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The role of status and leadership style in sales contests: A natural field experiment

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ABSTRACT

This paper addresses the question whether status alone, as compared to a combined financial/status incentive, is strong enough to motivate team members taking part in a retail sales contest to sell more goods to customers. Using a two-phase natural field experiment, we studied the impact of a sales contest on actual sales growth in 102 discount stores. The first experimental phase included a financial/status reward and status-only condition; the second experimental phase included financial/status reward, status-only, and control conditions. Compared to the control condition, the status-only condition had a significant effect on sales volume. Store managers' leadership style, however, was found to have a moderating effect. Greater sales growth resulted in the financial/status reward condition when store managers had a transformational leadership style.

1. Introduction

Organizations need to motivate their employees to interact with customers, explore their needs, and sell solutions that fit these needs. In general, incentives and managers' leadership behavior can motivate employees to engage in such interactions with customers (e.g., Jaworski & Kohli, 1993). In this regard, researchers have proposed to bring competition inside the firm and let salespeople compete against each other by introducing sales contests (e.g., Kalra & Shi, 2001; Lim, Ahearne, & Ham, 2009). Yet, such contests need to be designed well to avoid undesirable side effects such as unethical sales behavior (e.g., Hampton, 1970; Li & Murphy, 2012). From a theoretical point of view, more recently sales contests have been investigated from a tournament theory perspective which argues that status in combination with a monetary incentive built into winning a contest (financial/status reward) has a great impact on participants' work efforts and sales performance (e.g., Lazear, 1997, p. 225). Others argue that, as it is the preference for status that drives performance (Heffetz & Frank, 2009), the financial reward component of sales contests might not be needed; status-seeking in and by itself might motivate salespeople to work harder as long as they attain status from gaining a specific position in a sales contest (hence called status-only reward). In this paper we investigate the effect of both a financial/status and a status reward promise during a team-level sales contest. Contests can be considered as specific situations that affect team-based performance (De Matteo, Eby, & Sundstrom, 1998); yet, studies that explore the effects of different rewards during a contest at the team level (team contest) are scarce.

In cooperation with the top management of a retail chain, the authors of this paper organized a large-scale field experiment to investigate this issue. As store managers display different leadership styles, we also studied how the leadership style of the store managers affected the incentives – store sales growth relationship, with the focus specifically on transformational and transactional leadership styles. Hypotheses were tested in the 102 retailing shops participating in this natural field experiment covering a total of 35 weeks, using weekly objective sales data.

2. Literature review: sales contests

Sales contests are (short-term) management tools to motivate salespeople to engage in extra efforts beyond the performance generated by their regular compensation schemes (Churchill, Ford, Walker, Johnston, & Tanner, 2000; Kalra & Shi, 2001; Murphy & Dacin, 1998). Compared to other employee compensation plans sales contests are different because in contests the reward is based on an employee's performance relative to others rather than on an employee's absolute output (Kalra & Shi, 2001). While in practice sales contests are frequently used in special incentive programs (the percentage of firms who use sales contests varies in different studies between 60 and 91%; Murphy & Sohi, 1995),

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theoretically sales contests are under-researched (see Kalra & Shi, 2001). However, Murphy and Dacin (1998) offer a model of salespersons' response to sales contests that distinguishes a number of contest design elements. They argue that in particular the goals (outcome versus process based), the competitive format (individual versus team), the number of winners, the awards used (money versus material goods versus non-material goods such as recognition), and the duration of the contest are important elements that allow one to distinguish sales contests from each other and lead to differential outcomes in terms of a salesperson's response (see also Murphy, Dacin, & Ford, 2004). Similar distinctions between different elements of reward systems can also be found in the organizational behavior literature. For instance, Bartol and Locke (2000) identify several factors of organizational reward systems that influence employees' motivation to perform the targeted behaviors. These factors include, among others, the perceived fairness of the rewards, the targets given to employees, or the quality of the performance evaluation. Specifically for sales contests, more recently scholars have explored the optimal number of winners and the optimal prize allocation theoretically (Kalra & Shi, 2001) and empirically (Lim et al., 2009). Regarding the role of awards, several studies have mentioned the importance of non-monetary incentives such as recognition in sales contests in comparison to monetary or other material incentives (e.g., Moncrief, Hart, & Robertson, 1988; Murphy & Sohi, 1995) or have explored salespeople preferences for different types of (material) awards (Murphy et al., 2004). To our knowledge, there is however no systematic empirical test of the effects of recognition-based versus financial reward/recognition-based contests. In what follows we therefore focus on the role of monetary and non-monetary awards in sales contests and test their effects on sales teams' performance in a field experiment.

More recent theoretical analyses of sales contests have particularly drawn on tournament theory (e.g., Garrett & Gopalakrishna, 2010; Kalra & Shi, 2001; Lim et al., 2009). Tournament theory has its origins in (labor) economics and was introduced about 30 years ago (Lazear & Rosen, 1981) to describe behaviors in case of reward structures based on relative ranking rather than absolute outcome levels. It has been applied successfully in a number of different disciplines and has proven its usefulness in explaining compensation structures in competitions and contests (see Connelly, Tihanyi, Crook, & Gangloff, 2014). In line with these analyses we discuss sales contests (structural competitions, e.g., Brown, Cron, & Slocum, 1998, or forced rankings, e.g., Krakel, 2008) from the perspective of tournament theory (e.g., Hart, Moncrief, & Parasuraman, 1989; Kalra & Shi, 2001; Lazear, 1997; Lazear & Rosen, 1981) and of status theory (Heffetz & Frank, 2009) as a further development of tournament theory. We deal with the essentials of these theories first. It should be noted that tournament and status theory refer to the effects of a contest on participants' behavior *during* the contest rather than the effects of the outcome of the contest (e.g., ranking) on future behavior. For the latter question a rich literature in organizational behavior/ psychology is available (e.g., Kluger & DeNisi, 1996).

2.1. Tournament theory

Tournament theory posits that the total prize money, usually distributed among a small number of winning slots, is fixed in advance and is independent of past performance. The relative performance or ranking of the outcomes rather than absolute performance determines the winners; in other words, only the best performers win a prize (positional outcome) no matter how good (or bad) those lower in ranking perform. When a firm puts on a tournament (e.g., a sales contest), players in a sense have to run a 'rat race.' Fundamental in tournament theory is the requisite that participants choose (deliberate reasoning) to participate and put extra effort in the contest depending on the prize structure. First, employees evaluate whether the extra effort needed to attain prize money (or a winning slot) is worth it despite the apparent uncertainties; that is, only a few people can win a scarce prize, and it will take sustained, continual effort to beat others similarly motivated to win the competition. Second, differences in prize structure matter a great deal: for instance, the spread—size differences between the winning prizes—stimulates employees to devote greater attention to the contest (Lazear, 1997, p. 226), but fewer winning slots (e.g., including those that always will win) are known to lower employee motivation (e.g., Lim et al., 2009). Tournament theory also perceives other factors to be included in the utility curve. Participants might regret losing rank or value, and thus avoid being placed in a losing position by their competitors (Krakel, 2008). Similarly, contestants might seek to improve status, which comes with their ranking in the firm, and will thus participate in the contest (Ederer & Patacconi, 2010; Oxoby, 2002). Hence we consider tournaments as combined financial/status reward systems. In general tournaments have been shown to outperform other incentive systems when contestants operate under similar conditions; tournaments filter out common shocks in performance by eliminating the impact of uncertainties common to all contestants (e.g., weather or business cycles) (Green & Stokey, 1983; Lazear & Rosen, 1981). Finally, specific risk factors press for a level playing field in tournaments. For example, contestants might engage in sabotage to obtain higher ranking (e.g., Lazear, 1997), and contestant heterogeneity can be demotivating (e.g., if contestants expect that the few winning spots will be personally out of reach, they might give up competing). Level playing fields also ensure that participants perceive the goal of winning the contest to be difficult, yet achievable, thus leading to high goal acceptance and high work efforts (goal-setting theory; e.g., Locke & Latham, 1990).

Tournament theory finds support in various settings, such as executive pay (Becker & Huselid, 1992; Eriksson, 1999). As long as the contest creates an environment in which people find the prizes or awards (financial and status) worth striving for in a sales contest (despite the intense competition), they will devote their own time and trouble and invest effort, which in turn benefits the firm.

2.2. Status theory

Status theory has its main roots in evolutionary anthropology (Barkow, 1975) and biology (Cheney & Seyfarth, 2007), and has been applied in economics (e.g., Heffetz & Frank, 2009), as well as psychology (Huberman, Loch, & Önçülur, 2004). Status theory emphasizes that people's desire for status in a group (e.g., an organization) emerges due to the hard-wired mental processes, involving hormonal processes as well as implicit cognitions (specifically, identities or self-referential cognitions), which emerge when people appraise how their own status compares to that of significant others (e.g., Heffetz & Frank, 2009). Status implies negative externalities: an increase in someone's relative status implies a decrease in the relative status of someone else. Position has a substantial effect on the hormonal processes of both losers and complementary winners. In the case of lost ranking, the person becomes aware of a negative or socially undesirable identity, which evokes feelings of low self-esteem and stimulates the production of cortisol that normally comes with social anxiety (e.g., Dickerson, Gruenewald, & Kemeny, 2004). Validation of a positive, socially desirable identity stimulates the production of testosterone, which makes people more assertive and competitive in a group and blunts them from negative social emotions (e.g., Carney & Mason, 2010). A person who achieves high status (e.g., a high ranking in a sales contest) validates positive stereotypical identities (e.g., 'I'm smarter than others') and suppresses negative ones (e.g., 'I'm less intelligent than others'); this self-enhancing process boosts self-esteem (Lamont & Molnar, 2002). Anything, whether essential or secondary to the job, might threaten or boost people's ranking (status) concerns and trigger positional "treadmill behaviors" (Huberman et al., 2004) or status games (Heffetz & Frank, 2009). Essential here is the idea that these hard-wired biological processes that accompany status gains evoke striving for status. This has led researchers

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