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Dimensions and contingent effects of variable compensation system changes☆

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ABSTRACT

Compensation systems are regarded as one of the best incentives to motivate salespeople. Organizations aim to align compensation incentives with organizational strategies in order to integrate top-level initiatives with ground-floor implementation, often requiring periodic adjustments to reflect fluctuating market conditions. What is not known, however, is to what extent variable compensation system changes (VCSCs) impact the attitudinal and performance outcomes of salespeople. Using a sample of 306 business-to-business salespeople, the authors study the conditional effects of VCSC. Specifically, the authors conceptualize a multi-dimensional assessment of VCSC – frequency, magnitude, and implementation speed – and investigate each dimension's effect on salesperson job satisfaction and performance, contingent upon two environmental conditions—technological turbulence and competitive intensity. Findings show a mixture of accentuating and attenuating effects on both outcomes, allowing future researchers to gain a better understanding of under which conditions VCSCs impact salesperson attitudes and performance.

1. Introduction

Business-to-business (B2B) salespeople are frontline implementers of organizational and marketing strategies. Academics and practitioners alike have long been interested in uncovering methods of aligning sales force strategies with proper compensation systems in order to drive desirable sales behaviors (Krafft, DeCarlo, Poujol, & Tanner, 2012; Zoltners, Sinha, & Zoltners, 2001). This process is essential to implementing broader organizational strategies, attaining sales targets, and ultimately, improving sales performance (Conlin, 2008). Thus, well-designed compensation systems, which induce high performance, warrant research attention given they are key methods of influencing salespeople (Bartol, 1999; Lopez, Hopkins, & Raymond, 2006).

As the selling environment is becoming increasingly complex and demanding, and the sales role and its task requirements are also rapidly changing, adaptive reward systems are requisite (Lopez et al., 2006; Raju & Srinivasan, 1996). Conlin (2008, p.50) indicates compensation systems must continuously evolve as organizations adjust their course of action in response to such changes; otherwise, "when your sales representatives are getting paid for this year's sales based on last year's corporate goals, chances are your company isn't going anywhere it wants to go." Sales managers are thus confronted with the realistic concern of how to best incentivize salespeople to achieve strategic objectives within this ever-changing selling environment (Küster & Canales, 2011; Pullins, 2001). The aim of this study is to capture a better understanding of the dimensions of change to salespeople's variable compensation (i.e., compensation that fluctuates, such as commission and bonuses) and how these compensation system changes interact with various environmental conditions to predict salesperson performance and attitudes.

Sales managers generally pursue multiple objectives when designing salesperson variable compensation systems. Beyond the ability to motivate and drive revenue (Brown, Evans, Mantrala, & Challagalla, 2005), a satisfied sales force is also a central objective (Darmon, 1982). The importance of the attitudinal reaction to change is reiterated in performance management frameworks, which indicate sales managers need to be concerned about how compensation systems influence performance, as well as retention and turnover patterns (Bartol, 1999). Raju and Srinivasan (1996) caution mangers to take these dual outcomes into consideration because increased performance can sometimes be diluted by excessive turnover. Thus, despite the stated importance of sales compensation systems and the increasing need to understand performance-based and attitudinal-based outcomes of changing a compensation plan, answers concerning the underlying effects of such changes remain uncertain within the extant literature.

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To help address this issue, this study conceptualizes multiple dimensions of variable compensation system change (VCSC) relevant to the sales force (frequency, magnitude, implementation speed) in order to understand desirable and undesirable influences on salesperson performance and job satisfaction. This effort will allow sales managers to understand the effect of the specific dimensional changes to their variable compensation system in order to better align plans with upstream organizational directives, as well as downstream salesperson outcomes. This study also includes the moderating influences of environmental conditions (technological turbulence, competitive intensity) in order to gauge if they accentuate or attenuate the VCSCs' effects on salesperson outcomes. This assessment will allow future researchers and managers to recognize environmental conditions that influence the efficacy of their decision to make variable compensation system adjustments in a manner that more effectively drives their performance-based and attitudinal-based objectives.

2. Literature review

2.1. Compensation systems

In order to motivate salespeople in an evolving selling environment to perform contextually appropriate selling behaviors, adaptations are often required to the compensation system (Brown et al., 2005; Canning & Berry, 1982; Sa Vinhas & Anderson, 2008). Sales managers are thus challenged with the practical concern of how to compensate salespeople to achieve changing objectives (Küster & Canales, 2011; Turnasella, 1994), whether or not to change the structure of how they compensate their salespeople (Rao & Turner, 1984), and if so, how often, to what extent, and how quickly. When handled properly, changes to compensation systems can be the most powerful strategic signal as to when salesperson behavioral changes are needed (Turnasella, 1994). However, the effects of fine tuning compensation systems may be a far-reaching mixture of benefits and consequences (Rao & Turner, 1984). Research indicates when compensation changes are made in a manner deemed unfair, the affective response is linked with turnover (Bartol, 1999; Dustin & Belasen, 2013). As summarized by Turnasella (1994, pp.22-23), "Leading change with compensation, however, is a little like moving mountains with dynamite. It beats the pick-and-shovel approach, but watch out for the effects!"

2.2. Dimensions of variable compensation change

The success of the compensation change process is dependent on multiple dimensions (Turnasella, 1994). The dimensions of the variable compensation change conceptualized in this manuscript are frequency, magnitude, and implementation speed. These dimensions are selected based on operationalizations in the extant literature which identify relevant dimensions of *change* as time-based (e.g., frequency, implementation speed) and content-based (e.g., magnitude) (see Huy, 2001). Time dimensions are further supported by literature, which notes change can be continuous or episodic, while the content dimension is further supported by indications that change can be incremental or radical (Plowman et al., 2007).

VCSC frequency refers to how often variable compensation changes occur. The result of frequent changes in variable compensation may be mixed. On the positive side, more frequent variable compensation changes can serve as a means of keeping extrinsic motivation at the top-of-mind for salespeople (Krafft et al., 2012) and help an organization stay current with environmental conditions. Frequency can also help improve salesperson clarity of what is expected of them (Behrman & Perreault, 1984). However, Zoltners, Prabhakant, and Lorimer (2012) argue incentives changed too frequently can be considered knee-jerk reactions and lose their effect.

VCSC magnitude refers to the scale of the variable compensation change. Changes in variable compensation systems may mirror the reality of the conditions they are attempting to reflect. Thus, aiming for small changes in order to reduce the salesperson's perceived degree of change may not have the desired impact. However, on the contrary, radical changes to the variable compensation system can be disruptive and lead to poor sales results, even if managed well. Thus, while changes of great magnitude may sometimes be necessary, mitigating their potential adverse effects on salesperson stress and withdrawal is critical (Hurley, 1998).

VCSC implementation speed refers to how quickly the variable compensation change is to take effect following its announcement. High VCSC implementation speed means variable compensation changes take effect more immediately (e.g., effective tomorrow), while low VCSC implementation speed means salespeople have more time to process the forthcoming change before the new plan takes effect (e.g., effective next quarter). Implementing change immediately can be beneficial given the need to align salesperson behaviors with organizational strategies as quickly as possible. Thus, implementing change quickly is imperative to survival (Turnasella, 1994). However, drawbacks are also ever present. For example, once a variable compensation change is made, salespeople may need to refine the skills that lend themselves to their newly desired actions and brush up on the knowledge needed to be conveyed in their modified approach; both take time to successfully accommodate.

3. Conceptual foundations

3.1. Motivation and expectancy theory

Compensation systems are widely recognized as a key driver of sales force motivation and are a necessity to incentivize the sales force to exert effort in the absence of perfect monitoring (Brown et al., 2005). Salespeople are highly responsive to financial incentives and their levels of effort fluctuate according to changes in the payment levels provided through the compensation system (Darmon, 1987). Thus, the theoretical frameworks of motivation and expectancy are particularly useful in supporting relationships resulting from the structure of the variable compensation system and its elements of change.

Expectancy theory is commonly discussed in research on sales force motivation and designing effective compensation systems (Brown et al., 2005; Flaherty & Pappas, 2002; Lopez et al., 2006). Expectancy theory indicates salespeople pursue actions that lead to valued rewards resulting from goal attainment (Vroom, 1964; Walker, Churchill, & Ford, 1977). Salespeople's motivation to expend effort on a given task will depend on (1) the likelihood that the induced effort will affect performance, (2) estimates regarding the extent to which performance will lead to a reward, and (3) the salesperson's valence for the rewards (Lopez et al., 2006; Walker et al., 1977). However, change via the compensation system influences expectations and instrumentalities within the salesperson's environment (Turnasella, 1994), not in a vacuum.

This study aims to test the effects of VCSCs under varying environmental conditions in order to test their motivational and expectancy effects on salesperson attitudinal responses (i.e., job satisfaction) and effort (i.e., performance). Specifically, with these three components of expectancy theory in place, the result of an organizational change to the variable compensation system is brought into question. While the frequency, magnitude, and implementation speed of the VCSCs will uniquely influence the salesperson's expectancy that the newly desired directed effort will result in performance and the extent to which that performance will lead to rewards, as well as the salesperson's capability to meet these new demands, the acceptance of the VCSCs will underlie these relationships. A factor that may specifically influence this degree of expectancy and acceptance is the interaction of the change dimensions with environmental conditions predicating their perceived necessity.

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