

## THEORETICAL CONCLAVE: ARE SALES VISIONARIES SHAPING TOMORROW'S SALES LANDSCAPE?

Chee How Liao

College of Business, Victoria University, Melbourne, Australia

**Email:** chee.liao@live.vu.edu.au

### Abstract

This article delves into an analysis of motivation theories within the context of personal selling, exploring their implications for the development and optimization of salesperson compensation plans. The initial section reviews prominent motivation theories, offering insights into their principles and applications. Subsequently, the article transitions to a discussion on the practical utilization of these theories in the design and implementation of compensation structures for sales professionals. By examining the intersection of motivation theories and salesperson compensation, this article aims to contribute valuable perspectives to the ongoing discourse in sales management and organizational behavior. The findings presented herein offer a nuanced understanding of how motivational factors can be strategically harnessed to enhance sales performance and align with broader organizational objectives.

### Keywords

Sales Compensation, Motivation Theories, Career Stages, Culture

### Introduction

The importance of sales compensation plans is widely recognized but there are many questions as to what type of compensation plan is effective and to what extent (Bartol 1999). Compensation plans typically include salary, commissions, incentives, promotion, recognition and rewards, whether physical or verbal. Lopex et. al. (2006) agrees that it is critical in motivating and influencing salespeople. Business practices acknowledge the role of financial incentives in motivating their staff and this can be seen in most organizations today (Darmon 1987). However, designing an optimal compensation plan can be challenging and complicated as an organization must clearly specify a few major variables thus, this raises the research questions: *1) What are the determinants of a sales compensation plan? 2) How would the plan contribute to improve salespeople's job performance?*

This paper begins with examining various motivation theories in personal selling, followed by an exploration of how these theories are applied to support salesperson compensation plans.

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## Literature Review

There are many theories on motivation in the context of personal selling. For example, Maslow's Hierarchy of Needs, Herzberg's Motivator – Hygiene Theory and Vroom, Porter and Lawler's Expectancy Theory (Winer and Schiff 1980). Nevertheless, there have been many opinions as to which sales compensation plan is the most valuable. According to Expectancy Theory, where productivity has been seen as a path to valued goals (Huczynski and Buchanan 1991), it suggests that a salesperson would be motivated by a compensation plan that involves monetary gains. On the other hand, Maslow's theory of needs dismisses this idea and suggests that financial compensations are usually associated with lower order needs which are the 'physiological' and 'security' needs and once a salesperson has had these needs satisfied, they would then move up the hierarchical ladder of needs. A new set of higher order needs emerges, such as 'power' and 'achievement', and 'self fulfillment' which with further increase of pay would not have a motivating effect (Winer and Schiff 1980). Then there is the Herzberg theory that points out that compensation plans that involves and recognizes achievement, recognition, advancement and growth are motivators and monetary plans that are perceived as adequate would only remove dissatisfaction and would not serve as a motivation.

Theoretically, a salesperson should be rewarded for their effort i.e. a unit of pay for a unit of effort. However, it is difficult to measure and monitor effort, let alone compensate based on effort (Basu et al 1985). Hence, most sales compensation plans are built on Agency Theory as a guide (Bartol 1999) which derives optimal contracts between two parties, the principal (i.e the firm) and the agent (i.e., salesperson) where the principal relies on the agent to act on the firms' behalf but cannot access the agent's effort due to stochastic nature of the environment (Coughlan and Sen 1989). Some limitations to this theory are that it could result in the lack of effort from the salesperson as and when they have generated enough output (i.e. sales) deemed necessary. To reduce Agency problems, principals must design two (2) contracting schemes that helps align interests of agents more closely with the interest of principals which are behavior-oriented contracts and outcome-oriented contracts. For behavior-oriented contracts to work, the firm must be able to communicate effectively the connection between the desired behavior of a salesperson and their desired outcomes. This, however, requires a good monitoring system. On the other hand, outcomes-oriented contracts focus only on the desired outcomes of the firm. This exposes salespeople to greater risks and uncertainties and "the need to balance greater risk with greater rewards" is a stand that is particularly prevalent in this theory (Bartol 1999). Generally, Agency Theory suggests that when it is possible to identify the desired behaviors of a salesperson and monitor them at little cost, salary should be the base compensation plan. However, if these conditions are not met, structuring the compensation to involve outcomes would be advisable.

A study by Ho, Lee and Wu (2009), Economic Theory argues that performance-based compensations increase employees' incentives to exert individual effort from their end. This means that performance-based compensations are more likely to motivate more than a non-performance-based plan. In the past, study covered various compensation schemes and examined how changes to a performance-sensitive incentive have induced salesperson's performance (Ho, Lee and Wu 2009). This theory, however, overlooks the need to consider behavior contracts of an employee but rather just focuses on the outcome-oriented contracts where performance is measured as an output. Goal – Oriented Theory on the other hand emphasizes that only specific challenging goals lead to high performance when individuals are committed to them (Brown et. al. 2005). Therefore,

following this theory, it would be essential for a sales manager to determine the individual goals of his or her sales force when contemplating on a right compensation plan.

Furthermore, there is also the consideration that some salesperson could prefer intrinsic rewards and some extrinsic rewards. The salary based-plan would be effective when motivating the intrinsic reward-oriented salespeople and commission-based plan would work for the extrinsic reward oriented in the same context. This goes on to say that one must consider the individual salesperson and his or her values before designing an optimal compensation plan (Lee 1998).

Culture also plays a part as different countries and cultures have different values and it is naive to assume that everyone behaves the same. Traditionally, compensation has been designed based on the assumption that salesperson effort is one-dimensional, which is the “single effort” assumption. However, in the environment today, selling is clearly multidimensional as getting a sale would involve contributions from various people from various departments. (Erevelles, Dutta & Galantine 2004). Thus, is it still fair to compensate a salesperson’s outcome performance regardless as to whether other individuals have played any part in it.

In addition, compensation plans, if designed carefully, would not only determine the level of motivation and performance of individual employees but also the organization’s performance where it can influence recruitment and retention of staff. This includes the type of salespeople the compensation plan would appeal to, for example a performance-based plan would attract higher performing salespeople. A manager can never neglect the role of compensation plans to whether an employee stays or leaves (Ho, Lee and Wu 2009). Thus, a thoughtful compensation plan should consider the arguments put forth by the Agency and Economic theories while considering many other variables such as the values of the salesperson, type of skills he or she has, at which point of career stage they are in, the culture influences and the salesperson skills (Miao, Lund and Evans 2009). The manager must be sensitive to know what type of compensation plans to implement that would suit his or her target audience and to be flexible enough to evolve with time.

The agency theory, as mentioned by Bartol (1999), is the relationship between the principal, who delegates the work to the agent, who performs the work. It can be seen as a relationship between owners of the company and the managers, and the managers and the sales personal.

Agency theory is a crucial element to consider while compensating salesperson because it signifies the aligning of the interest of the principals (sales managers) to the interest of the salespeople (agents). This is important because compensation should be seen as a motivational aspect, and this can only be achieved if the interest of both parties is coherent. Hence, if the interests of the sales managers are to reach the objectives of the company, it is also in the interest of the salespeople.

Compensating a work force does not necessarily have to be in monetary value (or could). Ultimately, compensating a work force can be seen in many angles and aspects. Robbins (2005) postulates that motivation proposes individuals’ behavior is expected to lead to desired outcomes. Hence, this is where motivation, the most crucial and powerful word made to express a sales workforce.

Besides, sales managers should and must possess strong leadership skills to move their team towards the organization’s objectives. Sales managers who do not lead, will not be referred to as a role model and will ultimately be unable to empower his or her workforce.

To achieve this, the sales manager must identify the category the salespeople are in. This theory is highlighted by Miao, Lund and Evans (2009) that managing salespeople, one must address them in different career stages, as motivational ideology changes as the tenure of the salespeople change.

### *Conclusion*

By referring to its research objective of personal selling's motivation on sales compensation, this paper concluded that a compensation plan is subjective. Investigations displayed that many realms of thought and consideration need to be considered before the perfect plan is determined. This multiple prong strategy needs to investigate many aspects and should be catered for on a case-to-case basis. It was found that the tenure of the salesperson is important as different stages of the tenure yield different expectations and different areas of motivation. Hence, an effective compensation plan needs proper planning to make it a success. At the end of the day, all that is intended for the salesperson to be in par with the company's objectives. Ultimately, the goal is to align the salesperson with the company's objectives.

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