we see clear differences in the fundamentals between the companies that survived the crisis (Bed Bath and Beyond and Best Buy) and those that didn't survive (Linens N Things and Circuit City Stores). The bankruptcy of Linens N Things and Circuit City Stores is due to poor fundamental performances over the years. Companies with poor growth prospects and poor profitability cannot survive such severe downturns. Companies with good fundamentals can withstand adversities.

Liquidity: refers to the ability of a company to quickly sell its assets and raise cash. Cash and short-term marketable securities are the most liquid of the assets. Companies that can sell their non-cash assets quickly when they need them to pay short-term obligations are considered liquid. Liquidity is important because if a company cannot pay its short-term obligations, the creditors can file for bankruptcy. During crisis, it is difficult for companies to sell stocks at reasonable prices to raise capital. Because investors lose confidence and stock prices decline.

Many financial services firms either went bankrupt or were taken over by others at fire-sale prices due to poor liquidity. Bear Sterns was taken over by JP Morgan & Chase at \$10 per

share price¹⁰ on March 24, 2008. Only about a month before, Bear Sterns shares were trading above \$80 per share. In August 2008, Lehman Brothers faced a similar problem. In spite of support by the Department of Treasury and the Federal Reserve, Lehman Brothers could not sell itself and in September, it filed for bankruptcy. In December 2008, it was Merrill Lynch’s turn, which sold itself to Bank of America. As we have seen in Table 2 above, these companies had sound fundamentals. The main cause of their collapse was lack of liquidity. They could not issue new securities to raise new capital, nobody wanted to deal with them because of lack of confidence, and unlike commercial banks, they could not have access to the Federal Reserve Discount Window Facilities. This indicates that the importance of liquidity cannot be overstated. Companies should maintain adequate cash and other liquid assets reserves for such eventualities.

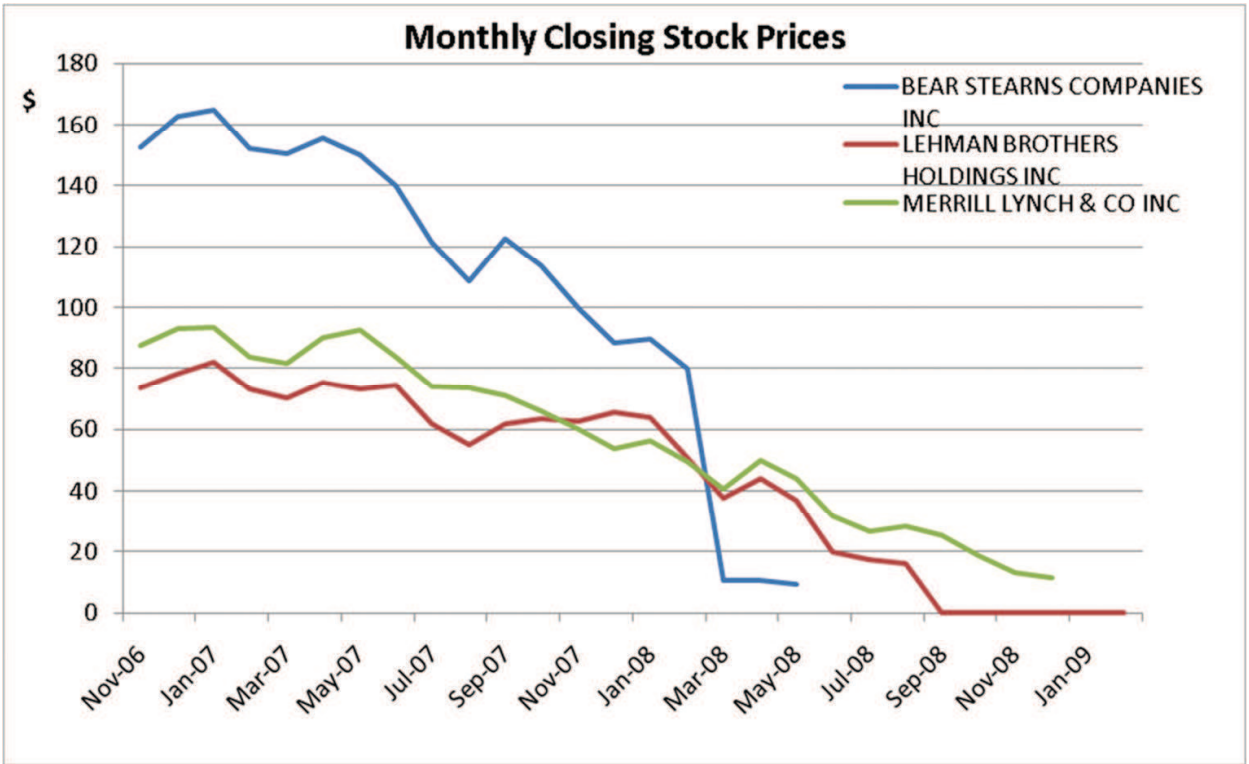


Fig. 4. Monthly closing prices of three investment banks that could not survive the crisis. Source: Based on price data obtained from Research Insight

Figure 4 shows how fast the stock prices of the three investment banks fell due to lack of liquidity. The surviving investment banks such as Morgan Stanley and Goldman Sachs immediately applied for bank holding company status. The bank holding company status allows them access to the discount window facilities of the Federal Reserve Bank.

A word of caution on the liquidity issue is that too much liquidity is unproductive. Cash and other liquid assets do not generate value by themselves. Value is created when the resources are invested in productive activities. Keeping large cash balances as reserve actually can result in a loss if inflation reduces the purchasing power of money. Therefore,

¹⁰ The initial selling price agreed upon was \$2.00 per share and the Federal Reserve Bank of New York supported the takeover. The offer price was increased later on to \$10 per share to minimize the chance of shareholders’ opposition to the deal.

appropriate balance should be maintained between the demand for liquidity and the need to invest available resources for productive purposes.

Forecasting and Planning: the other precaution a company should make is proper forecasting and planning. Forecasting and planning don't prohibit crisis from occurring, but they force advance thinking and preparation for possible eventualities. With forecasting and planning, the chance of surprises is reduced. Forecasts of many economic variables are available. Examples include gross domestic product, interest rates, government budget, exchange rates, etc. A company can relate its sales to these economic variables and estimate its future sales. Once sales forecast is determined, other financial aspects of the company can be projected. These projections will tell if the company needs to build up inventories, build facilities, raise more external capital, etc. The company should be prepared to act accordingly. The forecast should not be an estimation of a single figure. There should be scenario and what if analyses. These analyses help project possible deviations of economic conditions from the expected forecast and their possible consequences. Managers should make preparations accordingly.

Strategic Adjustment: despite all the precautions and preparations, crises do occur. Crisis management involves visionary thinking and making strategic decisions. Such strategic decisions could be merger with other company, divestment of divisions, changing business model and legal status, etc. For example, during the 2007-2009 crises, Morgan Stanley and Goldman Sachs became bank holding companies. As investment banks, they could not accept demand deposits and access the Federal Reserve's discount window facilities. The discount window facilities are available only to commercial banks. So conversion to bank holding company status allowed Morgan Stanley and Goldman Sachs to attract deposits and also access the discount window facilities. These allowed them to overcome their short-term liquidity problems while at the same time engaging in their core business of investment banking. Bear Sterns and Merrill Lynch merged with JP Morgan Chase and Bank of America respectively when they faced the same liquidity problem. Lehman Brothers could not do either and went bankrupt resulting in total loss to its stockholders. Citigroup sold some of its divisions and raised capital. The managers have to make such strategic decisions to assure survival and also increase shareholders' wealth.

3.7 Summary

The financial crisis of 2007-09 was triggered when real estate prices declined and mortgage defaults increased. Mortgage lenders were unable to recover the full balance of the loan due to decline in home prices. The effect is exacerbated because the mortgages have been securitized and floated in the markets and the resulting capital raised was loaned to finance more home purchases. The financial institutions were also undercapitalized due to a lapse in regulation. The repeal of the Glass-Steagall Act allowed banks to engage in securities activities and investment banks to engage in commercial banking. With the creation of special purpose entities, banks were able to remove mortgage backed securities off of their balance sheets and report in the balance sheet of such special purpose entities. This made it difficult for regulators to adequately enforce capital adequacy rules.

With the crisis in the financial services sector, banks tightened credit to both households and businesses. This further reduced consumer confidence and discouraged spending, which caused spread of the crisis to all the economic sectors. Unemployment rate increased and exceeded 10%, many companies went bankrupt and stock markets lost about half of their values.

The Department of the Treasury, the Federal Reserve Bank and the Federal Deposit Insurance Corporation made a coordinated effort to mitigate the impact of the crisis and speed up economic recovery. These government interventions took the form of outright lending of funds to troubled institutions, purchasing securities from these institutions, facilitating merger of weaker institutions with stronger ones, reducing interest rates and other general expansionary monetary policy to enhance liquidity and credit flow. The economy showed signs of recovery in the third quarter of 2009.

The lessons that can be learned from the crisis are that companies with sound fundamentals and adequate liquidity have better chance of survival than those with poor fundamental and inadequate liquidity. In addition, prudent management requires making strategic adjustments in the form of mergers, changing business model, divestiture and other major decisions. Forecasting and planning with scenario and what-if analyses are also indispensable business management tools.

4. Global contextual issues and adaptive selling

A key global marketplace solution for the volatile business challenges in today's global economy has been seen in the concept of Adaptive Selling. Adaptive selling is defined as the salesperson's ability to perform or "to take advantage of the unique communication elements associated with personal selling" (Weitz et al., 1986: 174). The latter, too, is important, according to those researchers: "Personal selling is the *only* [emphasis added] communication vehicle in which the marketing message can be adapted to the specific customer's needs and beliefs" (174). The ideal concept of the practice of adaptive selling implies that the salesperson has the appropriate capabilities and sales conditions in place (Weitz et al., 1986). These ideal capabilities and conditions lead to the most effective of adaptive selling. At the extremes, a salesperson prepares a sales presentation for each customer (adaptive selling) or he/she uses the same presentation for all customers (adaptive selling's opposite). The perceived information about the nature of the selling situation is the basis for the form of adaptive selling (Spiro and Weitz, 1990; Weitz et al., 1988). Extensive research has been conducted on the positive magnitude of the differences between adaptive selling and outcome performance and sales organization effectiveness measures (Babakus et al., 1996; Boorom et al., 1996; Piercy et al., 1999; Sujan et al., 1994). Little, however, has been written about the contextual issues of adaptive selling.

This part of the chapter aims, then, to contribute to that aspect of the topic, and is divided into three main sections. The first presents a framework for examining adaptive selling and contextual issues. Prior research on contextual issues, and how they are related to adaptive selling, is discussed in the second section. This part of the chapter concludes with a discussion of contextual variables that support salespeople in practicing adaptive selling and learning from their experiences.

4.1 A framework of contextual issues and adaptive selling

The model for "An adaptive Selling Framework" from Weitz et al. (1986) includes environmental conditions that we relate to global contemporary contextual issues to the practice of adaptive selling. This model identifies some key aspects associated with environmental conditions and adaptive selling and suggests the ways in which these are interrelated. It is not intended to describe the variables and processes of the practice of adaptive selling itself. The model of adaptive selling focuses on the behavior of the

salesperson and is influenced by the characteristics of salesperson and sales management variables (Weitz et al., 1986). This model is consistent with recognized research paradigms (Walker et al., 1979; Weitz, 1981; Weitz et al., 1986; Baldauf & Cravens, 2002) and uses moderators represented by salesperson capabilities (which can be separated, for example, into selling skills, product knowledge, and information collection), and motivational (intrinsic reward orientation and strategic analysis), organizational (type of product), and environmental (industry growth) differences. This section relies on previous research surrounding the relationship between the practices of adaptive selling and the behavior of the salesperson moderated by the environmental conditions in which the sale takes place. Weitz et al. (1986) suggest three main characteristics of the selling environment that influence the outcome of adaptive selling: “(1) the variety of customer needs and type encountered by the salesperson, (2) importance of the typical buying situation encountered, and (3) the resources provided by the company to the salesperson” (176). In this section, similar environmental conditions are examined, but within contextual issues extracted from theories of contextualization.

Contextualization theories include the contributions of the Chicago School of Sociology (Barley, 1989), the social theory of Pierre Bordieu (1977), the structuration theory of Anthony Giddens (1984), and others.

The main issues from previous contextual theories selected as relevant to adaptive selling are the context of work, the context of origin, the context of society and culture, and the global context.

Proposition 1: The practice of adaptive selling is moderated by the characteristics of the selling environment and by the larger context of work, in the context of origin, in the context of society and culture, and in the global context.

Focusing on salesperson behavior, as suggested by Weitz et al. (1986), the variety of customer needs, the typical buying situation, and the resources provided by the company are interrelated with the context of work, the context of society and culture, and the global context. These issues are discussed in greater detail with other propositions in the next section.

4.2 The context of work needed to practice adaptive selling

In the world of working and organizing, substantial changes have been observed over the past decades. The practice of adaptive selling faces issues such as new forms of working and organizing and work-related social relationships.

There is no global uniformity, and countries differ to a considerable degree in the flexibility of labor markets, with a tendency toward deregulation of national employment systems, and increasing importance placed on global markets (Dore, 2004). New forms of working and organizing have been an important theme in management research (Ruigrok et al., 1999; Whittington, et al. 1999) as well as for political decision makers over the past decade (Savage, 2001). With the changing organizational environment that is constituted by new information technologies (Gattiker & Coe, 1986), there are new ways of working, which include workers holding multiple jobs, enduring precarious working arrangements, and undergoing frequent occupational changes.

Proposition 2: New contextual forms of working are critical to adaptive selling. When confronting a sales situation that involves customers holding multiple jobs, working under precarious labor contracts, or undergoing frequent occupational changes, adaptive salespeople tend to make an effort to integrate and follow customers on the basis of their working arrangements.

The variety of customer needs grows with higher uncertainty in housing, income, and relationships. They may not buy the same products as before, for example expensive furniture items, since they must move frequently, enjoy lower disposable incomes, or prefer to invest in other types of assets (such as reliable financial products). Company resources for the salesperson targeting customers in the new working conditions of today differ significantly. Since these customers seldom place large orders and do without large investment-information-based purchases, the benefits for the adaptive salesperson may not be substantial. Companies may adopt, for example, self-service or web-based means of selling their products and services, reducing adaptive selling related to salesperson behavior.

The social environment is another important issue for adaptive selling, since individuals can mirror themselves in the larger social context. Estimations about one's relative position in a social context are not developed autonomously. Social comparisons are influenced by the social identity of individuals. The image the social environment holds about individuals contributes to that with which they are entrusted, which development offers they receive, and how they are evaluated.

Proposition 3: The relative position of the salesperson in a social context is critical for adaptive selling. When the salesperson confronts the image the social environment holds about him/her, it contributes to that with which he/she is entrusted in sales.

Proposition 4: The relative position of individuals in a social context is critical for adaptive selling. When an individual desires to make a difference in the image the social environment holds of him/her, the adaptive salesperson can customize and tailor to the needs of his/her customers.

The first proposition relates to company resources. The image customers hold about the salesperson is important for the practice of adaptive selling. If the salesperson has no credibility in the applicable social environment, he/she may be precluded from advancing his/her sales practice. This situation may come about for several reasons, for example, if the salesperson has been involved in a publicized litigation issue. Under this circumstance, the company may withhold the resources the salesperson needs to conduct adaptive selling.

The second proposition is highly inspiring for adaptive salespeople. If individuals in the environment in which the sales are practiced consider individual customization an important feature to differentiate their social images, the salesperson will come to the typical buying situation with a variety of tools (company resources) to meet those customer needs.

Other important contextual issues within the context of work are networking and mentoring both outside and within organizations.

Networking is the process of building up and maintaining a set of informal, cooperative relationships in the social structure of an organization (Burt, 1992). Networks provide opportunities. They offer contacts and supporters that increase positive outcomes in negotiations and the number of options and choices available.

The issue of mentoring is linked with the topic of networking. It is a particular kind of interpersonal relationship in which protégés receive a broad range of job and psychological help from senior managers (Kram, 1988). It has been connected with training and the development of capabilities (Hunt & Michael, 1983).

Proposition 5: Networking is important for salespeople practicing adaptive selling. Increasing contacts and supporters (interest on the product or service) is crucial since it engenders a greater variety of customer options and choices.

Proposition 6: If the salesperson is mentored by a senior colleague, the salesperson's capabilities for adaptive selling in identifying contextual work situations are facilitated.

These two propositions regard company resources provided to enhance the practice of adaptive selling. The salesperson can identify the ideal contextual work conditions regarding company resources.

4.3 The context of origin

Regarding society and culture, four major aspects can be said to constitute the important contextual elements for adaptive selling: gender, ethnicity, demography, and communal and societal ties.

When authors discuss gender as a contextual variable, they tend to use it as a control variable (see Turban & Dougherty, 1994) or in line with change reflecting societal conditions that provide opportunity structures (see Fielden & Davindson, 2010). For adaptive selling, gender income differences and the participation of males and females in the labor market are important.

Proposition 7: The context of origin needed to practice adaptive selling needs to take into account gender income differences.

Identifying gender income differences allows the salesperson to identify the respective purchase power of males and females as well as their needs.

Ethnicity concerns the question of discrimination based on race or membership in an ethnic minority group. A reduction of opportunities exists for ethnic others within a homogenous population. Homogeneous is the degree of demographic and identity similarity of interacting individuals (Ibarra, 1993).

Proposition 8: The context of origin needed to practice adaptive selling needs to take into account how individuals interact in the context wherein the sales are practiced.

Identification of the importance of contextual ethnicity informs the salesperson about the typical buying situation and whether within ethnic groups there are different customer needs. If the salesperson identifies with a certain ethnic group, the practice of adaptive selling is facilitated.

Often, demographics are related to world regions, nation states, or occupations, and serve as a point of reference for many disciplines. Regarding adaptive selling, the composition of corporate elites (Stanwroth & Giddens, 1974), and the perception and consequences of age (Lawrence, 1988) may be important contextual aspects of origin.

Proposition 9: The context of origin needed to practice adaptive selling involves analyzing the composition of social elites.

Proposition 10: The context of origin needed to practice adaptive selling involves analyzing the perception and consequences of age.

The context of origin regarding demographic fluctuations and perceptions of social elites and age is important if the salesperson is to identify the purchasing power and needs of local customers.

For example, if the local population is elderly and elitist, it may be the case it has unique and expensive tastes in products and services.

The role of community is another important context of origin since it concerns the integration of individuals into the local context of civil, political, and religious cooperation.

Proposition 11: The context of origin needed to practice adaptive selling needs to take into account how individuals are integrated in the local civil, political, and religious communities wherein the sales are practiced.

The context of origin, regarding the ways in which individuals are integrated in local civil, political, and religious communities, facilitates adaptive selling in recognizing the typical

buying situations and variety of customers. For example, if the local community holds strong political views about the certain country wherein a product is manufactured, its members may refuse to buy the product. The same can be said for religious views, for example, regarding food, or community civil views, for example, regarding sexual services.

4.4 The global context

Due to the increasing amount of business conducted at an international level, individuals and companies work hard to try to access international labor markets (Vance, 2002).

Virtualization is one of the societal developments to have received considerable attention mainly within the study of virtual teams (Jong et al., 2008). These virtual interactions go beyond frequent commuting, continuous short-term visits, or enhanced communication opportunities such as video conferencing (Mayerhofer, Hartmann, Michelitsch-Riedl, & Kollinger, 2004).

Virtualization practices in organizations increase the interpretive complexity of contextualization conventions (Von Glinow et al., 2004). Moreover, people tend to interpret the meaning of virtual procedures according to their contextual knowledge or to what is local to them (Von Glinow et al., 2004). In virtual management, conventions subsist and the awareness of the other side's networks of relationships and their interpretations may be unknown. Since virtual management provides no contextual meaning of informality, assumptions about others and their contexts are drawn, which causes constraints in the flow of business.

Proposition 12: New contextual forms of work-related social relationships are critical for adaptive selling. When confronting a sales situation that involves networking with virtual relationships, adaptive salespeople tend to assume the context of the sales interaction.

The global context regarding virtualization implies changes in the ways traditional adaptive selling has been recognizing typical buying situations and the varieties of customers that exist worldwide.

4.5 Summary

Personal adaptive selling is an active process that can be facilitated or hindered by contextual conditions. This section discussed the customer contexts of work, origins, society and culture, and virtual interactions in the global context.

Most studies to date have focused on the relationship between salesperson behavior and performance and outcomes in sales for organizations, including the research on moderators such as capabilities of the salesperson, type of industry growth, and type of product (see Baldauf and Cravens, 2002). However, contextual issues have been largely ignored. This section provides a means for the development of measures of the key constructs to test propositions.

These measures must be validated in the area of the personal adaptive selling domain. An obvious way to measure the practice of adaptive selling is by assessing the degree to which salespeople vary their behaviors across contexts, including the variance of contextual selling situations encountered by the salesperson.

The salesperson's attention to contexts and his/her capability to recognize typical situations and customer variety allows for the forging of appropriate adaptive selling strategies. This section suggests a salesperson acts as a "chameleon" by modifying and controlling sales presentations. Sales may not be facilitated in all contexts, particularly those where issues of

origin (such as ethnicity and gender) may be at stake, unless the salesperson has a strong identity relating to such groups.

The proposed framework suggests methods for developing contextual structures and guides for salespeople in identifying important issues in adaptive selling. It enables salespeople to exploit unique opportunities for sales facilitated by contextual influence as well as situations wherein their interpersonal influence may be difficult to apply. These future directional contextual aspects warrant further research attention because they are not typically related to the development and utilization of the skills needed to operate effectively, but rather to how the capabilities can be easily used or hindered in different contexts.

These propositions represent a new direction in the practice of adaptive selling. In outlining the testable propositions, some evidence was provided, largely drawn from domains other than personal selling. Thus, it is necessary to be prudent in interpreting the propositions until they are tested in the adaptive selling domain. Most of these propositions can be tested with survey methods, whereas others are open to experimental design.

It was not the aim of this section to propose effective sales approaches, but rather the ways in which contexts can support salesperson's capabilities in and motivation for adaptive selling.

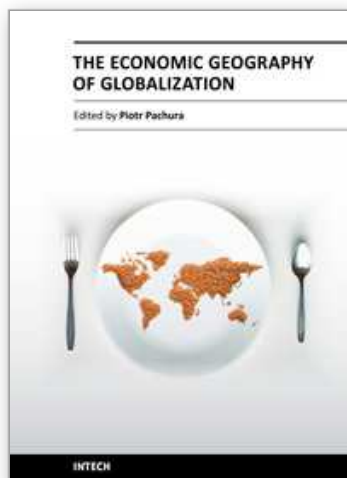
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