A Social Networks Perspective on Sales Force Ethics

By Matthew T. Seevers, Steven J. Skinner, and Scott W. Kelley

The past decade has witnessed a number of well-publicized ethical misconduct disasters, including accounting fraud at Enron and WorldCom, product liability at Firestone, and expense abuse and tax evasion at Tyco International. In some of these cases, a single person became the face of the misconduct. But the reality is often that a variety of individuals within and beyond the company are complicit. (The ties between individuals at Enron and Arthur Andersen offer a chilling example.) This suggests that ethical behavior is not merely a function of personal or corporate values. Instead, observation tells us that ethical misconduct is oftentimes a social activity. As illustrated in the case of Enron and other disasters, the social ties that link a sales professional to clients and other stakeholders are a critical factor.

In this article, we highlight a developing line of research on the role of social ties in ethical decision-making by salespeople. The current state of research doesn't yet lend itself to sweeping prescription. Nevertheless, we believe the topic is thought-provoking, and opens a conversation for real estate professionals. Discussion of the social network perspective has become increasingly prominent in practitioner journals because it offers a useful approach for examining relationships among salespeople (Cross, Liedtka, and Weiss 2005; Üstüner and Godes 2006). Here we present a brief introduction to social network concepts, as well as their application to a sales context. These concepts hold promise for understanding how social ties affect motivation and opportunity for ethical misconduct. We then close with a discussion on the implications of networks for sales managers and brokers.

What are Social Networks?

As a starting point, a *social network* refers to a specific set of actors and the relationships that link (or fail to link) them together (Barnes 1954). Networks of interest may involve links among collective groups, such as departments or entire organizations, but we will focus primarily on interpersonal links, such as those developed and maintained by salespeople or agents.

Unique to the social network perspective is its emphasis on the characteristics and patterns of relationships. The most visible aspects of a business network are formal relationships, such as a contractual tie between a buyer and seller, or a reporting tie that links supervisor and subordinate. But as any sales agent knows, informal relationships often precede, sit alongside, and even grow out of formal transactions. Such relationships are said to shadow the organizational chart, and include network ties based on friendship, hall talk, advice-giving, and influence (Bristor and Ryan 1987).

Social Ties in a Real Estate Sales Network

Before discussing more detailed network concepts, we consider the breadth of social ties that might be found in the real estate industry. A typical real estate sales network involves a variety of firms, such as real estate organizations, banks, title companies, insurance companies, and trade groups. The collection of individual actors is particularly rich, including real estate agents, real estate brokers, mortgage brokers, loan officers, insurance agents, appraisers, inspectors, and homebuilders, as well as the buyers and sellers of a property.

The real estate industry has two key features that heighten the importance of relationships. First, for a typical transaction, there exists a high degree of interdependence among the various actors. A real estate agent, for example, often serves to help a client orchestrate ties to other service providers, such as finding a lender or home inspector. Second, many of the benefits offered by agents are intangible in nature, and may be difficult for clients to evaluate prior to entering into representation. This feature amplifies a client's reliance on third-party referrals for finding an agent, as well as referrals from an agent toward other service providers. In sum, we believe the real estate industry offers fertile ground on which to discuss social network concepts.

Network Relationship Types

The first set of concepts we present considers *relationship types* that describe the relational tie between two actors, which is termed a dyad. Examples of dyads in the real estate industry include agent ↔ client, agent ↔ broker, agent ↔ agent within the same firm, and buying agent ↔ selling agent. We outline three concepts that address relationship types: tie strength, multiplexity, and asymmetry.

Tie Strength. The strength of a social tie refers to the amount of time, emotional intensity, intimacy, and reciprocity that characterizes the connection between two actors (Granovetter 1973). A strong tie is exemplified by a trusted client or colleague with whom you frequently interact, confide in, exchange advice, and share an expectation of ongoing friendship. By contrast, a weak tie might take the form of a business relationship in which two people occasionally interact, maintain emotional distance, and hold limited expectations about friendship. Such ties might be found when an agent has a one-time encounter with a prospect.

Multiplexity. Any given social tie might be based on multiple forms of interaction, such as kinship, friendship, organizational reporting, contractual agreement, and common membership (Knoke and Kuklinski 1982). When two people are tied strictly by one form, the relationship is said to be uniplex. It is not uncommon, however, for two people to interact in multiple forms or settings. Such multiplex ties arise, for example, when an agent and client attend the same church, live in the same neighborhood, or play together in a golf league.

Asymmetry. A dyad in which two people are in some way not on equal footing is said to be asymmetric (Wasserman and Faust 1994). Asymmetric ties occur when the emotional involvement of one person is not reciprocated by the other. Take for example an agent that considers a co-worker to be a friend and places them in confidence, only to find out that the co-worker gossips about the agent with others. Relationships are also asymmetric when one person in a dyad occupies a position that provides an opportunity to exercise power over the other. This situation is easily envisioned where a sales manager wields power over a salesperson, or a senior agent exerts influence over a less experienced agent. Similarly, a powerful client may push their weight around to negotiate a reduced commission.

How do these concepts relate to ethical conduct? Research suggests tie strength and multiplexity weaken one's motivation to act harmfully toward another (Brass, Butterfield, and Skaggs 1998). For tie strength, this effect results from not only mutual trust and empathy, but also from escalating the consequences of wrongdoing (e.g., loss of a friend). Multiplex ties further magnify the ill-effects of misconduct. A wrong-doer risks not only losing more than a mere business associate, but also having others learn about their misdeed across multiple contexts.

Asymmetry works differently. If two people are not on equal footing in a relationship, the opportunity – though not necessarily the motivation – for misconduct is more salient. When asymmetry is based on emotional involvement, the more involved person is at risk of being taken advantage of by an emotionally distant other. Fraud and con games offer extreme cases of this effect. Power-based asymmetry also invites misconduct targeted toward the less powerful, more dependent individual. And whereas more powerful actors may have less to lose from misconduct, less powerful counterparts may be subject to reprimand or retaliation.

Network Relationship Structure

The second set of concepts concerns *relationship structure*, which describes the configuration of present and absent ties among three or more people. We discuss three concepts – structural holes, network density, and cliques – each of which hinges on patterns of present and absent ties among members of a network.

Structural Holes. The term structural hole is a metaphor that refers to the absence of a tie between two actors (Burt 1992). Such gaps in a network are significant because they present opportunities for a third person to play a "middleman" role between unconnected people. Structural holes are found in a variety of everyday settings. A classic example is when a seller is approached independently by two prospective buyers. Provided the buyers are not in direct communication, the seller has the opportunity to play one buyer against the other in order to escalate the value of successive offers. An individual that spans structural holes may also distort or withhold critical information that passes through a network.

Network Density. The concept of network density refers to the degree to which all individuals of a network are interconnected (Scott 2000). A high density network is found in settings in which "everyone knows everyone else." This brings to mind a small town, but it could also be imagined within a luxury home segment where, by virtue of its exclusivity, the agents in a market are all well-acquainted. Conversely, a low density network might be expected in high population areas, where agents are more likely to know only a small subset of their peers.

Cliques. As the size and scope of a network grows, reaching a high level of network density is less likely. Consider IBM, for example, which employs nearly 400,000 employees around the globe. Even with modern technology, it is hard to believe that all or even a high percentage of their workforce is densely connected. But we might still expect formation of smaller groups of employees based on common geography, customers, or expertise. In network lexicon, these are termed components, which are subgroups of highly interconnected people. And perhaps the most well recognized component is the clique, which by definition is a group of at least three actors in which every possible pair of actors is connected.

How do these concepts relate to ethical conduct? Research suggests that structural holes present opportunities for misconduct. When spanning a gap between otherwise unrelated contacts, a person is positioned to act unethically toward one person without fear of the other person learning of the act. In contrast, when a hole is filled by a tie between two contacts – known as *closure* (Coleman 1990) – the previously untied parties may engage in mutual surveillance and "compare stories" about their mistreatment. Thus, closure is expected to limit motivation for misconduct because offenses are more easily communicated, which places the third party at risk of reputational damage.

The effects of network density and cliques largely follow the logic of closure. High density networks increase the level of surveillance among network participants, and increase the risk of reputation loss for wrongdoing. (Think, for example, about the speed at which word travels in a tight-knit neighborhood or small town.) Cliques, as highly dense subgroups in a network, are also expected to reduce motivation for misconduct aimed at group members. Research, however, suggests that strong subgroups may foster an "us versus them" mentality (Labianca, Brass, and Gray 1998), which may give rise to misconduct against those outside the group.

Implications for Sales Practice

The *National Association of Realtors* and the real estate commissions of most states offer codes of ethics. Many real estate companies also have an established ethics program. Guess what? So did Enron! The social network perspective highlights how otherwise ethical people may participate in unethical behavior. What appears to be a disconnect between individual values and company behavior may in part be due to a failure to recognize that salespeople are influenced by the social ties that link them to the marketplace. Even if a manager or broker establishes a strong ethical culture inside the company, an employee or agent may interact with someone in their outside network that leads to unethical behavior. Salespeople and agents are particularly vulnerable since they are often geographically dispersed and with little direct supervision.

A principal challenge, then, for managers and brokers, is to extend beyond company boundaries in establishing ethics programs. This first requires identifying the set of actors that comprise the sales network and the various ties that connect them. Once this is accomplished, managers would likely need to partner with peers in other organizations in developing and enforcing ethics codes, ethics communication programs, and ethics controls. Managers may not be able to identify and remove every "bad apple." It is crucial then for managers to become sensitive to the role of social networks and to understand how connectivity within a sales environment may impact ethical decision making by members of the sales force.

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