

Impact of Compensation Plans on Salesforce Motivation

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Abstract

Salesforce motivation is one of the most important factors affecting the success of sales organizations. It has been found out that among various organizational factors, compensation plan used by the company has an important bearing on salesforce motivation. Various studies have analyzed the impact of compensation plans on salesforce motivation but the findings are inconsistent. As salesforce motivation is important for organizations in the competitive environment, it becomes important to clarify the inconsistencies in findings. The objective of this study is two-fold. First, it provides a review of studies analyzing the impact of compensation plans on salesforce motivation. Second, it suggests ways for increasing salesforce motivation. The review of studies shows the superiority of salary based compensation plans in influencing intrinsic motivation positively. Implications and future research directions are also suggested.

Keywords: *Salesforce motivation, compensation plans, salary, commission, incentives*

Introduction

In sales job, sales people have to deal with a lot of pressure. Making the sale is not an easy task. Salespeople spend a lot of time on calling customers and travelling. They feel detached from their companies as mostly they are engaged in off office duties and disconnected from any kind of support from their peers. Salespeople need more motivation as compared to other jobs (Uduji, 2013) and compensation is a prime factor for their motivation. Designing compensation plans for salesforce is important for motivating employees' performance and ensuring long term profitability of the company (Coughlan and Sen, 1989). There are certain industries like pharmaceuticals, retail and business-to-business organizations which rely excessively on personal selling skill of the sales person. In such industries, compensation plays relatively more important role for sustaining

salesforce motivation. Research shows that the salary given to employees of the sales organizations forms the largest component of selling budget for which the management is concerned about the design of compensation plans and return on such expenditures (Brown, et al., 2005). The type and amount of compensation given by the company determines not only the quality of salespeople who can be hired, it also creates motivation among them to achieve company's targets .

Research also shows that the management prefers to offer fixed salary when monitoring salespeople's efforts is difficult and costly. When the management can monitor efforts of salespeople, output based compensation or commission plans are structured.

The paper is organized in the following way: Firstly it compiles definition of different types of compensation plans considered for sales persons; secondly it reviews important studies on the relationship between compensation plans and salesforce motivation. Finally conclusion are arrived at from findings of researches reviewed and implications are drawn.

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Types of compensation plans

Three major types of compensation plans in general adopted by organizations are as follows:

Straight Salary: Straight salary compensation is adopted by the firm when it expects salespeople to focus on long term objectives and when it is difficult to measure the impact of the efforts of salespeople on results achieved. It is used in industries where the selling process is complex, team effort is involved (Basu et al., 1985) and salespeople are averse to risks.

Straight Commission: Straight commission is given to salespeople based on their performance in terms of sales volume and profitability. This type of compensation is used in those industries having a direct relation between financial rewards and sales performance and having focus on short term goals. Commissions motivate salespeople to put in more effort to earn more incentives.

One of the major disadvantages of using commissions is that it discourages salespeople to take on those activities which are not linked only to commissions even though these activities are very important for organizational effectiveness. So salespeople who are paid commissions perform low on non-selling activities. This kind of compensation plans are preferred by salespeople who are not averse to risks.

Combination Plans: Literature over years has indicated that combination plans are one of the most common types of salesforce compensation plan. Combination plans consist of a base salary and some incentives in the form of commissions or bonuses. Salary provides a sense of security to salespeople and commissions provide motivation to generate sales. One of the major problems in administering these plans is deciding on the proportion of salary and incentives (Basu et al., 1985).

Compensation and salesforce motivation

Compensation is the most important factor influencing motivation of the salesforce. According to Walker et al. (1977), the most important predictors of salesforce motivation in the marketing and sales management literature are (1) the aptitude or ability of the salesman, (2) financial compensation and incentives, (3) psychological incentives, and (4) organizational and managerial factors.

There are two assumptions relating to the impact of compensation on salesforce motivation, (1) monetary rewards are the primary motivator of sales efforts and (2) the pay package is the basic motivator whereas other financial incentives such as bonuses and contests induce efforts over and above the basic plan (Walker et al., 1977).

Reviews of Literature

Research papers reviewed in for the article are selected from publications viz. Journal of Personal Selling and Sales Management, Journal of Marketing, Marketing Science, Journal of Marketing Research, European Journal of Business and Management, Industrial Marketing Management, Journal of Management and Marketing Research, Psychological Bulletin and Journal of Marketing Management.

Walker et al. (1977) identified a set of individual, interpersonal, organizational, and environmental variables that influenced a salesman's motivation and job performance. They concluded that compensation plan used by a firm was unrelated to the salesman's perceptions of performance for increase in nonfinancial rewards.

In the analysis of Ingram and Bellenger (1983), the straight salary had positive influence on a salesperson's feelings of accomplishment-outcome intrinsic motivation.

Sujan (1986) examined the smarter and harder

components of salesperson motivation in terms of attribution theory of motivation. Attribution theorists suggest that people are motivated not only to maximize their rewards but also to "attain a cognitive mastery of the causal structure of their environment" (Kelley 1967). His study based on 1283 sales person from 123 companies showed that those who blamed poor strategy of the company for the poor sales performance, were motivated to learn how to adopt selling from the customer's perspective.

Hastings et al. (1988) examined the role of travel incentives in motivating salespeople. The analysis of (n = 1,083) salespeople in a life insurance company of UK showed that salespeople valued the incentive travel more highly in comparison to other extrinsic motivators such as consumer goods. According to them, travel incentive was an extrinsic motivator as it was external to the job and workplace and is not a motivator to undertake actual job, on the other hand salespeople considered incentive to travel as intrinsic attributes such as sense of achievement and reward for efforts. Authors mentioned that in general, tangible rewards had a significant negative effect on intrinsic motivation for the interesting tasks. Verbal rewards (positive feedback) had a significant positive effect on intrinsic motivation.

Cravens et al. (1993) analyzed the impact of FMSC (Field Sales Management Control) and CC (Compensation Control) on intrinsic motivation in their study on 144 chief sales executives. They found that FMSC had a positive impact on intrinsic motivation and recognition motivation but not CC. Sales management had relied heavily on monetary rewards as a means of motivating salespeople. It was suggested that the use of large incentive plan would be a risky strategy.

Oliver and Anderson (1995) discussed the nature and incidence of hybrid philosophies in terms of their consequences and implications. In their study of

347 sales representatives in electronic components industry (14% were on full salary, 23% were on full commission; all others were on combination plans), they found that salespeople in hybrid offices reported the highest levels of intrinsic motivation.

Babakus et al. (1996) analyzed the impact of compensation on intrinsic motivation. In their study on 186 salespeople, they found non-significant paths between compensation and intrinsic motivation. They also found that compensation had an indirect impact on intrinsic motivation through perceived organizational support.

Deci, et al. (1999) examined the effects of extrinsic rewards on intrinsic motivation. Meta-analysis of 128 studies indicated that engagement-contingent, completion-contingent and performance-contingent rewards reduced intrinsic motivation. In general, tangible rewards had a significant negative effect on intrinsic motivation for interesting tasks. On the other hand, verbal rewards (positive feedback) had a significant positive effect on intrinsic motivation.

Pullins (2001) analyzed the importance of salesforce compensation in influencing the salesperson's intrinsic motivation. In this study, data collected on the basis of interview method of 19 sales managers having 4 salespeople working under each one, showed that sales managers believed that commissions on sales volume had a negative impact on salespeople's intrinsic motivation. Most of the motivation comes from intrinsic rewards and interesting and challenging nature of job.

Roman et al. (2005) explained the effective listening behaviour of salespeople in terms of factors such as method of compensation, ability to use customer knowledge, intrinsic motivation, gender, education and experience. Using data of 280 financial services salespeople in Spain, authors tested the hypothesis that the method of compensation influenced effective listening indirectly through intrinsic

motivation but did not find any significant impact on intrinsic motivation.

Brown et al. (2005) discussed methods as to how control systems, salesforce metrics, and compensation plans might be adopted to energize and direct salesperson motivation in a changing environment. Authors' review of selective studies revealed that clear performance feedback by management fostered motivation and effective self-regulation of goal-directed behavior. It suggested that in order to sustain motivation, salespeople had to be appropriately rewarded for their efforts.

DelVecchio and Wagner (2011) analysed the impact of variable pay on salesperson intrinsic motivation on the basis of sample of 280 industrial salespeople in southeastern region of the United States. They found out that pay plans with higher variable proportions could lead to higher levels of intrinsic motivation for the younger salespeople. For older salespeople, motivation was not spurred on higher proportions of incentive pay plans.

The analysis of Uduji (2013) on 178 salespeople in manufacturing firms of Nigeria revealed that salary compensation, commission incentive, bonus payment and fringe benefits were major factors that influenced salespersons motivations.

Table 1 (Appendix) shows the measurement of motivation that has been used by different studies reviewed above.

Ways to Increase Salesforce Motivation

Based on the review of studies undertaken above, following ways are suggested to improve salesforce motivation.

1. As the younger people want autonomy, incentive based compensation should be used to motivate them intrinsically.
2. A combination compensations are more effective

in increasing salesforce motivation.

3. Supervision and evaluation systems based on behaviours rather than outcomes have been found to increase intrinsic motivation (e.g. Cravens et al. 1993). Therefore behavior based salesforce control system should be used.
4. Incentive travel is an important motivational tool. Salespeople feel that getting a travel incentive give them 'sense of achievement' and 'sense of pride' and 'reward for efforts'. Travel incentives are widely used to motivate salespeople, particularly in the United States. Companies which have been offering travel incentives for many years argue that employees want destinations offering excitement and glamour. They feel it is important to be able to offer a destination which their employees would have been unlikely to have been able to visit themselves due to financial or planning constraints.
5. Self satisfaction from doing a good job is an important motivator. Therefore, the management should make salesperson realize that he is doing what is expected of him by appreciating him for the right work.
6. Two related and highly significant motivators are 'meet family responsibilities' and 'improve quality of lifestyle'. Determinants of satisfaction concerning these two factors are likely to include such things as spending time with the family and achieving certain standards of housing, subsistence, vacations and other material variables.
7. Provision of opportunities of earning more money is a powerful motivator.
8. Two closely related, common and important dissatisfiers are 'field support' and communications with sales support staff. Dissatisfaction arises when salesmen receive respectively, inadequate

advertising support, samples, or catalogues, or when they are unable to obtain clarification, advice or other forms of information from backup personnel. Inadequacies of these types cause dissatisfaction directly by sabotaging the salesman's performance, or they may adversely affect his pay, promotion, status, family and so on. The same arguments occur in the case of the training provided for salespeople, which is another widespread dissatisfier.

9. Shipley and Kiely (1986) found that the most important motivator was 'self-satisfaction from doing a good job' followed by 'satisfaction of customer needs' and 'positive acknowledgement'. Findings further revealed that the policy of the company was the most common dissatisfier followed by inadequate acknowledgement of effort and earnings, job responsibilities, field support and training.
10. The younger salespeople have a greater desire to be promoted; feel that if they work harder (i.e., spend more time contacting and servicing customers, preparing for sales calls, and making proposals and presentations), they will be more likely to exceed their sales quota; and feel that they will be promoted if they surpass their performance targets (Cron, Dubinsky and Michaels, 1988).
11. The salesman should be rewarded with many things other than pay, such as promotion, recognition, and feelings of accomplishment. The salesman value these rewards more highly than an increase in pay.
12. Salespeople have their own personal goals, problems, strengths, and weakness. Each salesperson may respond differently to a given motivating force. The company must develop a motivational mix that appeal to varying individual needs.

Conclusion

The review of studies revealed that (1) Straight salary and field sales management control have a positive impact on intrinsic motivation (2) Combination compensation plans have the strongest positive effect on intrinsic motivation (3) Compensation has an indirect impact on intrinsic motivation through perceived organizational support (4) Commissions based on sales volume have a negative impact on salespeople's intrinsic motivation (5) The method of compensation does not have an impact on intrinsic motivation. Previous research also found that the compensation system, measured with the percentage of fixed salary in the salesperson's pay package, was not related to the intrinsic motivation of salespeople (Cravens et al. 1993; Oliver and Anderson 1994) (6) Pay plans with higher variable proportions can lead to higher levels of intrinsic motivation for the younger salespeople but not for the older salespeople (7) Bonus payment, fringe benefits, recognition awards for outstanding performance, opportunity for promotion affect salespersons motivation (8) The salespeople considered incentive travel to be containing intrinsic attributes, such as sense of achievement and reward for efforts.

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Appendix

Table 1: Measurement of Motivation

Study	Construct	Measurement
Walker, Churchill and Ford (1977)	Motivation	Review based article
Ingram and Bellenger (1983)	Reward valence	Measured on the scale previously used by Churchill, Ford, and Walker (1979)
Sujan Harish (1986)	Motivation developed through Knowledge and information of the segment of the market	Information was collected through structured questionnaire
Hastings, Kiely and Watkins (1988)	Travel allowance as The Motivating factor	Sample size = 1,083
Cravens, Ingram, LaForge and Young (1993)	Intrinsic and recognition motivation	Based on Tyagi (1985)
Oliver and Anderson (1995)	Motivation	-
Babakus, Cravens, Johnston and Moncrief (1996)	Intrinsic motivation	Measured using four items scale developed by Lucas et al (1987)
Deci, Ryan and Koestner (1999)	Intrinsic motivation	Meta analysis
Pullins (2001) 412	Intrinsic motivation	-
Roman, Ruiz and Munera (2005)	Intrinsic motivation	Measured using five items from the scale developed by Spiro and Weitz (1990)
Brown, Evans, Mantrala, and Challagalla (2005)	salesperson motivation, control systems, and compensation) in light of the evolving selling environment	Review based article diverse research domains
DelVecchio and Wagner (2011)	Intrinsic motivation	Measured using a five items scale adapted from Oliver and Anderson (1994)
Uduji (2013)	links between performance and rewards and between effort and performance	descriptive and inferential approaches. Simple tables, charts and table of means were used as descriptive tools. For hypothesis testing, anova, t-test and correlation analysis were used to judge the significance of the result obtained. Principle component (pc) extraction model was used in the multiple-factor