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Title: Red Flags in Sales – Using Machine Learning to Identify Predictors of Salesperson Fraud.

Abstract:

When salespeople act noncompliantly (i.e., violate corporate rules or law), they endanger a company's reputation, relationships, and performance. Prior studies made substantial contributions to predicting salesperson misconduct, but typically consider a broader range of unethical behavior and focus on selected, specific predictors at a time. Only few studies conceptualize warning signs (i.e., red flags) for salespeople's true compliance violations. And given the difficulty to collect objective data on noncompliance, evidence is heavily based on survey and experimental data. In this study, the authors use an empirics-first approach and leverage big data and machine learning to develop a consolidated, concise account of salespeople's red flags for noncompliant behavior. They gather multi-source secondary data on 1,082 salespeople (316 salespeople in a main and 766 salespeople in a validation sample) from a major insurance company which objectively tracked salespeople's noncompliant behavior. Results from analyzing 27 potential predictors reveal that salespeople's (1) performance level, (2) relationship building orientation, and (3) the interplay of the previous constitute key red flags for salespeople's noncompliant behavior. Importantly, machine learning reveals the previously unidentified influence of salespeople's relationship building orientation on noncompliant behavior. By returning to established literature and theory, the authors identify important mechanisms underlying these findings.