

The Emerging Influence of Compensation Plan Choice on Salesperson Organizational Identification and Perceived Organizational Support

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Many issues involving salesperson compensation continue to challenge researchers and managers. Drawing upon recent practitioner trends and research, this paper examines the potential impact of allowing salespeople certain choices in their control and compensation systems. Two methods are employed to answer a series of research questions. First, qualitative interviews are conducted with salespeople, sales managers, and executives to identify emerging factors such as compensation plan choice and other constructs that might be impacted by them. Second, a survey of business-to-business salespeople is employed to test the direct effect of salesperson compensation plan choice on salespeople's level of organizational identification and perceived organizational support.

A pressing issue for marketing and sales decision makers is that of compensation (Rouzies, Coughlan, Anderson, and Iacobucci 2009). Rouzies et. al (2009) recently used a sample of more than 14,000 business-to-business salespeople to investigate sales compensation and the critical challenge of rewarding better efforts and higher ability in the face of uncertainties between the salesperson's inputs and customer driven outputs. Results suggest that an optimal compensation plan may not be feasible and that future research should examine other potential variables in order to provide a more complete picture of the complex phenomena of compensation (Rouzies et. al 2009). This paper attempts to build upon the work of Rouzies et al. (2009) as to how best to use fixed and variable compensation to ultimately meet important sales goals.

Rouzies et al (2009) studies compensation in five European companies and this paper attempts to look at this issue within the United States. In order to provide the most managerially relevant findings possible, I start with qualitative interviews to look for emerging insights into sales compensation. The following section describes thematically the results of the nineteen structured interviews with telecommunications salespeople, managers, and executives. This discussion of the results of the interviews is organized around one of the central themes of the interviews which involve a variable that has been largely ignored in sales control research, salesperson compensation plan choice.

The ranges of the sample of interview participants included the following characteristics. Table 3 provides a complete listing of interview participant characteristics.

1. Age – 25 to 61
2. Gender – male and female
3. Company Tenure – 2 years to 21 years
4. Industry Tenure – 4 years to 34 years

Initially the sampling frame consisted of wholesale business-to-business telecommunications organizations headquartered in the Midwestern United States. This sampling frame was later expanded to include additional wholesale carriers headquartered in the Eastern and Western United States who provide service throughout the world as well as Competitive Local Exchange Carriers (CLEC) who offer services to generally small and midsize companies. Initially, phone interviews were conducted with sales executives from seven different telecommunications companies located throughout the U.S. The telecom companies selected ranged in size from large international carriers who serve Fortune 500 customers to small CLECs who sell bandwidth to local television stations and restaurant chains. At the completion of each of the interviews I requested permission and contact information for at least one salesperson and one sales manager. Some telecommunications executives provided information for more than one salesperson and/or sales manager. No preference was given for the type of salesperson (e.g., national account managers, wholesale, government, etc.). The time duration of each interview was approximately 30 minutes. Table 4 provides a listing of the questions asked during each interview.

Salesperson Compensation Plan Choice

The idea of salesperson compensation choice was a frequently mentioned topic in the interviews. A 38-year old salesperson of a fast-growing, regional telecommunications provider spent a great deal of the interview time discussing salesperson compensation plan choice.

“We have one set plan here for all our salespeople that is very heavily weighted to commissions making for far more variability in my paycheck than I would like. I guess that’s easier for them to administer, but I know other companies are offering choices and it seems like a great way to me to please everyone. With choice you have more flexibility in how you want to be compensated, and I can tell you for a person like me without any choice in the matter, it is kind of disheartening and makes me a little jealous of my colleagues at other companies.” (#9, M)

The salesperson noted that several former co-workers of his were now at companies such as Xerox that offer salesperson compensation plan choice and what a positive impact that choice had on his friend’s feelings directed toward the organization.

Interestingly, a 35-year old salesperson from a large carrier with customers throughout the world made the following complaint about her company’s lack of compensation plan choice.

“I think my base salary is very fair, but it is very frustrating to me that so little of our total compensation comes from commissions... Most of the people I work with think the same way. A high base salary is great, but I wish we would have some say. I am very confident in my ability to sell and wish more of my compensation was reflective of the work that I am putting in...I don’t think the majority of this company’s salespeople work as hard as me, but you won’t see much difference in our compensation” (#12,F)

She came back to the point of working harder than other salespeople and yet not seeing the rewards several times. She noted that she had a growing lack of trust in her organization and questioned how much they truly want her to succeed.

Finally, a 39-year old salesperson at a medium sized, national wholesale and retail telecommunications provider talked about how much she likes the compensation plan choice her company offered and how it played a role in her staying with the company.

“For several years the market just stunk. I went from literally not being able to call on a bad customer, to not being able to find a good one... There’s no doubt having some choice in my pay plan was a huge part of me still being here. I felt like the company understood that there were ups and downs outside of my control and that I am a valuable

asset who still deserved to be paid well...I went from having a plan that was largely commission based, to one that was more heavily weighted in a base salary, back to one that is more balanced now that the market has improved...Getting paid based on a plan that I felt was best for me and certainly reduced the tension I felt personally and increased my effort and focus. I am very pleased with the choices I have had in my seven years with_____ and the pay choices are a big reason I am still here and happy.” (#11, F)

This interview participant clearly appreciated the compensation plan choice and gave several examples of how that choice ultimately increased her performance.

Sales managers and executives also had differing thoughts on the subject of salesperson compensation choice. A 43-year old sales vice president at a fast-growing regional telecommunications provider seemed to favor the trend even though he had never participated directly in such a plan during his career as a salesperson.

“When I started twenty two years ago there wasn’t much choice. You sold or you didn’t keep your job...I love the idea of letting salespeople have some choice in how they are compensated. It gives a young person who is hungry for more money and a nice car the chance to have higher commission limits which encourages them to work harder which is good for our company. It also gives some of our more seasoned people the option to have more steady pay which allows us to keep some really good folks later on in their careers...I think choice helps the salespeople to feel empowered...The only thing we are trying to work through before offering some type of comp choice here is how to manage it.” (#4, M)

A 49-year-old sales manager from a large next generation carrier, who had risen from salesperson to management at the same company, also seemed very enthusiastic about salesperson compensation choice.

“It’s great for managers. Before we offered any choice, I bet 95% of people I worked with complained about the comp plan. People blamed it for why they left the company and questioned how it was really fairly rewarding them for their effort...As a manager, I don’t see near the issues now. If people don’t like their pay breakdown, they have the choice to modify it each year. If they don’t like what they see, they are a lot more likely to blame themselves as opposed to the company or the comp plan.” (#14, M)

Both of these interview participants noted the increase in the level of their salespeople’s organizational identification, and that they believed it to be directly attributable to salesperson compensation plan choice. Interview participant #14 also noted that his salespeople believe he and the organization are more supportive of them because of their choice in the compensation plan.

Statements like these regarding the positives and negatives of salesperson compensation plan choice among salespeople and managers present an important finding, that is, different perspectives do exist within and across firms in whether and also to what extent salesperson compensation plan choice should exist. It also appears from the qualitative interviews that two important constructs, perceived organizational support and organizational identification, appear to be influenced in some way by compensation plan choice.

From this dialogue it can be concluded that certain compensation characteristics such as salesperson compensation choice seem to have an effect on the subjective judgment salespeople have of their employer. To further advance this finding, a literature review and hypotheses testing is presented dealing with the potential impact of salesperson compensation plan choice.

Salesperson Compensation Choice Literature Review

The issue of salesperson compensation choice has not been examined extensively in the academic literature. Trade journals have recognized this trend and asked questions including “how often do your salespeople like to receive their commissions - monthly or quarterly?” or “what puts them into productivity overdrive -- lots of small rewards for small-step gains or a big payout for a big kill,”(Neuborne 2003). Trade magazines have also recently noted that choices are becoming the hallmark of an evolved and effective compensation system (Neuborne 2003).

The operational definition of choice is the freedom of selecting an alternative from a choice set instead of being assigned a given alternative from the same choice set by an external agent (i.e., the organization or employer) (Chang 2006). One’s freedom to choose from among alternatives rather than being assigned an alternative has been found to be positively associated with individual well-being in studies in both psychology (Langer and Rodin 1976; Mills and Krantz 1979; Wortman and Brehm 1975) and consumer behavior (Botti 2004; Cranage and Sujan 2004; Hui and Bateson 1991). Research also suggests that the mere perception of a person having choice can have a positive impact on his/her satisfaction with the outcomes (Botti and Iyengar 2004; Chang 2006).

The idea of sales compensation plan choice has received attention in the sales trade press and by practitioners, but there has been a lack of academic research examining it and its relationship with formal sales management controls. As the number of companies, large and small, that offer some type of compensation plan choice increases, research must begin to examine the role this choice has on the relationships between sales controls and other important constructs such as perceived organizational support and organizational identification

The term salesperson compensation plan choice has been operationally defined as the freedom of selecting from a choice compensation set instead of being assigned a given alternative by the organization (Botti 2002). One’s freedom to choose from among alternatives rather than being assigned an alternative has been found to be positively associated with individual well being in studies in both psychology and consumer behavior (Chang 2006; Botti 2004). Choice is often associated with a sense of mastery (Chang 2006) and personal responsibility (Langer and Rodin 1976).

Hypotheses

Sales managers and researchers have recently focused increased attention at their salespeople’s perceived level of organizations support. Following Piercy et al. (2006), I define perceived organizational support as the general belief employees form concerning the organizations commitment to them. Research suggests that when people perceive they can take responsibility for causing outcomes instead of attributing them to external factors they feel in control (Langer 1983). Research suggests that perceived organizational support displays positive relationships with favorable training experiences (Masterson, Lewis, Goldman and Taylor 2000); supportive communication with immediate supervisors and top management (Allen 1995); and clear guidelines to appropriate work behavior and job demands (Hutchinson 1997).

Salespeople with choice in their compensation plan can examine what is most important to them and make a decision that is most supportive of their personal goals. For example, if salespeople desire more stable income with less variability, they can choose a plan with a larger fixed salary component. This sends salespeople a signal that the organization’s use of process control is supportive of their specific wants and needs. In much the same way, salespeople who want to work under a more output control system where they have less supervisor monitoring, a lower base salary component, and the potential to have a greater incentive payout feel that the organization’s use of output control is supportive of their specific wants and needs. If salespeople choose to work under a more output control system then the organization’s use of output control will provide a signal that the organization is supportive of their judgment and career. Therefore, I posit that:

H1: Higher levels of salesperson compensation plan choice are positively related to salesperson perceived organizational support.

Bhattacharya and Sen (2003) drew on social identity theory to predict enhanced identification when an organization is perceived to be attractive, distinctive, and salient. Following from the work of Ashforth and Mael (1989), I define organizational identification as a state of psychological congruence between salesperson and organizational values and controls. It is challenging for organizations to know what control characteristics are attractive and distinctive since employee interests are context dependent making it difficult for organizations to have full knowledge of the incentive system that will be most attractive (Kaplan and Henderson 2005). Salesperson compensation plan choice is beneficial since it helps organizations devise a control system that results in salespeople's perception of congruence between personal and company identities which provides individuals with self-definition and allows them to fulfill affiliation goals (Bhattacharya et al. 1995). I suggest that when organizations offer salespeople choice it sends a signal to salespeople that the organization values their goals within their personal context. For example, one of the salespeople interviewed defined himself as a "hunter" and noted that he identified with an organization that demands and rewards production. In this example, the firm's use of output controls has a positive effect on organizational identification because of the psychological congruence of the salesperson and organizations use of output control. I suggest that this signal induces positive feelings in salespeople which reflect positively on their self-evaluation, which in turn provides a reaffirmation of the identity related to the organization (Callero 1985; Hoetler 1983). Therefore, I posit that:

H2: Higher levels of salesperson compensation plan choice are positively related to salesperson organizational identification.

Sample and Data Acquisition

The sample population for this study is business-to-business salespeople in the telecommunications industry. Telecommunication companies were selected from lists provided by an industry trade association (COMPTEL). I contacted each company either in person or via phone and obtained approval from each company's management. In addition, each sales manager was pre-qualified via phone. A roster of all the business-to-business salespeople was requested. To assist the sales manager contacts in each organization, I provided a sample memo/email that was sent out to all the salespeople requesting their participation in the study.

A total of 18 organizations committed to participating in the study. These organizations and sales forces are all in telecommunications, but sell over 60 different products to a wide variety of businesses. The final salesperson sample in this study was consisted of 314 salespeople. Only salespeople who had been with their organization a minimum of three months were eligible to participate.

Measures

Perceived organizational support is operationalized using a scale adapted from Piercy et al. (2006) that has been used in sales and marketing research. The 9-item scale had a reported $\alpha = .95$. The perceived organizational support scale was used with only minor adaptation to reflect the target population. Each of the individual items for these measures is shown in the appendix. The organizational identification measure is a visual scale that consists of two sets of circles, one representing the organization's identity and one the individual's identity. These circles gradually overlap until there is complete overlap (only one circle). On this visual scale, respondents indicated which of eight levels of overlap best represents the level of overlap between their identity and the identity of their organization. This measure has been found to be reliable in previous marketing research (Brown et al. 2005).

Salesperson compensation plan choice was measured using an adapted three-item scale to capture the degree of compensation plan choice perceived by the salesperson. The salesperson compensation plan choice scale's items, coefficient alpha, and item-to-total correlations from the current study are presented in Table 1. The relatively high coefficient alpha and item-to-total correlations indicate the reliability of the adapted scale.

Hypotheses Testing

The first regression model tests the effects of salesperson compensation plan choice on salespeople's level of perceived organizational support. The overall regression model is significant ($F=157.06$; $p<.05$) with an R-square indicating that 33.3% of the variance in the relationship is explained by the model. The results indicate that H1 is supported. When the model includes the control variables of gender, time with supervisor, time in industry, time with firm, education and total pay, there is little change in the coefficients and significance levels of the model variables and the coefficients of the control variables in the regression model are not significant with the exception of education.

This hypothesis proposes that higher levels of salesperson compensation plan choice are positively related with salespeople's organizational identification. The overall regression model is significant ($F=47.929$; $p<.05$) with an R-square indicating that 13.7% of the variance in the relationship is explained by the model. The results indicate that H2 is supported. When the model includes the control variables mentioned earlier, there is little change in the coefficients and significance levels of the model variables and the coefficients of the control variables in the regression model are not significant with the exception of gender.

Theoretical Implications

This study introduces an adapted choice scale to measure the level of salespeople's compensation plan choice. This emerging trend in the area of sales management had not been tested thoroughly in the academic sales and marketing literature and the use of this measure can assist future research into this construct.

The study shows that compensation plan choice appears to have significant effects on two of the most critical variables being examined by sales researchers, perceived organizational support and organizational identification. The introduction of a salesperson compensation plan choice also provides another tool as researchers attempt to clear up many of the inconsistent findings in the sales control literature. Further refinement and examination of the compensation plan choice scale is necessary, and this study provides researchers several interesting findings to develop through further research.

Managerial Implications

The qualitative interviews in this study suggest that compensation plan choice is increasingly important to salespeople, and the study indicates there appears to be a significant positive relationship between compensation plan choice and perceived organizational support and organizational identification. From a managerial perspective, the present study provides guidance for sales managers looking to increase the organizational identification or the perception of organizational support of their salespeople. The study suggests that higher levels compensation plan choice are positively related to higher levels of organizational identification and perceived organizational support. Managers should be aware of the impact that compensation plan choice can have on salespeople, especially in an environment where increasing numbers of salespeople work remotely and turnover is increasing and use compensation plan choice effectively to increase organizational identification and perceived organizational support among their sales force. Perhaps, managers should focus less on trying to design optimal compensation and control plans that meet the unique needs of their salespeople throughout the state, country, or globe and focus instead on creating manageable choices that salespeople can then choose based on their own personal circumstances and objectives.

Limitations and Future Research

First, this study is limited in its cross-sectional approach. The possibility for the reversal of some of the hypothesized relationships cannot be completely ruled out given the cross-sectional nature of the data. Future research should attempt to conduct a longitudinal study where the differences in relationships can be studied at various points in time providing greater support for causality.

The study's focus is also limited to one specific industry. While considerable variance exists within this group, I cannot completely rule out the possibility that results may differ across other industries. Future research should be directed to look at these relationships across various sectors of the economy.

Finally, as many sales forces take on an increasingly global presence, this study is limited as all respondents work and live within the continental United States. Future research should examine these relationships in a multi-national context. Distinct differences may exist between an international sample and the domestic sample used in this study, that when examined could provide guidance to managers of international sales forces.

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APPENDIX

TABLE 1
SALESPERSON COMPENSATION PLAN CHOICE SCALE:
COEFFICIENT ALPHAS AND ITEM-TO-TOTAL CORRELATIONS

Salesperson Comp Plan Choice: Coefficient alpha = .923	<u>Item-to-Total Correlation</u>
1. My organization allows me to have input on my final compensation plan.	.86
2. I had some choice over how my compensation plan was set-up.	.83
3. The efforts of my organization give me a sense of control over how my compensation plan will be administered.	.86

TABLE 2
PERCEIVED ORGANIZATIONAL SUPPORT SCALE:
COEFFICIENT ALPHAS AND ITEM-TO-TOTAL CORRELATIONS

Perceived Organizational Support: Coefficient alpha = .954	<u>Item-to-Total Correlation</u>
1. The organization values my contribution to its well being.	.79
2. The organization strongly considers my goals and values.	.86
3. Help is available from the organization when I have a problem.	.85
4. The organization cares about my well-being.	.86
5. The organization is willing to help me when I need a special favor.	.73
6. The organization cares about my general satisfaction at work.	.85
7. The organization cares about my opinions.	.87
8. The organization takes pride in my accomplishments at work.	.81
9. The organization tries to make my job as interesting as possible.	.71

TABLE 3
QUALITATIVE INTERVIEW PARTICIPANTS CHARACTERISTICS

Title	Age	Gender	Company Tenure	Industry Tenure
#1 (Sales VP)	44	Male	3 Years	17 Years
#2 (Sales VP)	61	Male	21 Years	34 Years
#3 (Sales Director)	39	Female	8 Years	14 Years
#4 (Sales VP)	43	Male	14 Years	20 Years
#5 (Salesperson)	34	Female	3 Years	9 Years
#6 (Sales Director)	51	Male	11 Years	23 Years
#7 (Salesperson)	30	Female	5 Years	5 Years
#8 (Sales Director)	38	Male	7 Years	15 Years
#9 (Salesperson)	38	Male	5 Years	12 Years
#10 (Sales Mgr.)	40	Female	4 Years	16 Years
#11 (Salesperson)	39	Female	7 Years	13 Years
#12 (Salesperson)	35	Female	3 Years	9 Years
#13 (Salesperson)	25	Male	2 Years	4 Years
#14 (Sales Mgr.)	49	Male	10 Years	23 Years
#15 (Salesperson)	29	Male	2 Years	4 Years
#16 (Salesperson)	32	Female	4 Years	5 Years
#17 (Salesperson)	35	Female	4 Years	6 Years
#18 (Sales Mgr.)	47	Male	3 Years	12 Years
#19 (Sales Mgr.)	44	Female	4 Years	19 Years

TABLE 4
QUALITATIVE INTERVIEW QUESTIONS

-
- Describe your company's sales control system?
 - What effect do you think sales control systems have on the success of your organization?
 - What do you like best about your company's sales control system?
 - What do you like least about your company's sales control system?
 - What changes would you like to see made to your company's sales control systems?
 - Are sales control systems more or less important today compared to when you started in this industry?
 - Does your company's sales control system impact sales performance? If so, in what way?
 - How often are salespeople in your company evaluated?
 - How often are salespeople in your company compensated?
 - Are there any changes you would make as to how salespeople are evaluated or compensated in your company?
 - Are there any emerging factors that have started to influence any part of your company's sales control strategy?