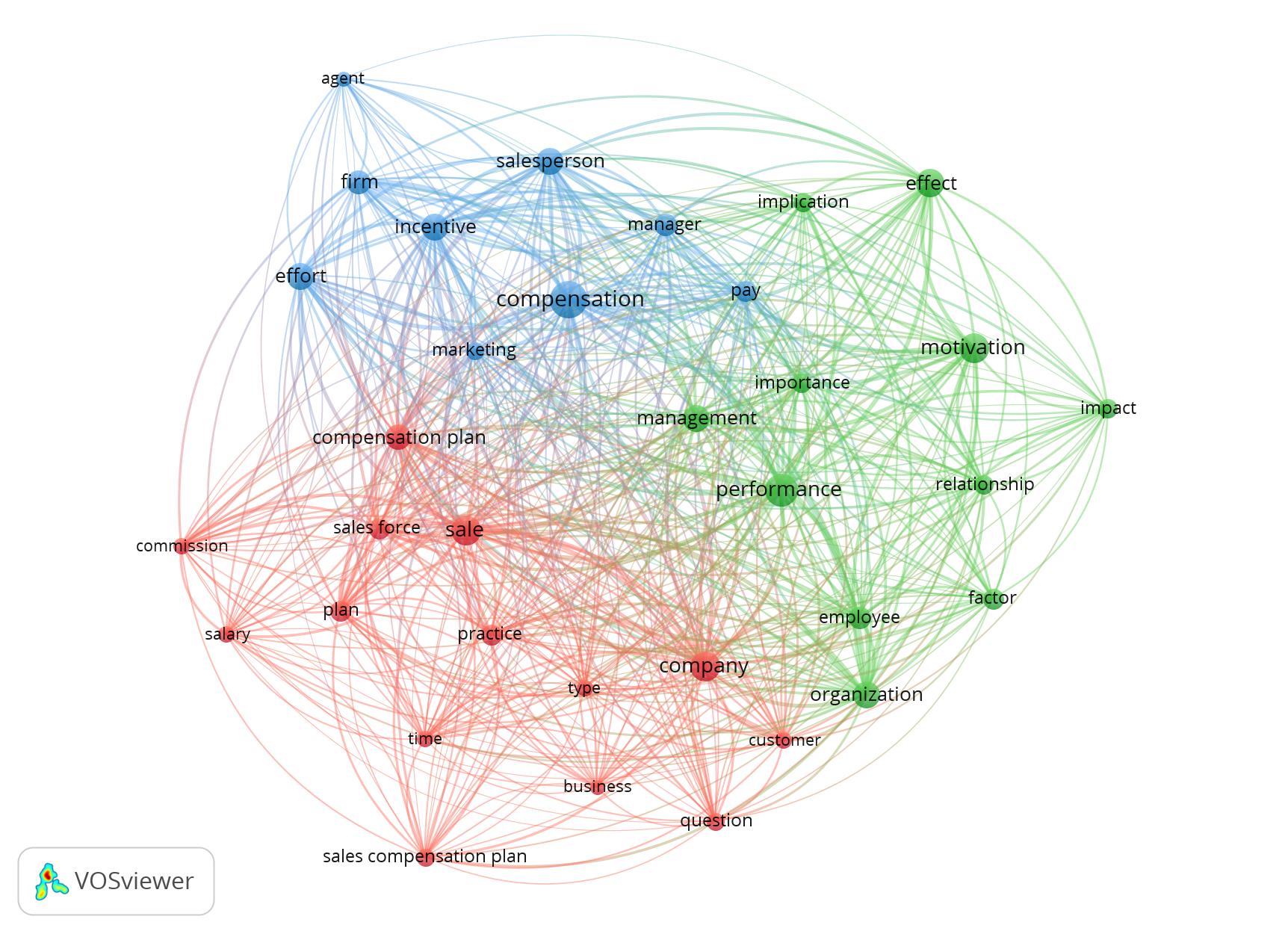
***Introduction***

Companies around the world are facing the challenge of long-term retention of their best salespeople. This study shows how investing more time in developing sales compensation plans can aid retention.

Developing compensation plans involves drawing on multidisciplinary dimensions that incorporate psychological, economic, mathematic, and even IT-related dynamics. The literature on this topic is vast, intricate, and complex. This review investigates the various aspects of the elements that must be assessed in designing, developing, adjusting, and implementing such plans, as well as the environment- and industry-related factors that can influence their success or failure. It not only describes in detail the existing literature on this topic of the last four decades and different aspects of compensation plans but also identifies the gap in the literature that this study seeks to address.

The VOSviewer tool (vosviewer.com; see Waltman et al., 2010 for further details) was used to map the relevant keywords in the literature, highlighting the important areas for discussion while illustrating the relationships between the various aspects of the topic as well as the complexity of the subject.



This review focuses on the main three clusters shown in the map: Motivation (types, drivers, mindset, influencers), compensation (design, incentives, compensation packages), and company (organization, sales roles, customers). Delving into the specifics of these three principal clusters, the review explores the challenges of designing the optimal sales compensation plan, with key topics including compensation packages, quota setting, the managers’ involvement in new sales roles, sales contests, and risk aversion, as well as other design considerations and tips for plan designers. The following sections address issues of retention, support plans, implementation of new plans, and heterogeneity.

Proper design of sales representatives’ compensation packages is crucial for any organization’s success. And, as Bowen et al. (2023) observed: “In addition to salesforce financial compensation (SFFC) capacity to increase performance, SFFC has the potential to affect the organization, influence salesperson relationships with customers and other actors, and exert effects on the salesperson” (p.20).

***Sales representatives’ motivation***

Motivation may be the most important factor for building and maintaining an effective and performance-driven salesforce (Reddy, 2019). With a motivated salesforce serving as a key driver of a firm’s performance, the most important task of an organization is building and maintaining a highly motivated salesforce. One of the obvious tools for achieving this task is a compensation plan. Motivation has many different dimensions, but this review focuses on individual rather than team motivation. Akbar’s (2021) study of one particular organization shows clearly how motivation influences performance and that compensation is the main influence on motivation. Consequently, as research suggest, the motivation of sales representatives is the main focus of compensation plans.

The links between compensation, motivation, and performance are well described in the literature. Highly motivated sales representatives are highly productive ones. The main motivational driver is an effective compensation plan, especially for both the short and long terms (Reddy et al., 2019).

Even the early literature on this topic demonstrated strong links between sales representatives’ compensation and their motivation levels. Although plans need to vary depending on the industry and the product(s), there is no doubt that the compensation plan is the main motivator for the salesforce to achieve better performance (Winer, 1976). This has been validated in many studies of many industries, such as that of Ipuele et al. (2019) on brewery sales representatives in Nigeria.

Some areas like value-based selling (VBS) require even a higher level of motivation in order to generate the right value on the customer’s side (Mullins et al., 2020). Firms are expected to both create and consistently maintain a high level of personal motivation to succeed with VBS.

The literature on motivation tends to describe it in intrinsic and extrinsic forms. Intrinsic motivation is that which someone creates within and for themself, while extrinsic motivation involves performance in order either to achieve something external, to please someone, or to receive an award (Reiss, 2012). The distinction between intrinsic and extrinsic motivation often enters discussions regarding sales representatives (see, for example, Good et al., 2022; Mallin et al., 2017; Solbach, 2021).

Compensation plans can be viewed as reward systems that involve extrinsic motivation, but that can influence intrinsic motivation as well, demonstrating that these two types of motivation are not completely independent of each other (Solbach, 2021). Nonetheless, the more that representatives are intrinsically motivated, the higher their performance (Cerasoli, 2014). Therefore, one of the challenges of organizations is to influence intrinsic motivation to improve performance and well-structured compensation plans have been shown to be one way to do so (Fatima, 2017).

Pullins (2001) conducted a study of how different compensation plans differentially affect representatives’ intrinsic motivation. Fatima (2017) also demonstrated the strong relationship between compensation plans and intrinsic motivation over time. Enhancing representatives’ intrinsic motivation also improves their well-being, adds to the team spirit, and reduces cutthroat competition between the representatives, among other positive effects (Solbach, 2021). Much research has been conducted on sales representatives’ well-being and its possible connections with organizational performance. This issue should be increasingly important for organizations’ stakeholders as this topic becomes more prominent (Dugan et al., 2023)

Mesfin (2018) arrived at very interesting findings on pharmaceutical companies’ representatives in Addis Ababa, showing that age, education, gender, and experience had no differential influence on their motivation levels. However, the study did demonstrate, again, a direct connection between compensation packages (especially financial incentives) and motivation. This thesis reexamines the relationship between both demographics and job life cycle on the one hand and on motivation levels on the other.

Factors other than the compensation plan may influence the intrinsic motivation of sales representatives, such as their sense of autonomy, competence, and relatedness. These influences may be related to the compensation plan but may be independent of it (Solbach, 2021). Brand and organizational identification also importantly influence representatives’ intrinsic motivation: The more they identify with the brand and the organization, the higher their intrinsic and extrinsic motivation (Mallin et al., 2017). It has been shown that in some cases, discussions with the sales representatives and listening to their feelings and wishes can influence motivation even more than increasing their incentives (Good et al., 2022). However, as this study focused largely on ways of influencing motivation levels through compensation plans, it did not explore in depth factors that are not related to compensation and incentive. It should also be noted that sales compensation plans can be used by companies regardless of the strength of their brand.

The perception of organizational justice within their firms is also an important positive influence on representatives and ultimately on company success’ motivation levels (Wolor et al., 2019). One way to achieve organizational justice is through company transparency. Research has shown that wage transparency benefits the firm, and can create positive competition and increase collaboration between team members (Long & Naisry, 2020), Wage transparency also helps provide the rationales for certain decisions that are being made (Grensing-Pophal, 2023). Organizational justice also implies paying extra to top performers, thereby motivating them and encouraging their skill enhancement and that of their colleagues. The literature has long shown that extra pay incentives for top performers are necessary (Tallitsch & Moynahan, 1994), motivating representatives and their colleagues, and improving their skills. This process is valid when organizational justice is also present and compensating top performers is not perceived as simply favoritism (Miao et al., 2017).

Training for sales representatives, organized by the company, is another important factor in influencing sales force motivation. Training serves as an effective tool for motivating sales representatives and developing their work (Fernández & Pinuer, 2019). Training also increases self-efficiency and creates a better work environment that requires less managerial control (Good et al., 2020).

Khusainova et al.’s (2018) extensive review of sales representatives’ motivation comprehensively demonstrated the diverse challenges the sales world faces today in this regard, including new roles for sales representatives (a topic addressed in depth in this thesis), cost-cutting goals, new skills required, and, of course, how the younger generations of representatives need to be addressed by organizations. Their study clearly showed how sales representative motivation needs to be thoroughly redefined.

Another important topic to mention in the exploration of motivation is self-determination theory (SDT), a macro theory that investigates both intrinsic and extrinsic human motivation. Deci et al. (2016) explained that “SDT suggests that fostering workplace conditions where employees feel supported in their autonomy is not only an appropriate end in itself but will lead to more employee satisfaction and thriving, as well as collateral benefits for organizational effectiveness” (p. 20). According to the researchers, one of the influences on motivation levels is pay and compensation. They concluded that pay-for-performance is effective but argued that there are several additional factors to consider in order to foster motivation. These include differentiating between simple and complex tasks and maintaining representatives’ psychological and general well-being.

There is also a need to consider and minimize the various factors that may negatively affect motivation. One such, described in Bowen et al. (2023), is the ratcheting of quotas by updating them based on past performance. Another is the organization’s use of sales contests which, if poorly designed can demotivate the salesforce (Coughlan & Joseph, 2012) and selecting and defining critical parameters are crucial for the design of an effective sales contest this study will examine this issue in detail.

The COVID-19 pandemic has taught us new lessons about motivating sales representatives. Its restrictions gave rise to frameworks for working remotely and new ways of generating sales beyond face-to-face contact were implemented. The challenge of motivating representatives in this new remote work environment is an area that calls for future research (Lundback & Sarkimukka, 2021). Although COVID-19 has changed some of the ways sales representatives engage with customers—for example, through videoconferencing tools like Zoom—face-to-face interaction remains crucial, particularly in B2B scenarios. In-person sales representative-customer relations remain a highly important factor for generating sales (Ahearne et al., 2022).

This section presented the importance of motivation and especially intrinsic motivation in order to improve performance. It is clear that the compensation plan plays a major role in this, but it is not the only one. Tumi et al. (2021) identified the principal influences on motivation as compensation, job enrichment, training, and enlargement. Good compensation plans, as this study will show, are key. There are many influences on motivation to consider when designing compensation plans, with good plans including as many motivators as possible while also being simple enough for the representatives to understand and for the organization to follow. As Roberge aptly observed: “Salespeople should not need a spreadsheet to calculate their earnings” (2015, p.74).

This study addresses the relationship between motivational factors and compensation plans. It will not only help sales representatives choose the right plan for themselves, but it recommends which type of plan is optimal for them according to their motivational drivers, needs, and wishes.

***Compensation plan design***

The most common topic in the literature on compensation plans is plan design. This covers the various stages the design process should undergo, quota setting, bonus versus commission rules, suggestions for designing the optimal plan, plan components, the pay mix, varying sales roles, and other matters (see, for example, Coughlan et al., 2012; Gundy, 2002; Madhani, 2009; Madhani, 2015).

The importance of good compensation plan design is very clear and we have seen the strong correlation between compensation motivation and performance, as shown in many studies. Freedman (1986), an important pioneer in this area, discussed seven stages of plan design. Freedman recommended beginning by defining the role of the particular sales representative, as discussed later. The next stages should include understanding the sales environment and the competition before selecting the targets, pay mixes, and incentives. The last stage is piloting and communicating the plan, a crucial stage also discussed further on in this review. Conlin (2008) added three more stages to Freedman’s and drew our attention to the issue of company goals when designing the optimal plan. According to Conlin, the first stage of the design is aligning it with the company’s vision and targets, before even examining the environment or the sales representative’s needs and wishes.

Achieving any company’s goals requires discipline as well as the right compensation package. Discipline has many dimensions, its main purpose being rule-setting and regulation to ensure the sales representatives do their jobs in alignment with the organization’s policies and norms. Enforcing discipline through a compensation plan improves the organization’s performance (Sitopu et al., 2021).

Many other studies have claimed that a good plan should be multidimensional. As sales representatives’ jobs are multidimensional, their compensation plans need to be too. One of the aspects that needs addressing in a compensation plan is the level of effort representatives need to invest in making an average sale. These efforts may be measurable and used as a factor in compensation planning (Erevelles et al., 2004).

***The pay mix***

When evaluating a compensation plan, one of the main considerations is the pay mix, which is the ratio between the fixed component of the remuneration and the variable/incentive-related part. Variable pay has been shown to increase sales representatives’ effort, performance, and motivation levels (Madhani, 2009). The issue of the pay mix has been well studied in the quest for the right balance between the fixed and the variable portions of pay.

The most common compensation plan for sales representatives in the past was a low base salary and a high commission rate (Darmon & Rouziès, 2002), the idea being that the greater the incentives sales representatives receive, the greater their selling efforts will be. However, recent studies have shown that this model might not be optimal today (Chung, 2015). Chung showed that when designing, and especially when improving a plan, there is usually no imperative to increase the variable incentive element of the remuneration, as the study’s results demonstrate that increasing the variable element does not improve representatives’ performance. It is much more effective to evaluate the industry in which the firm is operating and the changing role of the salesperson. This will lead to a much more effective plan (Darmon and Rouziès, 2002).

Nevertheless, it has been shown that also the fixed part of the salary has a very important role in the satisfaction and motivation of the representatives. The fixed salary creates trust between the firm and the representative and is one of the factors that increases retention and reduces turnover of sales representatives in organizations (O’Donnell and Marsh, 2022).

Some studies have suggested that the pay mix should vary to reflect varying factors such as career life cycle (Madhani, 2014), marketing efforts (Madhani, 2015), and even behavior-related elements including methods of meeting quotas, not just performance alone (Wakabayashi, 2022). Surprisingly, research has shown that the pay mix does not correlate with age, but that there is a strong correlation between sales representatives’ seniority and education level (Coughlan & Narasimhan, 1992). These are important issues examined in this study.

Organizations can easily become addicted to sales incentives. Organizations tend to increase the proportion of the incentive-related pay element, the more complex the sale is. For example, the variable element in high-tech and medical sales representatives' pay may be 50–60% of the total. Some studies have suggested that it is important for organizations to limit the variable elements of pay, even when sales are complicated and the sales efforts required are high (Zoltners et al., 2012).

We have already noted that today’s organizations need to assess not only whether the sales quota was attained, but also how it was achieved. Research has shown that when the incentive proportion of representatives’ pay is high, organizations are more exposed to risk in relation to sales ethics that may undermine customer satisfaction as a result (Madhani, 2021).

We also need to examine the balance between bonuses and commissions in the pay mix. The variable part of the pay mix can translate into different types of incentives, the most common being bonuses and commissions. Commissions are usually a part, normally a percentage, of the representative’s sales revenue. Bonuses are usually fixed amounts paid for achieving certain, like reaching a quota, completing sales assignments, and so on. Each of these compensation types has its advantages and disadvantages and there is no consensus in the literature as to which is the best. Commissions are more commonly used for salespeople. Kishore et al. (2013) conducted an interesting study in this regard on a pharmaceutical company, evaluating the change in performance after switching its entire salesforce from a bonus to a commission plan. The research, evaluating 14,000 monthly observations, determined both that representatives preferred commission-based compensation and that it was more effective and lucrative for the firm. However, the study also showed that bonus plans were much more effective for additional tasks (e.g., extra sales calls) and job-related targets. A plan that offers only commissions can create difficulties in motivating the representative in the last period of the quota, if it has either already been achieved or is not achievable. In this scenario, intra-annual and not only annual incentives are advisable (Schoettner, 2017). The solution may be a mix of both commissions and bonuses within the same plan (Chung et al., 2020).

The design of a pay mix is not only related to sales results. Alavi et al. (2021), in a study of 294 salespeople who sell complex and innovative products, evaluated the influence of incentives on the sales representatives’ problem-solving solving, showed that increasing the incentive (variable) component of remuneration had a negative effect on problem-solving behavior and innovative service selling. This may imply that the pay mix has an influence not only on representatives’ performance and motivation but also on their willingness to problem-solve and, thus, directly influence the customer.

Another possible method to deal with the pay mix is through building a plan where the incentive element is very high in the first year, thereafter relatively decreasing while the base salary relatively increases. This gives representatives a greater fixed portion in their pay as their experience and proven sales skills grow (McGhie, 2022).

Reviewing the literature on pay mix clearly shows that a good plan should have a decent base pay, periodical bonuses or commission, and a set of incentives that will drive not only performance but also activity and behavior in line with the firm’s DNA and codes of conduct.

***Quota setting***

Commission and bonus pay are usually connected to achieving sales quotas. Quota setting is one of the most researched areas in sales compensation plan studies. The sales target period can be quarterly, annual, multi-year, or calibrated by other time frames. While setting the right quota has a direct influence on motivation (Lai & Gelb, 2019), it is important to recognize and take into account the fact that quota setting will never be perfect (Sands, 2000). The quota needs to be fair and achievable if it is not to undermine representatives’ motivation and/or damage their sales performance (Teau, 2013). According to Gundy (2002), an organization should aim for at least 75% of the salesforce achieving their quota. The rest are either the top performers (12.5%) or sales representatives who did not meet their quota (12.5%). This is a critical consideration in designing the right quota and can provide good benchmarks for piloting new plans.

Quota setting is one of the most delicate parts of compensation plan design. If sales representatives do not meet their quotas, they will usually lose income, and setting quotas too high may undermine their motivation, as we have noted. Setting the quota too low can entail costs for the organization while not necessarily improving performance (Winter, 2004).

There is a rich body of discussion regarding the right period for quota setting (Chung et al., 2020; Jain, 2012; Sands, 2000; Waiser et al., 2022). As already noted, Chung et al. (2020) recommended having not only annual quotas but also ones for shorter periods to keep the salesforce motivated. An under-researched area is the setting of different quotas for different types of salespeople, an issue that this study seeks to address.

Some studies recommend involving the sales representatives in quota setting to engender a strong commitment to the company’s targets and aims on the representative’s part (Chung, 2015; Chung et al. 2020; Gundy 2002; Sands, 2000). In some cases, letting sales representatives both set their quotas and choose and define other goals to be achieved and compensated for is seen as appropriate (Bommaraju & Hohenberg, 2018). The literature also suggests that letting representatives set their own targets and choose their reward for achieving them may both improve sales outcomes and encourage representatives to embrace targets and identify with the organization (e.g., Brooks, 2019). Where sales representatives have a direct influence on the profitability of their sales, setting a profit quota is recommended as well. This should lead to higher profitability as there is a direct connection between the company’s profit and the sales representative’s commission and/or bonus (Zoltners et al., 2015).

***The role of sales contests***

Sales contests have proven to be a positive element to include in compensation plan design (Coughlan et al., 2012), with Roberge (2015) having deemed them the most effective tools for motivating the salesforce. Sales contests can be a part of the compensation plan as well as stand-alone components. They can also be individual or team-based (Roberge, 2015). While sales contests are mostly effective as a short-term incentive (Bullemore & Cristobal-Fransi, 2018), they are occasionally useful for motivating representatives and aligning them with the organization’s goals (Coughlan et al., 2012).

Designing them demands careful attention. Some studies have examined not only the influence of sales contests on results but also the impact of different ones on various reps. Kalra and Shi (2001) demonstrated that different types of salespeople react differently to the same sales contests and that assuming all representatives are the same is a big mistake. The study showed that sales representatives with high-risk aversion (see below) do not generally respond positively to sales contests. However, when sales contests are used, the more effective kind for all types of representatives is a “winner takes all” one. Payment and compensation plan designers should be aware that some sales contests may reduce the motivation of some sales representatives Therefore, The value of sales contests as a tool remains debatable, as this study will explore.

***Risk aversion and heterogeneity***

Sales representatives’ levels of risk aversion have influenced compensation plan design. Oliver and Weitz (1991) described how to measure a salesperson’s risk aversion, a good tool that can identify positive elements to include in a compensation plan. It should be borne in mind that the most effective representatives are the low-risk-averse ones (Rubel & Prasad, 2016).

Determining representatives’ risk aversion is not only important for designing the optimal compensation plan but also for better understanding the threats and opportunities the plan presents. Firms should invest the effort to recruit low-risk-averse sales representatives, who have been shown to be more effective, exhibit higher performance, and generate more profit for organizations (Chen et al., 2018). For this kind of representative, it is more effective to have a linear compensation plan that has a base salary and a fixed share of the sales (Yu & Kong, 2020).

The literature recommends assessing representatives’ risk-aversity when designing an optimal plan for them (Chen et al. 2018; Yu and Kong, 2020), However, it does not discuss the option of letting representatives choose their own elements. Nor does it relate risk-aversity to other parameters in the design of a plan, or address the fact that most organizations offer only a single compensation plan to all their sales representatives.

Different people are motivated by different factors. The most relevant work on this topic is Dalgord et al. (2016), which explained that the model of homogeneous contracts for heterogeneous sales representatives may not always be a good idea: It may be cost-effective for the firm but fail to generate optimal sales performance. Consequently, Dalgord et al. suggest variations in contracts to more optimally compensate different types of sales reps. Both their theory and mathematical model assume the organization in question knows the different types of representatives it has and can easily categorize them, but this is usually not the case in reality. They also offer an alternative (untested) model in which the representative chooses their contract. However, their otherwise excellent study does not address the connection between the compensation plan and the representatives’ motivation, Nor does their research examine the representatives’ demographics, their particular career stages, and ways in which compensation plans can attract and help retain the best representatives. Rather, they focus mainly on the cost of such plans to the firm. This thesis aims to address these gaps in the literature.

Bommaraju and Hohenberg’s (2018) important study of sales representatives’ heterogeneity found that it is essential for organizations to understand this factor when designing compensation plans. They argue that there is a conflict between the challenges of keeping the compensation plan simple and addressing the heterogeneity issue and that can be solved only when representatives understand the sophistication of the plan and their bonus and/or commission schemes.

Patil and Syam (2018) also investigated the influence of specialized personal incentives (SPI) on the performance of sales representatives and found that creating personal incentives may increase sales performance in some cases, depending on the individual representative’s performance level.

***Timing, non-monetary incentives, negative implications, and other considerations***

Timing of the bonus and commission payments is also something that should be considered. A payment at the end of a period is more motivating than one at the beginning (Chung, 2015). Moreover, having quarterly as well as annual bonuses is more effective than annual bonuses alone, a critical factor when the representative has a direct influence on the timing of the deal closing (Chung et al., 2013).

Gupta (2023) claims that adding long-term incentives to plans produces better engagement and fulfillment of the firm’s long-term strategy. Immediate and short-term incentives are important, but firms should not neglect long-term ones. However, given the personalities and characteristics of millennials and Generation Z-ers, who place more emphasis on short-term results, sometimes the measurement periods need to be shorter than past norms (Athitakis, 2024).

Most bonuses and commissions described so far are monetary, but they can be non-monetary as well. Although financial benefits are more effective in generating and maintaining motivation, non-financial incentives can achieve good results (Rentola, 2018). Non-financial incentives have been found to be even more effective when the sales force is satisfied with their overall income (Najmulmunir, 2020). This study will evaluate whether or to what extent non-monetary incentives appeal to sales representatives.

There are also some concerns and negative implications that need to be considered when designing a compensation plan. One of them relates to health issues. Parker et al. (2019) were among the first to discuss the potential collateral damage of pay-by-performance compensation plans with their potential to create stress that may damage representatives’ performance. One empirical study of over 1,400 sales representatives showed the harmful effects of variable compensation on their health, evidenced in increases in stress, emotional exhaustion, and sickness absences, suggesting that such variable remuneration should be limited such variable remuneration (Habel et al., 2021). Solbach et al. (2022) recommended discarding classic pay-for-performance (PFP) concepts in favor of team bonuses, high achievement rewards, and even increased base salary. As already noted, Madhani (2021) also argued that variable compensation may encourage sales representatives to act less than ethically in obtaining sales, with consequent possible damage to long-term customer relationships. In their pursuit of their quota target, they might undermine customer retention, trust, loyalty, and satisfaction.

It is clear that designing the optimal plan is challenging, with many factors to consider in doing so. It is also clear that a plan that is optimal for one organization may not be for another. The plan should be designed to match the organization’s DNA and goals, the industry in which it operates, and the types of sales representatives it would like to have.

This research addresses some of the gaps described in the literature, the key ones being matching the plan to the representative and recommending the best plan for them to choose, while also letting them choose their own (not just elements of one). This thesis presents a new design scheme that takes all the above-discussed factors into account in order to better address motivational factors and address relevant research gaps

To this point, this section has addressed matters mostly from the representatives’ perspectives, motivations, and performance levels in the context of achieving optimal performance. However, the cost of the compensation plan must also be examined A good plan should have all the elements discussed above at a cost that is reasonable for the firm to pay. Having a great plan that the company cannot sustain over the long term has been shown to be self-defeating (Leake, 2000). Consequently, the company’s perspective must also be examined.

***Company considerations in compensation plan design***

There are times when the interests of the company and the sales force do not match. While both parties want to optimize sales performance and financial outcomes, the company’s profit levels are directly influenced by the volume of its sales representatives’ payroll. Paying more in incentive pay to the salesforce could potentially adversely affect the company’s profits, even if sales increase. Therefore, the goal of a good compensation plan is to find the right balance between pay and profit for the company.

Zoltners et al. (2015) identified a few cases where it is advisable to base the sales representatives’ compensation plans on profits and not on the top line. These cases, as mentioned earlier, in which the representative has a direct influence on the firm’s profits and where the firm shares the sales profit margin data with the representatives, are classic scenarios for applying for-profit compensation packages. By using this form of remuneration, firms not only improve their profit levels—as it motivates the representatives to generate more profitable deals—but also create a stronger connection between the goals of the representatives and the firm.

The company needs to address other matters when looking into a compensation plan, which may be general, product-, or industry-related. For example, the supply chain is an important consideration for companies that sell a single product with limited stock when designing a plan. This scenario was elegantly explored in the theoretical model of Xiao and Xiao (2020). Another issue, mentioned earlier, is compensation plan transparency, something that has been proven to positively influence motivation and performance levels and may improve collaboration and team spirit among representatives (Long & Nasiry, 2019). It is very important to communicate the plan and its rationale well. Open channels of communication enhance trust and representatives’ buy-in to the plan (Conlin, 2008), complementing the positive influence of a positive sense of organizational justice on motivation described earlier.

A plan should also reflect the stage company growth has reached, with different stages requiring the provision of different types of incentives (Roberge, 2015). Roberge, (2015) showed the importance for fast-growing companies of increasing incentives, with sales contests a practical tool for this purpose.

***Compensating sales representatives for new roles***

One of the major challenges in designing compensation plans relates to the changing roles salespeople play today. Many businesses now see sales representatives not only as deal closers but also as the company’s long-term contact point with the customer. The sales representative has become an account manager too. This change in role dictates a change in the design of a compensation plan. The evolution of professional sales roles has been described extensively by Hughes and Ogilvie (2020), who have raised many useful questions for plan designers.

Classic PFP and other forms of variable pay can be problematic for such sales representatives and account managers since account managers perform a different function of maintaining long-term relationships with clients, which should be compensated separately. Paying representatives who perform as account managers only commissions has been determined to be a poor decision (Ryals & Rogers, 2005). Understanding the new roles typically played now by sales representatives has led to the understanding that they should not be judged on performance alone (Bolander et al., 2021). There are many methods to compensate sales representatives for the diverse roles they play: increasing the fixed component of remuneration, a dedicated bonus, activity-based incentive (ABI) pay, and so on (Chung et al., 2021).

Another customer relation management (CRM)-related solution is to remove it from the hands of the sales representative, who remains the deal closer and new customer hunter. Organizations may form a team within which there are hunters (salespeople who close deals) and farmers (people who take care of long-term relationships). This has been shown to be a good combination for acquiring and retaining customers (Kim et al., 2019).

***Involving managers in compensation plan design***

The involvement of sales representatives in the quota-setting process raises the question of the involvement of their managers in the plan design process. At first sight, there seems to be a conflict of interest, with a line manager exercising a direct influence on their employee’s remuneration. However, studies have shown that involving managers in the design of compensation plans for their staff improves performance (Gundy, 2002; Waiser, 2020). Involving leaders from other areas, not just sales management has also been recommended, as the work of the salespeople influences the entire organization (Rouziès & Onyemah, 2018). However, there is a need to define constraints in relation to possible conflicts of interest. These should include, for example, a limit on the representative’s pay, incentive remuneration level, and so on. Once such constraints are in place, the positive contribution of the manager to the compensation plan design has been shown to be much greater than the threats of possible conflict (Waiser, 2020).

Some studies have emphasized not only involving the managers in the design process but also including them in the pay program. Despite the possibility of conflicts of interest, paying managers for the results of their employees has been shown to improve the motivation of both employee and manager (Lu & Kittimanorom, 2019).

While managers being compensated for the sales performance of their representatives is well-recognized, paying managers for their salesforce’s ABIs is less so. An ABI is a bonus related to specific activities the representatives are required to perform in order to optimize their job performance. A very interesting study done on one pharmaceutical salesforce over three years showed that when managers were paid for their representatives’ ABI performance, sales results and productivity increased by 7–9% (Rao et al., 2021). Management exercises a strong influence on salesforce motivation levels. Mallin and Ragland, (2017), based on data collected from 128 salespeople, showed that sales managers’ direction of sales representatives positively influenced their motivation and performance, whether their motivation was predominantly intrinsically or extrinsically driven. Other studies have demonstrated a positive correlation between how management is compensated and the motivation levels of their subordinates (Baskoro et al., 2021; Emmanuel, 2020).

Some considerations are relevant to specific products or industries. These can relate to how long sales reward cycles should be, post-sales incentives when the sale involves also post-sales tasks, whether to set customer satisfaction goals, what effects the compensation plan has on other departments, and so on. It is important to tailor any plan to the specific sales environment and the specific challenges each firm faces (Bhadra, 2015). Quota setting, as discussed, is a major part of compensation plan design, but plans should also reward exceptional achievement to bolster productivity and encourage top performers’ excellence, which drives the entire organization forward (Chung et al., 2013). We have already pointed to how rewarding top performers attracts and helps retain salespeople while also positively influencing their colleagues (Miao et al., 2017). It is also critical to address talents other than performance-related ones. Some representatives make a positive difference by influencing their colleagues, the direction of the organization, and customers in sometimes immeasurable ways. A good compensation plan should also help win the talent wars, attracting and retaining talented people. This can be done through differential base pay, specific annual bonuses, and long-term incentives (Berger & Berger, 2015).

As sales representatives mainly work in more demanding roles today, with more complex products and more competitive environments, compensation plans should be multidimensional and compensate for many different talents not just directly bottom-line related ones (Darmon & Rouziès, 2002).

Cespedes (1990) suggested that selling practices should also be considered when designing compensation plans, with factors like marketing strategy (push versus pull), buying processes, and market structure also taken into account. For example, if it is expected that the sales representatives should wait for rather than influence results, the pay for the same result should vary. It can be very counterproductive to simply copy other compensation plans when designing new ones. Each new plan should fit with company goals, the industry, and the specific nature of the sales role, sales structures, sales objectives, the selling cycle, and so on (Rouziès & Onyemah, 2018).

***Staff retention and plan design***

One of the goals of good plans is the retention of the best salespeople within the organization (Lo et al., 2011). The representatives who have the lowest risk aversion require fewer management efforts, have the highest abilities, can usually sell any product, and have the most positive influence on the team.

Lo et al.’s (2011) study empirically demonstrated a correlation between high levels of incentive pay and retention of the best sales representatives in industrial sales, In the environment of complex industrial sales, increasing the incentive serves the purpose of retaining the best representatives and not only providing a good income. The increased incentive pay is particularly important to the low-risk-averse, high-ability representatives. However, increased incentives should not only be measured in absolute terms. Joseph and Kalwani (1992) showed that the incentives should be higher than the relevant industry average in order to retain good representatives. Paying above-industry-average incentive levels will not only retain but also attract good people to organizations (Kissan, 1992).

Retention is not only related to pay and incentives. Organizations should have retention strategies that also include professional development and leadership opportunities, better investment in hiring techniques, and open, transparent communication, among other matters (Wang & Chen, 2017).

The culture and vision of the organization and its leaders is also a salient influence. A study done on the banking industry in Malaysiashowed that visionary leadership was the strongest positive influence on retention, followed by organizational culture and teamwork, as well as decent remuneration, of course (Kosim, 2017). The interpersonal relationships between managers and their subordinates are key in the retention of good people salespeople, as in other industries. Managers’ respect for and recognition of their staff positively influence the extrinsic motivation that aids retention of representatives (Lagace et al., 1993).

The importance of the relationship between sales managers and sales representatives is even greater for millennials and Generation Z-ers. Generation Z-ers are strongly positively influenced through positive consultation with their managers, while millennials are very sensitive to issues of leadership, their relationships with their managers, and work-life balance issues. Millennials are more likely to resign even when they are satisfied with their job and both generations crave fun environments to work in, these considerations coming before even salary (Deeter-Schmelz, 2021).

According to new research from Palette, “41% of companies face sales team retention problems due to poor sales compensation practices” (PR Newswire, 2023). This emphasizes the magnitude of this phenomenon’s significance and requires corrective action.

***Supporting plans and implementing new ones***

Simply having a well-designed plan is not enough. Success requires other actions and requirements. The first consideration should be robust organizational support for the plan. Automated sales compensation management is critical, not only for simplifying matters for the company and the representative in forecasting commission but also for creating the transparency and open communication needed (Conlin, 2008). Such support involves not only the IT department providing automated sales compensation management, but also long-term career development strategy, supply chain support, business strategy, and so on. In other words, the entire organization needs to be aligned with a compensation plan in order to make it successful (Gundy, 2002).

It is not easy to change compensation plans and managers often fear adverse consequences from doing so (Ryals & Rogers, 2005). However, plans need to change periodically, especially in relation to the career cycle (Madhani, 2014). The first way to ensure a successful plan change is providing assurances that there will be no drastic reduction in compensation (Buehler, 2021).

Sandvik et al.’s (2021) study of one firm that had implemented an average 7% reduction in pay showed that it led to good short-term financial results, but long-term damage: The firm’s best representatives left to pursue careers elsewhere. Changing the compensation plan ultimately failed.

Even when a proposed change of plan on the table is sound, it is not always easy to recruit the management to implement the change. Chung (2019) has shown how Roush Performance, which manufactures different products for the automotive market, mulled changing its plan for the first time in 25 years, but management feared that the new plan would undermine the representatives’ working environment, so it was left entirely unchanged. This makes piloting new plans essential to evaluate costs, engagement of the representatives with them, the ability of the firm to support them, and so on. This allows the firm to make any necessary changes to the plan before it is rolled out generally (Gundy, 2002).

We have explored here many of the areas to explore, but the thesis will also suggest new ways to look at compensation, not just through technical and mathematical models, but also to help the organization maximize performance and attract and retain the best salespeople. We have looked at the current status of research, the gaps in it, and the many disciplines having overlapping influences on the issue of compensation. All these matters must be considered to pursue optimal compensation planning, and new perspectives are needed. Drawing on the work of the most relevant research, this study will suggest a novel approach to compensating sales representatives, acknowledging that motivating the salesforce is increasingly challenging.