

BREAKING THE SALES FORCE INCENTIVE ADDICTION: A BALANCED APPROACH TO SALES FORCE EFFECTIVENESS

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Dating back more than a century, companies have used incentives such as commissions and bonuses to motivate and direct the activities of salespeople. Today, sales force incentives comprise a large portion of sales force pay (approximately 40 percent on average for U.S. companies), almost all of which is linked to each individual salesperson's short-term performance using metrics such as quarterly sales. Yet as selling becomes increasingly complex, motivating the right sales force behaviors using these traditional large short-term individual (LSTI) incentives becomes more challenging. Based on observation of various sales organizations, we suggest two propositions about the use of LSTI incentives in sales forces today. First, these incentives can create undesired consequences, including organizationally unproductive short-term focus among salespeople that leads to a counterproductive culture and hurts company performance. Second, other sales force effectiveness (SFE) drivers are frequently more powerful than incentives for setting the right tone for the sales force, affecting sales force behaviors, and enhancing performance—especially when products and markets are complex. These propositions suggest that sales leaders should break their addiction to sales force incentives and develop a more balanced approach to motivating and controlling sales force effort using other SFE drivers in addition to LSTI incentives. By organizing a research agenda around a holistic Sales Force System framework, researchers can provide insights on the appropriate role for incentives, thereby helping sales leaders create and maintain more effective sales organizations.

Since the earliest days of professional selling in the United States, companies have turned to incentives as a means of motivating and directing salespeople's behavior and controlling sales force costs. Today, almost all companies use some form of variable sales force compensation, including cash bonuses, commissions, trips, or other awards that are tied to the achievement of performance outcomes. In 2006, we estimated that U.S. spending on sales force incentives totaled more than \$200 billion (Zoltners, Sinha, and Lorimer 2006) and we estimated that annual spending remained at this level through 2010. This is almost as much as the \$241 billion projected to be spent on all media advertising for 2010 (Barclays Capital 2009) and almost nine times as much as the \$22.7 billion spent on Internet advertising in 2009 (Interactive Advertising Bureau 2010, p. 3). Incentives tied to short-term, individual, sales performance remain the most popular means employed by companies to motivate and direct sales force effort.

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Quality guru W. Edwards Deming (1986) has suggested that employee incentives are not good motivators. Author and lecturer Alfie Kohn (1993) cites numerous studies conducted in laboratories, workplaces, classrooms, and other settings, showing that incentives do not create enduring commitment to any goal or action. Yet when it comes to the sales force, most business leaders have dismissed these arguments. At the same time, much academic research has focused on finding the best ways to use incentives to motivate and control sales force behavior.

Some incentive experts say that it is possible to create incentive systems that align salespeople's interests with company interests, for example, as in agency theory, in which a sales force control approach focuses on designing compensation systems that align incentives of principals (companies) and agents (salespeople) around common goals, such as profitability and income (for a review, see Misra, Coughlan, and Narasimhan 2005). Other experts suggest that the use of incentive pay as a proxy for sales force control is risky and that a blend of sales management and compensation control maximizes effectiveness (e.g., Cravens et al. 1993). Incentive experts also find evidence that excessive reliance on sales force incentives that are tied to short-term, individual, results-focused metrics can contribute to a culture that compromises customer perception

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and company success by encouraging salespeople to behave inappropriately in order to maximize their short-term income (e.g., Román and Munuera 2005). So, while a conceptual foundation for using incentives to control the sales force exists, there is evidence that effective control through incentives alone can be difficult to accomplish in practice.

Two primary issues challenge the usage of incentive programs today. First, incentives encourage inappropriate sales force behaviors, including organizationally unproductive short-term focus among salespeople. When incentives are a large portion of sales force pay, salespeople and sales managers often obsess about making their monthly or quarterly numbers, and spend too little time developing future selling skills or building long-term customer relationships. Even in the earliest days of professional selling, the wholesalers who employed traveling salesmen to distribute manufacturer's products to local shops observed that agents who worked solely on commission tended to call on "sure bets" and were less likely to strike out into new territory (Friedman 2004). These agents also neglected writing reports and doing promotional work as they tried to overstock merchants in order to collect a big paycheck.

Second, when sales leaders rely on incentives as a fix for too many management challenges, they tend to undervalue other sales force decisions, programs, systems, and processes that can have a powerful impact on sales force performance. Through our experience as educators and consultants, we routinely observe that the right combination of decisions—such as how to size and structure the sales team, how to find and develop the best sales team talent, and how to coach and manage the team for success—has a much higher impact on company results than do incentives. Yet we see sales leaders jumping to incentives as a primary solution for many sales management challenges—from improving attraction and retention of the best salespeople, to energizing and motivating a complacent sales team, to improving customer satisfaction, to achieving challenging sales goals. Companies change their sales force incentive plans constantly. Nearly 80 percent of U.S. companies make meaningful changes to their sales force incentive programs every two years or less; nearly two-thirds of companies made revisions in 2009 (WorldatWork 2009). Most companies also make minor tweaks, such as adjusting commission rates or launching new spiffs or sales contests, at least quarterly. We know of one major sporting goods manufacturer that launches a new sales contest or spiff every week.

In a survey of over 1,000 sales leaders who attended the executive-level course that we teach at the Kellogg School of Management at Northwestern University titled *Accelerating Sales Force Performance*, "compensation and incentives" is the most frequently mentioned sales force decision area that leaders identify when asked to describe the sales force productivity issues that they face. Yet often we discover that incentives are

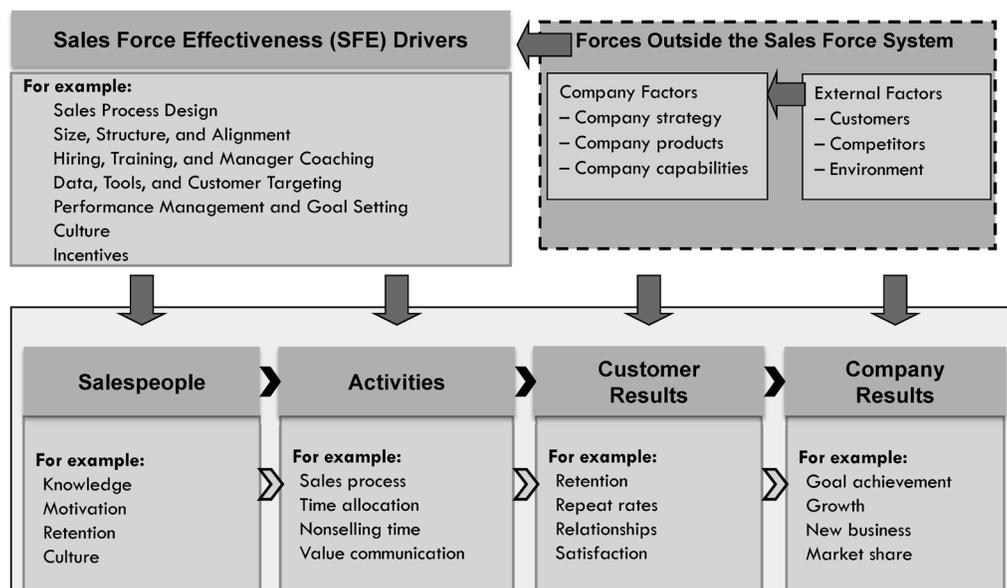
only a partial solution to the challenges that these leaders are trying to address. In fact, we estimate that *at least half the time* when sales leaders seek help with redesigning their incentive compensation plans, the solution to their underlying concern turns out to be something more than or frequently other than the incentive plan.

Excessive emphasis on incentives is especially problematic because the complexity of most sales jobs today creates an environment in which incentives are unlikely to be effective motivators. Social science research suggests that incentives are good at motivating the accomplishment of simple tasks with clear objectives; yet when tasks require even rudimentary creative and conceptual abilities, as most sales jobs do today, incentives can actually backfire and impede performance. Evidence of the negative effect of rewards on performance has been prevalent in the literature for decades. Examples include Glucksberg (1962), who observed that unless the answer was obvious, incentives impaired problem-solving performance; Condry (1977) reviewed a range of literature on the effect of task-extrinsic incentives on motivation and concluded that extrinsic rewards were "enemies of exploration"; and Ariely et al. (2005) discovered that for tasks that require creativity, problem solving, and concentration, higher incentives led to worse performance. Particularly for sales jobs that require analytical and problem-solving skills, incentives are likely to distract salespeople and introduce stresses that detract from their ability to perform effectively.

The sales environment is becoming increasingly complex, as observed by researchers such as Ingram (2004), Jones et al. (2005), and Rackham and DeVincentis (1999). Consequently, the successful implementation of incentives to motivate and direct the sales force becomes more challenging. Because of the Internet, customers are better informed than ever before, and they expect salespeople to be consultants who can understand their business and solve complex challenges—exactly the type of creative problem solving that incentives have been shown to distract from. Complex products and buying processes require companies to use multiple selling channels and teams of sellers, rather than individuals, to address each customer's needs. Salespeople need to cooperate and collaborate to develop customer solutions, and it becomes difficult to track and measure results at the individual salesperson level, making it almost impossible to "pay for performance." And as the pace of change accelerates, salespeople must continuously learn about changing product lines, new competitive offerings, and evolving customer needs while feeling continuous pressure to establish differential competitive advantage. Incentives that focus on achieving short-term business goals are at odds with the need for salespeople to learn and grow so they can be successful in the long term.

These challenges suggest a more balanced approach that looks beyond incentives to motivate salespeople and control

Figure 1
The Sales Force System Framework



sales effort. As sales leaders reexamine the role of incentives in managing their sales organizations, there is significant opportunity for academics to add value. Researchers (e.g., Walker, Churchill, and Ford 1977) have proposed conceptual models that aid understanding of the variables that influence sales force performance. Here, we use a Sales Force System framework (see Figure 1) that lays out the many complex components and linkages within sales organizations that ultimately drive company results. A detailed description of this framework is available in Zoltners, Sinha, and Lorimer (2008, 2009, 2010).

The Sales Force System framework lays out the chain of inputs and outcomes that ultimately drive a sales organization's performance. In any sales force, *salespeople* must perform *activities* to affect *customer results*, and customer results affect *company results*. Forces outside the Sales Force System, including external and company internal factors, influence results as well. Sales leaders impact the Sales Force System through a set of decisions, processes, systems, and programs that we call *the sales force effectiveness (SFE) drivers*. Some of the SFE drivers have direct effects on salespeople's skills, capabilities, values, and motivations. Others affect what activities salespeople engage in. By managing all of the SFE drivers effectively, sales leaders create the best outcomes for customer and company results.

This holistic view of the Sales Force System helps sales leaders understand how to manage a sales force in light of today's complexities and the role that incentives should play in the process. We propose organizing a future research agenda around the Sales Force System framework.

A REVIEW OF MANAGERIAL PRACTICE

Historical Background

Companies have turned to incentives since the late nineteenth century, when wholesale houses had armies of salesmen who traveled the country distributing manufacturers' products (such as dry goods, groceries, medicines, and hardware) to local shopkeepers. Salesmen earned much of their pay through commissions, and commission schemes were designed to induce them to work to satisfy the wholesaler's interests (Friedman 2004). If the wholesaler wanted salesmen to push a particular item—say, a new type of cloth—it would attach a higher commission rate to its sale. One of the first manufacturers to establish its own professional sales force, National Cash Register (NCR), used incentives to energize its salesmen. NCR's founder John H. Patterson, who led the company from 1884 to 1922, had strong faith in his salesmen's ability to create demand and drive out competition. Patterson paid an extraordinarily high commission rate—as much as 50 percent in the early years of the company—and several NCR salesmen made fortunes. The commission plan was implemented in part out of necessity, as the company did not have enough money to pay salaries, but the plan also fit with Patterson's belief in the power of incentives to motivate, a belief that is still deeply and widely shared by many sales leaders today.

Incentives remained popular in sales forces throughout the twentieth century. The Dartnell Corporation tracked U.S. sales force compensation practices beginning in 1929 (Heide 1999, p. 40). In the latter part of the century, companies shifted their average sales force pay mix away from salary and

toward incentives. In 1982, base salaries representing 80 percent of total pay were common. By 1994, the average pay mix had evolved to approximately 60 percent salary/40 percent incentives—a pay mix that remained relatively constant until Dartnell's final survey in 1999.

Use of Incentives in Sales Forces Today

We see no evidence that the emphasis on sales force incentives has declined in the past 10 years, as pay mix trends have remained largely constant. Culpepper and Associates (2009) reports that among companies selling technical, scientific, and medical-based products, a 59 percent/41 percent average base salary to incentive mix is typical for direct sales positions that include responsibility for selling to new accounts, with a slightly less aggressive pay mix (62 percent salary/38 percent incentive) for positions that include responsibility for existing accounts only. Both Culpepper and Associates (2009) and Zoltner, Sinha, and Lorimer (2006) state that the majority of these incentives are linked to short-term sales performance metrics—typically with a monthly or quarterly measurement period. WorldatWork (2010) reports that among companies in a broad range of industries (including manufacturing, information, finance and insurance, professional services, computers and electronics, health care, retail trade, pharmaceutical, and wholesale trade), average salary/incentive pay mixes between 60/40 and 70/30 have been the norm every year since their survey began in 2005. The 2010 survey reports that new account sellers earn an average of 42 percent of total pay through incentives while the incentive portion for existing account sellers averages 36 percent. The survey also suggests that reliance on incentives may be increasing. Twenty percent of respondents reported altering the sales force pay mix to increase incentive focus relative to base salary in 2010, and just 5 percent reported that they decreased incentive focus. WorldatWork (2009) has reported similar findings in prior years—between 2005 and 2009, 12 percent to 16 percent of respondents reported a shift toward incentives and away from base salary, whereas only 2 percent to 5 percent reported a shift in the opposite direction.

Having a large variable component of pay is not in and of itself an ineffective strategy. For example, many executives receive stock options as part of their compensation so that they have a vested interest in making the company stronger, more competitive, and prosperous in the long run. What is troubling about the majority of variable sales force pay, however, is that it is tied to short-term, individual, results-focused metrics—metrics that can distract salespeople from focusing on what is required for developing sustainable customer relationships and driving long-term success. It is the combination of a large variable pay component and short-term, individual performance metrics—such as monthly or quarterly territory

sales—that is problematic for many sales forces. The use of large short-term individual (LSTI) incentives frequently leads to organizationally unproductive behaviors among salespeople in today's sales environment.

Why Are Sales Leaders So Quick to Turn to LSTI Incentive Solutions?

There is a rational argument for paying salespeople with incentives, and a number of reasons—some stated, some historical, and some unstated—that sales force incentives are so widely used by companies.

The Rational Argument

The nature of the sales job makes it desirable to incorporate LSTI incentives into the sales force pay plan. Salespeople drive the company's top line. A highly motivated sales force creates more sales than a less motivated sales force (Brown and Peterson 1994), particularly in selling environments with high sales force causality, where the skill, knowledge, and effort of salespeople are a significant determinate of sales. In addition, the output of salespeople is often measurable—most companies track sales, costs, and other company performance metrics at the territory level. When accurate measurement is possible, sales force incentives allow a company to “pay for performance”—salespeople's earnings can directly reflect their sales or margin contribution to the company. The agency theory approach for determining an optimal incentive plan is premised on arguments such as these.

The Stated Reasons

We have heard business leaders suggest several valid arguments as to why LSTI incentives are an effective way to motivate and control the sales force:

- *First-line sales managers* say “nothing motivates and energizes salespeople like monetary incentives.” They know that sales can be a lonely job that involves frequent rejection. Incentives are an effective way to keep salespeople going. At Internet software company Nexaweb Technologies, a first-quarter spiff paying salespeople \$500 for each new account they brought in over \$75,000 motivated the sales force to get the year off to a strong start (Cummings 2005).
- *Executive-level sales leaders* say that “incentives allow salespeople to work independently and without close supervision, while encouraging them to engage in behaviors that align with company goals.” When company priorities change, incentives can be adjusted quickly and at minimal cost to realign sales efforts appropriate-

ly. When an aggressive competitor of a semiconductor company threatened the company's market share, sales leaders increased the portion of incentive pay tied to design wins (market share) and decreased the portion tied to revenues, thereby encouraging salespeople to devote more time to selling in competitive situations.

- *Human resource leaders* say that “incentives reinforce a sales-oriented culture—they help to attract and retain high achievers for the sales force.” A start-up biotechnology company hired away some of the best salespeople in the pharmaceutical industry by offering a higher, uncapped variable pay opportunity. Human resource leaders also say that in industries where high variable sales force pay is the norm, companies that want to be competitive in attracting talent need to mirror this practice.
- *Finance leaders* say that “incentives help to keep sales force costs in line with revenues.” During the Great Depression, many companies stopped paying salespeople salaries in favor of paying commission, reflecting a desire to reduce fixed costs (Friedman 2004).

A Historical Reason

At many companies and even across entire industries, the decision to pay salespeople LSTI incentives is a matter of history and culture. Sales force pay has been incentive-based for years, and the associated myths and stories—for example, “how the uncapped compensation plan created the millionaire salesperson”—become part of the learned culture and are passed along to successive “generations” of salespeople and future sales leaders. In such situations, incentives embody a definition of culture described by Schein, who suggests that what makes things “cultural” is “a ‘taken-for-granted’ quality which makes the underlying assumptions virtually undiscussable . . . so thoroughly learned that they come to be a stable element of the group's life . . . these deeper parts of culture either do not change or change only very slowly” (1984, p. 10).

Leaders of companies with deeply ingrained incentive cultures (in industries such as insurance and office products as well as many distributor organizations) argue that drastic moves to change the culture will disrupt and alienate salespeople and hurt sales. Even if the company increases salary levels to make up for a reduction in incentives, income opportunity will get redistributed across the sales force, most likely away from top earners. The company risks losing good salespeople and their customers. The threat of sales loss can be significant, particularly in cases where individual salespeople control customer relationships, have customer knowledge that is a source of competitive advantage, or are viewed by customers as the primary face of the company.

The Unstated Reasons

There are two *unstated reasons* that underscore the sales leader's reflex to use LSTI incentives to increase sales force effectiveness. First, *incentives are an easy and familiar fix*. They can be changed with minimal disruption to the sales force and to customers. Alternative fixes are often more intrusive, involving restructuring the sales force, reassigning customers, or changing sales force reporting relationships—actions likely to create disruption for salespeople and customers. Busy and risk-averse sales leaders reduce their own stress by relying on incentives as an answer for their concerns when they should be seeking broader and more compelling long-term solutions. Second, regrettably, sales leaders often have a vested interest in advocating incentives because their own pay level is likely tied to the pay level of people who report to them.

THE USE OF LSTI INCENTIVES IN MANAGERIAL PRACTICE

Based on observations when working as educators and consultants for sales organizations, we offer two propositions (and one corollary) about the use of incentives in sales forces today:

Proposition 1 (Undesired Consequences): LSTI incentives can contribute to a counterproductive culture and hurt company performance.

Proposition 2 (More Powerful SFE Drivers): Other SFE drivers frequently have more impact than LSTI incentives on long-term sales performance, especially because of the complex nature of modern selling.

This leads to the following corollary to this argument:

Proposition 2a (Escalating Complexity): LSTI incentives are most effective in selling situations with limited product and market complexity, making them less effective for many sales forces today.

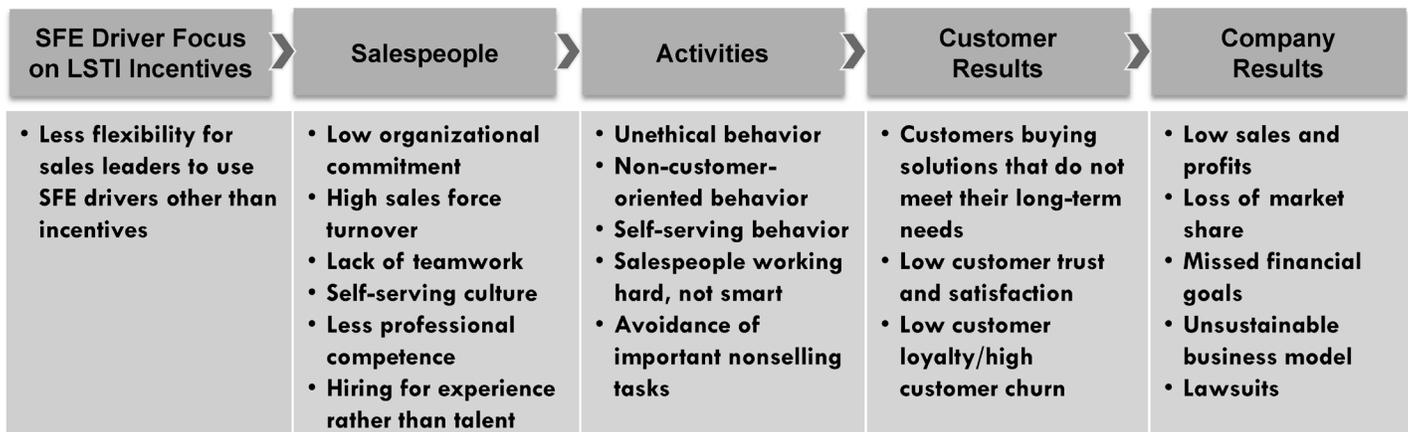
Next we share observations from managerial practice and evidence from academic research that is relevant to these propositions, followed by some suggested directions for future research.

Proposition 1: Undesired Consequences

There is evidence that excessive reliance on LSTI incentives to motivate and control salespeople can contribute to a culture that compromises customer focus and company success when salespeople behave inappropriately in order to maximize their short-term income. Incentives can create many undesired consequences within the Sales Force System—from the perspective of salespeople, sales force activities, customers, and company

Figure 2

Examples of the Undesired Consequences That Excessive Focus on Incentives Can Create Within the Sales Force System



results (see Figure 2). Examples from managerial practice and academic research illustrate the effect that these undesired consequences can have on sales effectiveness.

Observations from Managerial Practice

Many case study examples illustrate the undesired consequences that LSTI incentives can have on salespeople and their activities, as well as on customer and company results.

In the medical device industry, incentives are a large part of sales force pay. Many salespeople feel little loyalty to the company that they sell for, as money becomes the primary basis for their relationship with their employer. It is routine practice for salespeople to take customers with them when they move to a competitor. Low organizational commitment can be evident among sales managers, too; when two strong district managers at one medical device company left for a competitor, they took all the salespeople who reported to them along with them, leaving a substantial portion of the company's business vulnerable to competition.

Too often, incentives lead to self-serving sales force behaviors that conflict with long-term company success. In extreme cases, incentives have encouraged salespeople to engage in unethical and even illegal behaviors. In the early 1990s, Sears paid the employees of its profitable automotive repair division a straight commission on the parts and services they sold to customers. The company discovered that as a result, some employees were charging customers for work that was unnecessary. In 1992, the company faced several lawsuits tied directly to its incentive pay plan. Sears had to pay out millions of dollars to consumers who felt they had been enticed into authorizing and paying for needless repairs. In the wake of the scandal, Sears abolished commissions and sales goals in its automotive division, making customer satisfaction its number

one priority (Ganzel 1998). In another example, in 2004 the world's largest insurance broker, Marsh, faced an investigation for an incentive scheme in which insurance companies gave the broker kickbacks for steering business their way—a scheme at odds with encouraging Marsh to find the best deal for customers (Treaster 2004). As a result of the allegations, industry reforms were initiated to better align brokers' financial interests with those of their customers.

Consumer electronics retail chain Best Buy eliminated its commissioned sales force when feedback from focus groups indicated that customers did not trust commissioned salespeople. The chain adopted a straight salary plan and established "answer centers" in each store where customers could come with questions if they needed help. Customers liked the new no-hassle approach and felt much more comfortable shopping in the no-commission environment. The sales force liked the change as well because Best Buy became a friendlier place to work and salespeople earned a good salary regardless of how busy the store was. Three years after the change, salesperson turnover had declined by 50 percent (Goerne 1992).

Excessive use of incentives can also limit sales leader's flexibility to change a selling model that is no longer working. A technology products distributor had for years paid its telephone-based salespeople entirely through commissions on sales. The philosophy was "you eat what you kill"—salespeople kept their accounts permanently after making a sale. This motivated salespeople to work hard to build a book of business in a rapidly expanding market. But when the market matured, competition increased, margins deteriorated, revenue growth evaporated, and the selling model stopped working. Most of the company's top earners (who earned several hundred thousand dollars a year) had been with the company for a long time, had built a considerable book of business, and had become basically order takers as their long-time custom-

ers provided a continuous and stable source of revenue and income. These top earners felt little urgency to drive new business development. At the same time, it was difficult for the company to retain new salespeople, who found it hard to build a sufficient book of business to earn a living. Annual sales force turnover was 57 percent. Sales leaders wanted to realign accounts more equitably across salespeople to give new salespeople a greater chance to succeed while providing customers with better service and coverage. But they feared that implementing this change would anger top earners and prompt them to leave and take business with them. Yet the company was no longer delivering on its profit aspirations. Growth declined to low single digits before the company was acquired by a big private equity firm.

Incentives can limit sales leaders' flexibility to make many productivity-enhancing sales force changes. Sales strategy changes (such as changes in customer responsibilities, product emphasis, or selling activity focus) that are in the company's best interest may meet with resistance from salespeople, who may feel that the changes will reduce their personal income. One technology company with a breakthrough new product missed out on a significant opportunity when it could not implement a planned sales force expansion because several top performers in the company's commissioned sales force threatened to leave if they had to give up accounts to expansion territories. Sales force structure changes that benefit customers through more team-oriented selling—for example, the addition of specialists who bring product or technical expertise to customers—can be difficult to implement in high LSTI incentive environments, as salespeople may resist sharing their incentives with other team members.

When incentives are a large portion of sales force pay, salespeople are often reluctant to perform important tasks that they are not specifically paid to do, such as sharing information about customers and the sales pipeline with the company or attending training to develop their skills for the future. And sales managers may hire only experienced salespeople who can bring in business immediately, rather than finding and developing the strongest talent for the future.

Evidence from Academic Research

Although an exhaustive review of research on the undesired consequences of LSTI incentives is beyond the scope of this paper, here we provide several examples.

Numerous studies have found that incentives are linked to undesirable consequences for the *activity* component of the Sales Force System (see Figure 1), including:

- Robertson and Anderson (1993) and Verbeke, Ouwerkerk, and Peelen (1996) have observed that outcome-based control systems (which evaluate and

reward salespeople for the results they produce by using incentives as a primary motivator and controller of sales force behavior) are more likely to encourage unethical behavior among salespeople than are behavior-based control systems (which evaluate and reward salespeople for their behavior and knowledge and pay them mostly through salary).

- Honeycutt et al. (2001) found that automobile salespeople whose compensation is commission based are more likely to engage in unethical behaviors than are those whose compensation is salary based.
- Widmier (2002) discovered that although incentives based on customer satisfaction have a positive effect on the customer orientation of salespeople, those tied to sales volume have a negative effect on customer orientation.
- Kalra, Shi, and Srinivasan (2003) found that when a larger fraction of sales force compensation is based on commissions, salespeople are more likely to make exaggerated claims to customers about complex product upgrades.
- Schwepker and Good (2004) found that quotas that are perceived by the sales force as difficult to achieve have a negative effect on customer-oriented selling.
- Román and Munuera (2005) found that financial services salespeople who earn a higher fixed salary percentage of pay tend to behave more ethically.

There is also research-based evidence that suggests that incentives can lead to undesirable consequences for the *salespeople* component of the Sales Force System:

- Cravens et al. (1993) found that salespeople in outcome-based control environments (typically associated with a higher proportion of incentive compensation) are less professionally competent, team oriented, planning oriented, and customer oriented than are salespeople in behavior-based control environments (typically associated with a higher proportion of fixed compensation).
- Oliver and Anderson (1994) found that salespeople in outcome-based control environments are less satisfied with their jobs and have less organizational commitment than do salespeople in behavior-based control environments.

There is limited research revealing that incentives can inhibit sales leaders' flexibility to implement productivity-enhancing changes to the *SFE driver* component of the Sales Force System, and more research is needed in this area. Zoltners and Lorimer (2000) found that salespeople who earn most of their pay from salary more readily accept territory alignment changes that are in the best interest of the company than do

salespeople who earn most of their pay through incentives, who may fear that such changes will affect their income. As a result, sales leaders in high-incentive environments often fail to implement territory alignment changes that could lead to better results.

Proposition 2: More Powerful SFE Drivers

Too frequently, we observe sales leaders turning to the incentive plan as the primary answer for many business challenges while overlooking the power that other sales force decisions, programs, systems, and processes have to influence salespeople, their activities, and consequently, drive results. The Sales Force System framework (see Figure 1) shows that incentives are just one of many SFE drivers. Too many sales forces today live in the “incentive world” (left-hand side of Figure 3), where leaders view LSTI incentives as a primary motivator for salespeople and their activities. We propose that most sales forces will be more effective in a “balanced world” (right-hand side of Figure 3), where incentives are just one component of a balanced program of SFE drivers that influence the sales force.

Next we share evidence that is relevant to Proposition 2 from managerial observation as well as academic research.

Observations from Managerial Practice

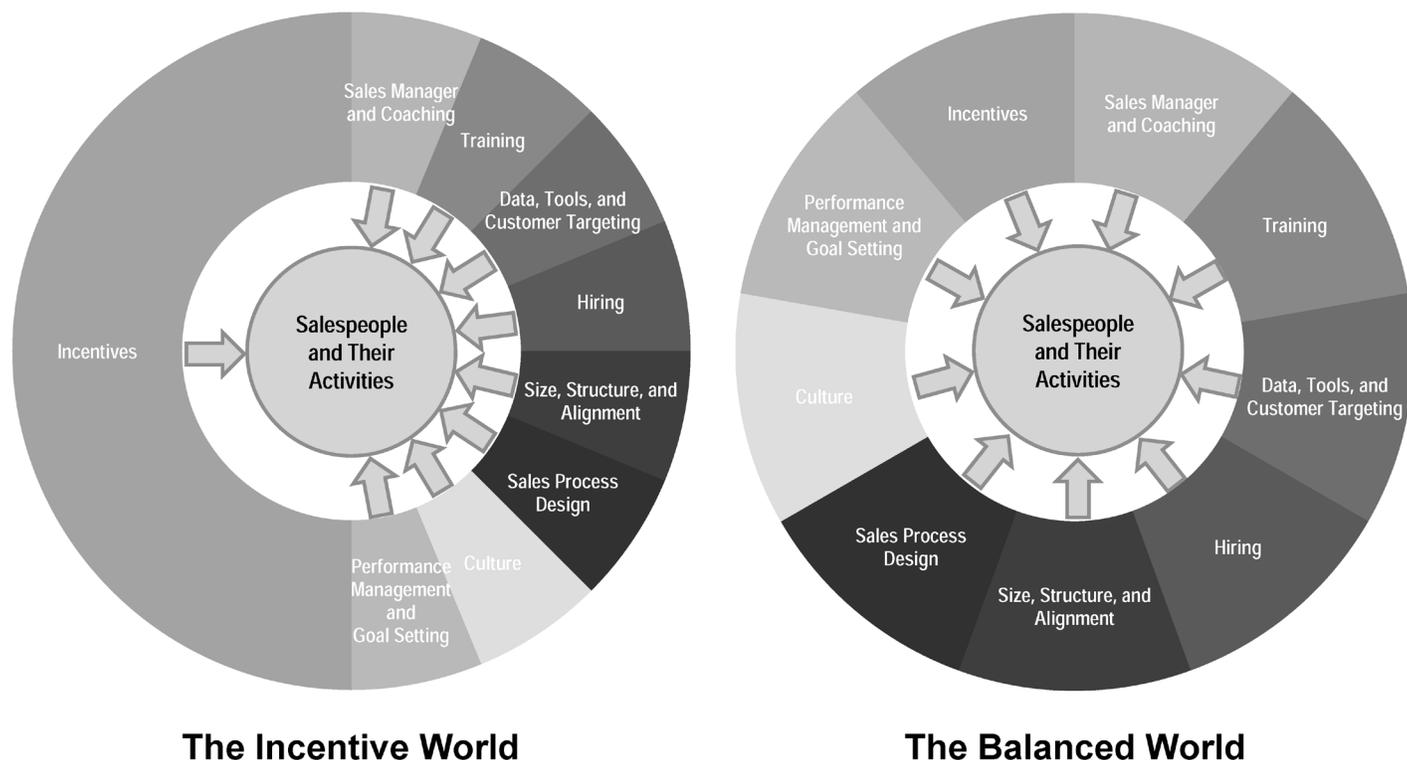
We have observed sales organizations in many industries that live in the “incentive world.” These organizations turn to incentives as the primary driver for motivating and controlling sales force activity, and do not devote enough attention and resources to other SFE drivers. As a result, competency on SFE drivers other than incentives is often quite low, and the company forfeits the power that these drivers have to positively impact long-term results. Leaders may not notice an effectiveness loss while business is growing, but as soon as market growth slows or competition increases, the loss becomes apparent and the incentive world model starts to jeopardize continued success. Consider two examples.

An office products distributor had for years paid its salespeople entirely through commissions on sales, reasoning that a “pay-for-performance” plan would drive sales force behavior and success. A new salesperson, after completing basic product training, would get a copy of the commission schedule, a phone book for his or her territory, and the manager’s encouragement to “go sell.” Sales managers got commissions on their own sales plus the sales of the people they managed. Wanting to maximize their own income, sales managers saw little benefit to coaching and developing the capabilities of their salespeople for the long term. Instead, they spent time selling to their own customers. When managers visited customers with salespeople, they often jumped in to close sales themselves, rather than coaching the salespeople

on how to do it. During annual performance reviews with their salespeople, managers focused on results, with only a superficial mention of what capabilities and activities could better drive results. Often, the only “coaching advice” salespeople got from their managers was “you need to sell more.” As market growth slowed, sales got harder to come by, and it became evident that incentives alone were no longer enough to drive productivity. Sales leaders initiated a move toward a more “balanced world.” They adapted the pay plan to include a salary component and put in place goal hurdles that salespeople had to reach before commissions kicked in. They created coaching and performance management processes that emphasized salesperson behaviors and capabilities in addition to results. They defined a sales process reflecting selling best practices, and held regular best practice sharing sessions with the sales force to propagate ideas and achieve more consistent strong performance. The sales leaders created new data and tools to help salespeople be more systematic and effective while working with customers. Implementing the new balanced sales approach had its challenges, but in the end the new approach dominated the incentive world model and sales and productivity improved dramatically.

In another example, an insurance company paid salespeople entirely through a commission on sales. Once a salesperson sold to an account, the salesperson kept the account permanently. The company recruited thousands of new salespeople every year. Sales leaders expected many new recruits to discover quickly that they were unsuited for the job and to leave. While the market was growing, this high level of sales force turnover (over 60 percent per year for new recruits) was tolerated and expected. But as market growth slowed, attraction of good people became increasingly difficult. Market conditions made it hard for new salespeople to make a living. At the same time, as a new generation of workers entered the work force, there were fewer job candidates willing to take a commissioned sales job. Recruiting got tougher, too many salespeople with good long-term potential left quickly, and the company was squandering its recruiting and training investments because not enough employees stayed long enough to produce results. Recognizing that the incentive-only focus contributed to the problem, sales leaders implemented several changes to give newly hired salespeople a boost. A small salary component was added to the pay plan for new salespeople. Sales leaders gave new salespeople some existing customer accounts that had good growth potential to help them get started. They also improved the training and coaching programs to help new salespeople get off to a faster start. They developed a more targeted hiring profile for screening job candidates, thereby improving the quality of new recruits. By focusing on SFE drivers beyond the incentive plan, the company successfully reduced new salesperson turnover to below the industry average within two years.

Figure 3
An Illustrative Example of the Incentive and Balanced Worlds: Most Organizations Will Be More Successful
When They Balance the Use of Incentives with Other SFE Drivers



The Incentive World

The Balanced World

Evidence from Academic Research

Literature that is relevant to Proposition 2 stems from research on sales force control systems. A model proposed by Anderson and Oliver (1987) describes two contrasting management philosophies—behavior based and outcome based. In a behavior-based environment, sales managers play a key role in monitoring and directing salespeople's activities. The company evaluates salespeople primarily based on what they do (e.g., aptitude and activities), rather than on the outcomes they achieve. Most of salespeople's pay comes in the form of a salary (fixed pay). Managers in such environments draw on the power of levers such as coaching, performance management, training, and data and tools to provide salespeople with direction on what to do to best help the company achieve its goals. In an outcome-based environment, sales managers have a more limited role in monitoring and directing the activities of salespeople. Salespeople are largely left alone to achieve results in their own way, and the company holds them accountable for those results. Incentive compensation tied to results achievement is the primary means used to influence sales force behavior.

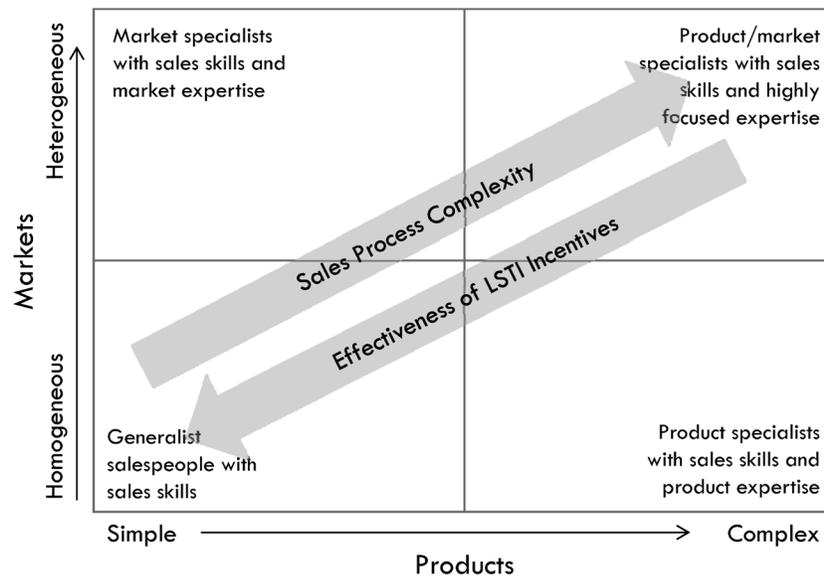
Anderson and Onyemah (2006) suggest that the appropriate management philosophy—behavior based or outcome

based—depends on the selling environment. Outcome-based control works best in situations where salespeople's skills and effort are the biggest determinant of sales and where the accounting system makes it possible to track results (e.g., territory sales volumes) in an accurate and timely fashion and link those results back to individual salespeople. Behavior-based control, however, is appropriate when it is difficult to assign sales credit or when salespeople lack experience and need guidance from the company about what sales process is most effective with customers.

Cravens et al. (1993) built on the research of Anderson and Oliver (1987) by proposing a broader sales force control system framework for understanding the impact of behavior-based and outcome-based sales force control approaches on sales force performance. Cravens et al. tested the impact of the sales force control system on sales force characteristics (e.g., salesperson capabilities, attitudes, and motivation), selling and nonselling behaviors, and performance (e.g., sales volumes and quota attainment). Sales organizations that favored behavioral-based control systems performed better on most constructs than did those that favored outcome-based approaches. Behavior-based approaches led to positive sales force characteristics—for example, salespeople were rated as more professionally competent, team oriented, and customer

Figure 4

Proposition 2: Sales Force Characteristics in Situations with Varied Complexity and the Role of Incentives



oriented; they had higher behavioral performance ratings (e.g., they made better sales presentations); and surprisingly, they created stronger outcomes by performing better on sales achievement. The researchers suggested that incentives should play a limited role in sales force control systems, that using heavy incentive pay plans as a proxy for sales force control is risky, and that the proper blend of sales management and compensation control is important for maximizing sales effectiveness. Yet despite this evidence, we continue to observe incentive addiction in sales forces today.

Proposition 2a: Escalating Complexity

Proposition 2a suggests that LSTI incentives are less effective for most sales forces today, as escalating product complexity and market heterogeneity increase the complexity of sales processes, the requisite level of specialization, and the competencies that salespeople need to be successful (see Figure 4). The Internet plays a role in escalating sales process complexity, as better-informed customers expect more from salespeople. Product complexity can derive from a broad product line or from products with complex or technical features, especially those that require customization. Market heterogeneity can derive from a diversity of customer profiles (e.g., selling to large versus small customers or selling to customers in different industries), differences in customer behaviors (e.g., selling to loyal customers versus prospects), and diversity of customer needs (e.g., selling to customers who value a consultative versus a transactional sales approach). Market heterogeneity can also come from complexity within an individual cus-

tomers. For example, selling to a large global customer that has many decision makers, a complex buying process, and that demands extensive product and service customization can be quite complex. Incentives work best in selling situations with limited product complexity and with market homogeneity; otherwise, incentives can distract salespeople from the creative problem solving needed to be successful and can discourage the teamwork and ongoing learning and development required for long-term success in such environments.

Several examples from managerial practice and academic research illustrate the limited power of incentives in complex selling situations.

Observations from Managerial Practice

Market complexities challenged the effectiveness of sales force incentives for a manufacturer of blood glucose monitors. Diabetic patients purchase the company's products—monitors and their accompanying testing strips—in retail drugstores. Multiple influencers impact each patient's decision of which monitor to purchase and the manufacturer employs a sales force with four specialized sales roles to impact each influencer. First, there are sales specialists who educate the physicians who treat diabetic patients. Second, there are specialists who work with the staff members in the hospitals where the disease is diagnosed. Third, there are specialists who focus on the diabetes nurse educators who teach patients about the disease and its treatment options. Finally, there are specialists who work with the pharmacists in the retail outlets where patients ultimately make their purchase. The impact of each sales spe-

cialist on the buying decision is impossible to measure, and as a result, individual incentives are not effective motivators for the sales force.

In the late 1990s, salespeople at a company that sold information infrastructure technology solutions earned 25 percent of their pay through salary and 75 percent through incentives based on quarterly sales goal achievement. This pay plan promoted a sales force culture that was hungry, aggressive, and focused on short-term results. This worked well in the company's early years, when the product line was narrow, sales cycles were short, and selling was straightforward. However, as the industry evolved and the firm's product line broadened, the sales process became increasingly long, complex, and team oriented. Sales success began to involve salespeople working together with systems engineers, service managers, technical consultants, and product specialists over a period of many months to reach multiple decision makers. The importance of developing and maintaining long-term customer relationships increased. Yet intense quarter-to-quarter focus by management put pressure on salespeople to deliver short-term results. Customers began to express doubt that the company's salespeople were truly concerned with their interests.

Evidence from Academic Research

Although much social science research supports the notion that incentives impede the conceptual and creative abilities of individuals in complex situations (e.g., Ariely et al. 2005; Condry 1977; Glucksburg 1962), relatively little attention has been devoted to researching the implications of these findings for sales forces. Sujan, Weitz, and Sujan suggest that sales management teams “be wary of incentive compensation” if they want to increase sales productivity by getting salespeople to “work smarter” because “incentives can focus salespeople’s attention away from the *content of their work* to the *consequences of it*” (1988, p. 16). Matsuo (2009) suggests that innovativeness—the flexibility and willingness to accept new ways to solve problems (Evans et al. 2007)—is important for sales forces dealing with today’s increasingly complex selling environment. Sales forces need to innovate to adapt to a changing world and to encourage salespeople to come up with new selling methods or proposals that solve customers’ problems and enhance customer satisfaction. Matsuo discovered that Japanese sales forces are more innovative when they evaluate and reward salespeople for their behavior and knowledge—a practice that is typical in sales forces that pay salespeople mostly through salary. Sales forces are less innovative when they evaluate and reward salespeople on outcomes—an approach that is consistent with the use of incentives as a primary motivator and controller of sales force behavior. Matsuo’s study also found that innovativeness had positive effect on sales performance.

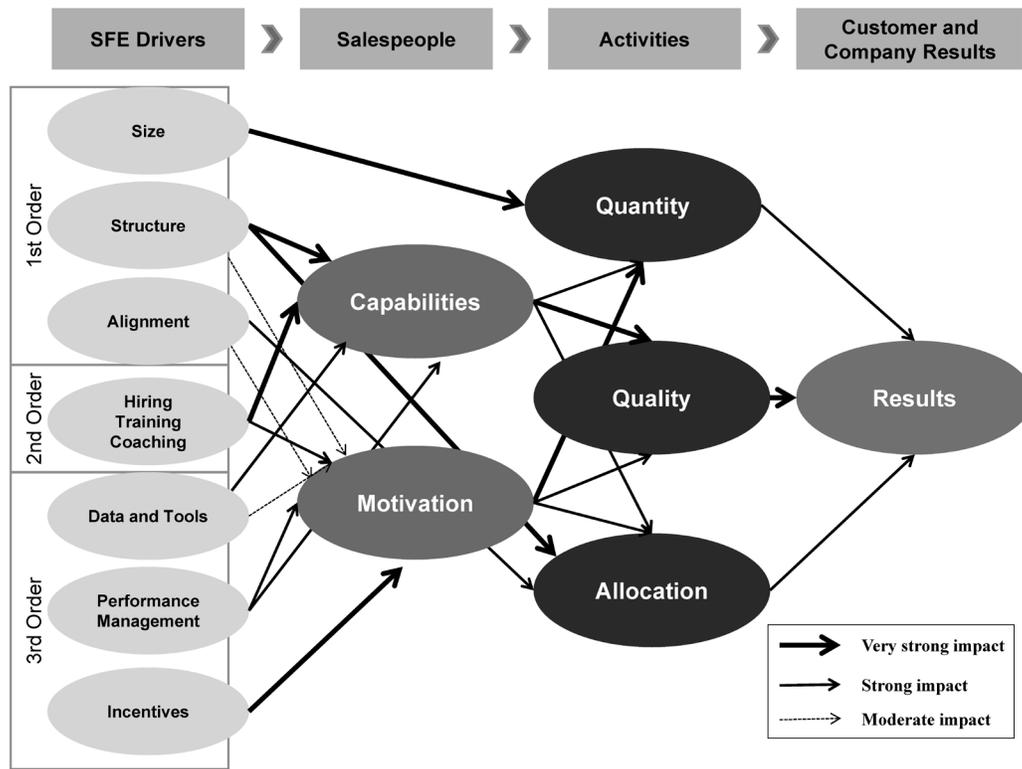
DIRECTIONS FOR FUTURE ACADEMIC RESEARCH

Researchers can help sales leaders by looking at the impact of individual SFE drivers, including incentives, within the context of the entire Sales Force System. SFE driver decisions affect *salespeople* and *activities* and ultimately drive *customer* and *company results* (see Figure 1). Research that focuses on understanding each of these linkages and on the interactions that exist between various SFE driver decisions can help sales leaders make better decisions for increasing sales effectiveness. Figure 5 lays out many hypotheses at an aggregate level for how key linkages in the Sales Force System work.

The SFE drivers impact customer and company *results* through *salespeople* and *activities*. Salespeople and activities have several dimensions. The dimensions shown are not exhaustive, but rather representative and summarized. Salespeople need *capabilities* (knowledge, skills, and abilities) and *motivation* if they are to execute sales activities effectively. At the same time, effective execution of sales activity requires sufficient *quantity* and *quality* of activity, and also requires proper *allocation* of activity to customers, products, and sales tasks. With the right quantity, quality, and allocation of activity, a sales force can produce the desired *results*. For simplicity, our hypotheses combine the *customer results* and *company results* components from the Sales Force System framework (Figure 1) into a single *results* dimension, and assume that the right sales force activity leads to cocreation of value for customers and the company. A future enhancement to the hypotheses could view *results* as a multifaceted construct with separate customer and company results dimensions.

The dimensions shown in Figure 5 are linked together with hypothesized causal relationships. The arrows show our hypotheses for the linkages and the strength of their impact. Strength of impact is expressed as an ordinal classification—the thickest arrows signify linkages with the strongest impact and the thinnest dashed arrows represent linkages with the weakest impact. The lack of an arrow suggests that no meaningful linkage exists between the dimensions. For example, incentives have a very strong impact on salespeople’s motivation, but no meaningful impact on their capabilities. *Motivation* has a very strong impact on the quantity of activity and a strong impact on the quality and allocation of activity. *Data and tools* have a strong impact on salespeople’s capabilities and a moderate impact on their motivation. Most SFE drivers affect sales activities through one or both of the salespeople dimensions. We hypothesize that three SFE drivers impact activities directly: *size* has very strong impact on the quantity of activity that a sales force can deliver, and *alignment* and *structure* have an impact on the allocation of activity across products, markets, and sales territories.

Figure 5
Hypotheses for How Key Linkages in the Sales Force System Work Together to Drive Results



Three orders of SFE drivers reflect the sequence in which sales leaders need to make decisions. First, leaders must define the sales job by sizing, structuring, and aligning the sales force to match market needs. Second, they need to focus on talent—finding the right people and enabling them to succeed by providing effective training and coaching. Third, they must enable the sales team by providing appropriate incentives, along with data and tools and performance management processes that keep the sales organization on track. For the third-order drivers (including incentives) to work well, the first- and second-order drivers need to be in place first. Good incentives will not compensate for an inappropriate sales force structure or an ineffective territory alignment. And they cannot motivate poor quality or untrained talent to succeed. Much of the literature cited in this paper focuses on the importance of third-order drivers—incentives and performance management—for driving sales force success. Yet sales leaders need a broader view that acknowledges the critical impact of the first- and second-order drivers within the Sales Force System. Unless the first- and second-order drivers are right, incentives cannot achieve their potential.

Figure 5 guides a possible research agenda for understanding how SFE driver decisions affect salespeople, activities, and ultimately, results. Researchers can help sales leaders measure each dimension, measure the strength of the relationships

between the dimensions, and gain insight about how the dimensions and linkages differ by industry and with varied business conditions and product and market complexity. Here, we suggest some future research directions that use the Sales Force System framework (Figure 5) to help sales leaders determine the most appropriate role for incentives in today’s business environment.

Incentives and Their Undesired Consequences

Substantial academic literature supports Proposition 1; many research examples cited in this paper show the undesired consequences that incentives can have on the Sales Force System, particularly when it comes to ethical behavior and customer-oriented selling. An undesired consequence that warrants further research is the observation that incentives make salespeople work harder, but not smarter. The hypothesized linkages shown in Figure 5 suggest an approach to this research. Incentives impact results by influencing salespeople’s *motivation* (leading primarily to activity *quantity*). Incentives have no impact on salespeople’s *capabilities* (and thus do not drive activity *quality*). Other SFE drivers that have salience in the “balanced world” (e.g., sales force structure, hiring, training, and coaching) affect *capabilities* and *quality*. Researchers can measure and compare these linkages (motivation → quantity;

Figure 6
Hypotheses for the Relative Importance of Dimensions of Salespeople and Activities for Driving Results in Simple Versus Complex Selling Environments

	Salespeople		Activities		
	Capabilities	Motivation	Quantity	Quality	Allocation
Simple/ Homogeneous Situation	+	+++	+++	+	++
Complex/ Heterogeneous Situation	+++	++	+	+++	++

capabilities → quality) for sales forces in “incentive world” and “balanced world” environments. Doing so will create insights around the hypothesis that the “incentive world” encourages activity *quantity* at the expense of *quality*. Ultimately, this can enhance understanding of how incentives and other SFE drivers impact *results*.

Power of Incentives and Other SFE Drivers in Different Selling Situations

Researchers can use the Sales Force System framework to understand the power of all the SFE drivers to affect sales performance and the best role for incentives in selling situations with varied product and market complexity. The strength of each impact shown in Figure 5—very strong, strong, or moderate—represents an “average” across different business conditions. But the relative strength of these linkages varies depending on product and market complexity. Proposition 2a suggests that the link between incentives and results is strongest when products and markets are simple; the impact weakens as the selling environment becomes more complex. Researchers can help sales leaders understand this linkage better, and can prescribe an appropriate role for incentives dependent on the selling environment.

To do this, researchers can measure the linkages in Figure 5 within the varied selling situations depicted in Figure 4. Here we develop hypotheses for what the strengths of the linkages are in two extreme cases: the simplest selling situation (southwest quadrant in Figure 4) and the most complex situation (northeast quadrant in Figure 4).

First, we hypothesize that the relative importance of salespeople’s *capabilities* and *motivation* as well as the importance of the *quantity*, *quality*, and *allocation* of their activities differs in the two selling environments. In the simple case, *motivation* and *quantity* of activity have the strongest impact on sales

results. In the complex case, sales force *capabilities* and *quality* of activity are the primary results drivers (see Figure 6).

Second, we hypothesize that the consequence of these differences is that SFE drivers have varied impact across selling environments (see Figure 7). The hypotheses are derived from the linkages in Figure 5. In simple situations, where it is important to drive salespeople’s *motivation* and the *quantity* of their activity, all orders of SFE drivers are roughly equally important for driving results. But in complex situations, where it is important to influence salespeople’s *capabilities* and the *quality* of their activity, the first- and second-order SFE drivers dominate. Third-order drivers, including incentives, have little impact unless the sales force *structure* allows salespeople to develop strong success capabilities and the *hiring*, *coaching*, and *training* programs are producing people with those capabilities.

By empirically testing these hypotheses (Figures 6 and 7), researchers can help sales leaders understand how SFE driver decisions affect all of the linkages and components of the Sales Force System within the context of the business environment.

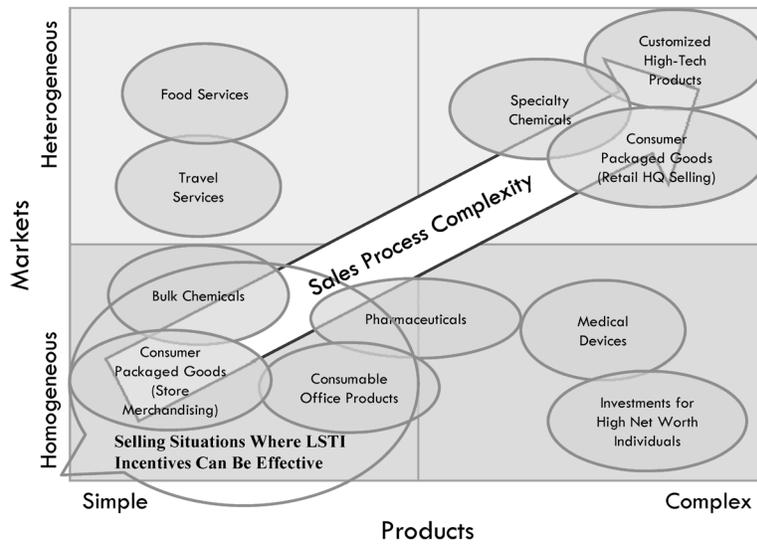
CONCLUSION

Research on the most appropriate role for incentives within the mix of SFE drivers is important for enabling sales leaders to create and maintain more effective sales organizations for the future. LSTI incentives are most effective when the sales process is simple. The product and market intricacy of many selling situations today requires sales process complexity that is incompatible with using incentives as the primary motivator of sales force activity. Figure 8 shows several examples of industries and selling environments with varied product complexity and market heterogeneity, and suggests the extent to which LSTI incentives can be effective, given the sales process complexity.

Figure 7
Hypotheses for the Relative Importance of First-, Second-, and Third-Order SFE Drivers in Simple Versus Complex Selling Environments

	First-Order SFE Drivers	Second-Order SFE Drivers	Third-Order SFE Drivers
Simple/ Homogeneous Situation	+++	+++	+++
Complex/ Heterogeneous Situation	++++	++++	+

Figure 8
Examples of Industries and Selling Environments with Varied Sales Process Complexity



Many of the industries and selling environments with high sales process complexity in Figure 8 rely heavily on LSTI incentives to motivate and direct their sales forces. For example, incentives typically contribute 50 percent of pay in sales forces selling customized high-tech products, and 60 percent of pay for those selling medical devices. In the pharmaceutical industry, the incentive portion of pay increased from 20 percent to 25 percent in the late 1990s and early 2000s as pharmaceutical companies sought to retain and attract more high-performing salespeople; this shift occurred despite the fact that the complexity of the pharmaceutical sales process was actually *increasing* during that time as the influence of patients and third-party payers on physicians' prescribing decisions increased market heterogeneity. Our hypotheses suggest that these industries may overuse incentives.

As the speed of market change accelerates, sales practitioners must regularly assess the complexities of their sales processes today and in the future by asking, "Is our sales force addicted

to incentives?" By organizing research around the Sales Force System framework, researchers can help practitioners understand the many linkages and interactions that exist within the Sales Force System (see Figure 5) so they can identify the best role for incentives and other SFE drivers for their sales environment through a more holistic understanding of what drives sales force success.

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