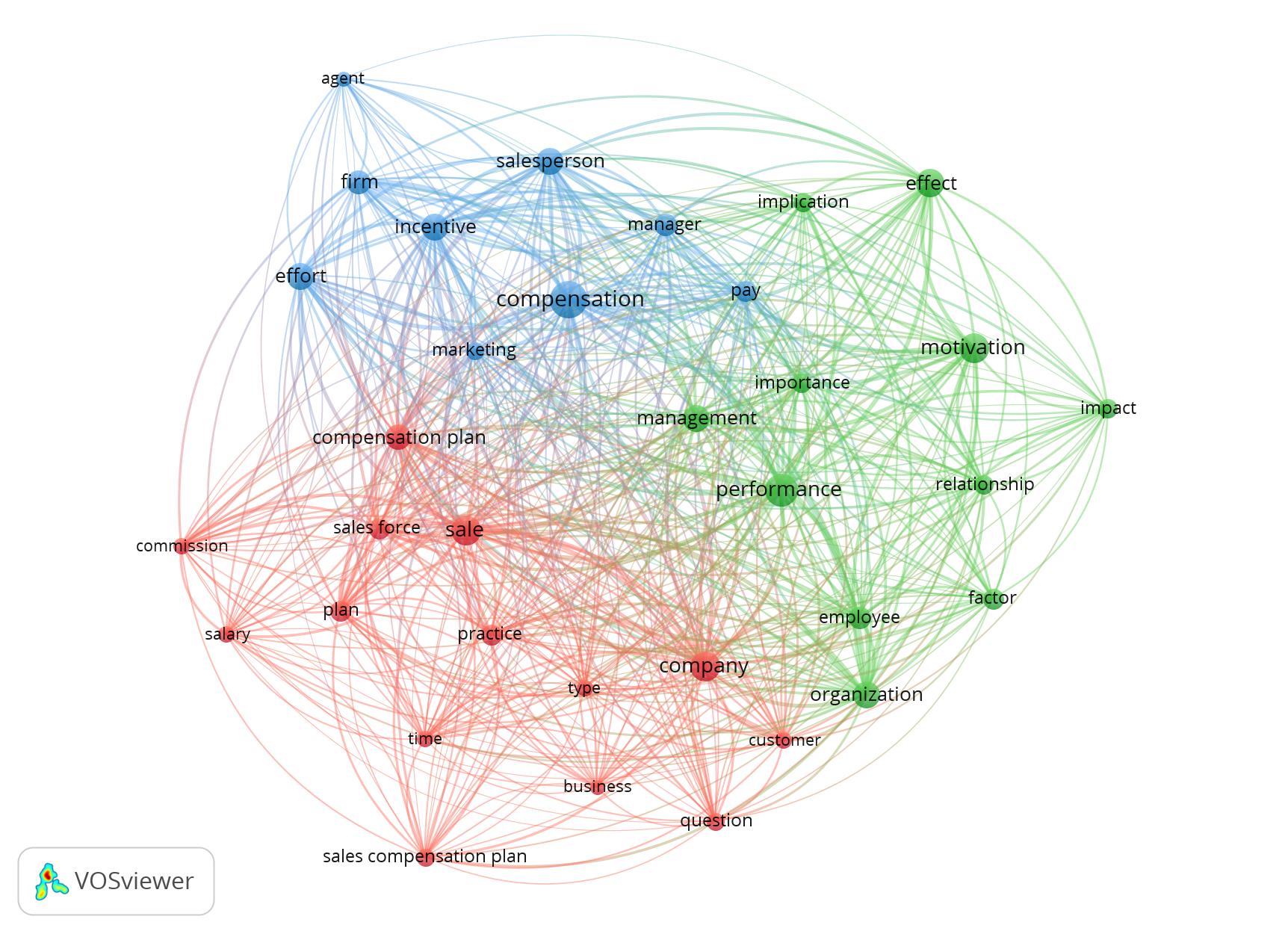
***Introduction***

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 that retention.

Developing compensation plans involves multidisciplinary dimensions incorporating psychological, economic, mathematic, and even IT-related dynamics, with the literature on the topic vast, intricate, and complex. This review investigates the various aspects of and assessments required in designing, evolving, and implementing such plans, as well as 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, but also identifies the gap in that literature which 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 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). Drilling down into these three principal clusters, the review explores the challenges of designing the optimal sales compensation plan, with key topics like compensation packages, quota setting, the involvement of managers, new sales role, sales contests, risk aversion as well as other design considerations and tips for plan designers. The chapters that follow this one deal with issues of retention, support plans, implementation of new plans, and heterogeneity.

Proper design of sales reps’ compensation packages is crucial for any organization’s success. And, as Bowen et al. (2023) point out: “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).

***Rep motivation***

Motivation may be the most important factor for having and maintaining an effective and performance-driven salesforce (Reddy, 2019). Therefore, the most important task of an organization is building and maintaining a highly motivated salesforce, and one of the obvious tools for achieving this task is a compensation plan. Motivation has many different dimensions, but this review focuses on individuals’ rather than team motivation. Akbar (2021)’s study of one particular organization shows clearly how motivation influences performance and that compensation is the main influence on motivation. As this research suggests, the nature of their personal compensation plans, the main focus is the main driver of individual sales reps’ motivation levels.

The links between compensation, motivation, and performance is well described in the literature. Highly motivated sales reps 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 reps’ compensation and their motivational 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 reps 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 motivation tends to describe it in intrinsic and extrinsic forms. Intrinsic motivation is that which someone creates within and for themself, while extrinsic motivation is 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 reps (see, for example, Mallin et al., 2017; Solbach, 2021; Good et al., 2022).

One can see compensation plans as reward systems that are extrinsic motivation, but they can influence intrinsic motivation as well. This is one illustration of how these two types of motivation are not discrete (Solbach, 2021). However, the more reps 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 are one way to do so (Fatima, 2017).

Pullins (2001) is a study of how different compensation plans differentially affect reps’ intrinsic motivation. Fatima (2017) also demonstrates the strong relationship between compensation plan and intrinsic motivation. Enhancing reps’ intrinsic motivation also improves their well-being, adds to the team spirit, and reduces ugly competition between the reps, among other positive effects (Solbach, 2021). Much research has been conducted on sales reps’ well-being and this should be a growing concern for organizations’ stakeholders as this topic becomes more prominent (Dugan et al., 2023)

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

Factors other than the compensation plan may influence the intrinsic motivation of sales reps, 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 influences reps’ intrinsic motivation: The more they identify with the brand and the organization, the higher the intrinsic and extrinsic motivation (Mallin et al., 2017). It has been shown that, in some cases, discussions with the sales reps and listening to their feelings and wishes can influence motivation even more than increasing their incentives (Good et al., 2022). However, this study’s focus is largely restricted to ways of influencing motivation levels through compensation plans.

The perception of organizational justice within their firms is also an important positive influence on reps’ 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, can create positive competition and increase collaboration between team members (Long and Naisry, 2020), aid explanation of the reasons for certain decisions being made (Grensing-Pophal, 2023). Organizational justice also implies paying extra to top performers, motivating them and aiding their skill enhancement and their colleagues alike. The literature has long shown that extra pay incentives for top performers is necessary (Tallitsch and Moynahan, 1994). This is valid when organizational justice is also present and compensating top performers is not perceived as simple favoritism (Miao et al., 2017).

Training for sales reps, organized by the company, is another important factor in influencing salesforce motivation. Training serves as a great tool for motivating sales reps and developing their work (Fernández and 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. (2018)’s extensive review of sales rep motivation amply demonstrates the diverse challenges the sales world faces today in this regard, including new roles for sales reps (a topic addressed in depth in this thesis), cost-cutting goals, new skills required, and, of course, how the younger generations of reps need to be addressed by organizations. The study clearly shows how sales rep 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) state 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). They see one of the influences on motivation levels as pay and compensation, believing pay for performance as effective but arguing that there are several additional factors to consider in order to foster motivation, including differentiation between simple and complex tasks and maintaining reps’ 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 organization’s use of sales contests which, if poorly designed with inappropriate, can demotivate the salesforce (Coughlan and Joseph, 2012) and this study will examine this issue in detail.

The COVID-19 pandemic has taught us new lessons about motivating sales reps, given its fostering of more remote working remotely. New ways of generating sales beyond face-to-face contact were implemented. The challenge of motivating reps remotely is an area that calls for future research (Lundback and Sarkimukka, 2021). Although COVID-19 has changed some of the ways sales reps engage with customers—for example through videoconferencing tools like Zoom—face-to-face interaction remains crucial, particularly in B2B scenarios. In-person sales reps-customer remains 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) identify 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 containing as many motivators as possible while also being simple enough for the reps to understand and for the organization to follow. As Roberge nicely puts it: “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 reps choose the right plan for themselves, but recommends them according to their motivational drivers, their needs and their 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 go through, quota setting, bonus versus commission rules, tips for designing the optimal plan, plan components, the pay mix, varying sales roles, and other matters (see, for example: Madhani, 2009; Madhani, 2015; Gundy, 2002; Coughlan et al., 2012).

The importance of good compensation plan design is very clear and we have seen how the correlation between compensation motivation and performance is very strong, as shown in many studies. Freedman (1986), an important and pioneering study in this area, discusses seven stages of plan design. Freedman recommends beginning by defining the role of the particular sales rep, as we will discuss 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 we also discuss later. Conlin (2008) adds three more stages to Freedman’s and draws our attention to the issue of company goals when designing the optimal plan. Conlin states that the first stage of the design is aligning it with the company’s vision and targets, before even looking at the environment or the sales rep’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 reps 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 argue that a good plan should be multidimensional. As sales reps’ 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 reps need to expend 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***

The pay mix is the ratio between the fixed component of the remuneration and the variable/incentive-related part. Variable pay has been shown to increase sales reps’ effort, performance, and motivation level (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.

The most common compensation plan for sales reps in the past was a low base salary and a high commission rate (Darmon and Rouziès, 2002), the idea being that the greater the incentives sales reps receive, the greater their selling efforts will be. However, recent studies have shown that this model might not be optimal nowadays (Chung, 2015). Chung shows that when designing and especially when improving a plan, there is usually no imperative to increase the variable incentive element of the remuneration, since the study demonstrates that increasing the variable element does not improve reps’ 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 reps. The fixed salary is creating trust between the firm and the rep and is one of the factors that increases retention and lowers turnover of sales reps in organizations (O’Donnell and Marsh, 2022).

Some studies suggest that the pay mix should vary by factors such as career life-cycle (Madhani, 2014), marketing efforts (Madhani, 2015), and even behavior-related elements like the methods of meeting quotas, not just performance alone (Wakabayashi, 2022). Surprisingly, research has shown that the pay mix has no correlation to age, but that there is a strong correlation between sales rep seniority and education level (Coughlan and 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 reps 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 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. Research has shown that when the incentive proportion of reps’ 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 bonus and commission in the pay mix. The variable part of the pay mix can translate into different types of incentives, the most common being bonuses and commission. Commission is usually a part, normally a percentage, of the rep’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 the literature exhibits no consensus on which is the best. Commission is more commonly used for salespeople. Kishore et al. (2013) is an interesting study in this regard on a pharmaceutical company, evaluating the change in performance of switching its entire salesforce from a bonus to a commission plan. The research, evaluating 14,000 monthly observations, determined both that reps preferred commission-based compensation and that it was more effective and lucrative for the firm. However, it also showed that bonus plans were much more effective for additional tasks (e.g., extra sales calls) and on job related targets. A plan that offers only commission can create difficulties in motivating the rep 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 commission and bonus 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), a study of 294 salespeople who sell complex and innovative products evaluated the influence of incentives on the sales reps’ problem 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 reps’ performance and motivation but also on their willingness to problem solve and, thus, directly influence the customer.

Anther 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 base salary relatively increases. This gives reps 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 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 is 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 and 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 demotivate reps and/or damage their sales performance (Teau, 2013). At least 75% of the salesforce should achieve their quota. The rest are either the top performers (12.5%) or sales reps who did not meet their quota (12.5%) (Gundy, 2002). This is a very important 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 reps do not meet their quotas, they will usually lose income and setting quotas too high may demotivate them, as we have noted. Setting the quota too low can cost for the organization while not necessarily improving performance (Winter, 2004).

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

Some studies recommend involving the sales reps in quota setting to engender strong commitment to the company’s targets and aims on the rep’s side (Gundy 2002; Chung, 2015; Chung et al. 2020, Sands, 2000). In some cases, letting sales reps both set their quotas but also other goals to be achieved and compensated for is seen as appropriate (Bommaraju and Hohenberg, 2018). The literature also suggests that letting reps set their own targets and choose their reward for achieving them may both improve sales outcomes and encourage reps to embrace targets and identify with the organization (Brooks, 2019). Where sales reps have a direct influence on the profitability of their sales, setting a profit quota is recommended as well, as this should lead to higher profitability (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) deeming them is the most effective tools for motivating the salesforce. Sales contests can be a part of the compensation plan but also stand-alone components. They can be individual or a team-based (Roberge, 2015). While sales contests are mostly effective as a short-term incentive (Bullemore and Cristobal-Fransi, 2018), they are occasionally good for motivating reps and aligning them with the organization’s goals (Coughlan et al., 2012).

Designing them needs 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) has demonstrated that different types of salespeople react differently to the same sales contests and that assuming all reps are the same is a big mistake. The study shows that sales reps with high risk aversion (see below) do not generally respond positively to sales contests, but that the more effective kind for all types of rep is a “winner takes all” one. The value of sales contests as a tool remains debatable, as this study will explore.

***Risk aversion and heterogeneity***

Sales reps’ levels of risk aversion have influenced compensation plan design. Oliver and Weitz (1991) describes how to measure a salesperson’s risk aversion, a good tool that can identify positive factors to include in a compensation plan. The most effective reps are the low risk averse ones (Rubel and Prasad, 2016).

Determining reps’ risk aversion is not only important for designing the optimal compensation plan, but also for better understanding the threats and opportunities around it. Firms should invest effort to recruit low risk averse sales reps, 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 rep, it is more effective to have a linear compensation plan that has a base salary and a fixed share of the sales (Yu and Kong, 2020).

The literature recommends assessing reps’ risk aversity when designing an optimal plan for them (Chen et al. 2018; Yu and Kong, 2020), but does not discuss the option of letting reps choose their own plan, relate risk aversity to other parameters in the design of a plan, or address the fact that most organizations only offer a single compensation plan to all their sales reps.

Different people are motivated by different factors. The most relevant work on this topic is Dalgord et al. (2016), which explains that the model of homogeneous contracts for heterogeneous sales reps may not always be a good idea: It may be cost effective for the firm, but fail to generate optimal sales performance, so 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 its reps 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 rep chooses his contract, but their otherwise excellent study fails to relate the compensation plan to reps’ motivation, their demographics, their particular career stages, and ways in which compensation plans can attract and help retain the best reps. They rather focus mainly on the cost of such plans to the firm. This thesis aims to address that shortcoming.

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

Patil and Syam (2018) also investigates the influence of specialized personal incentives (SPI) on the performance of the sales reps and finds that creating personal incentives may increase sales performance in some cases, depending on the individual rep’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, a critical factor when the rep 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 are found 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 reps.

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 reps’ performance. One empirical study of over 1,400 sales reps showed the harmful effects of variable compensation on reps’ health, evidenced in increases in stress, emotional exhaustion, and higher sickness absence and recommended limiting such variable remuneration (Habel et al., 2021). Solbach et al. (2022) recommend discarding classic pay-for-performance (PFP) concepts in favor of team bonuses, overachievement rewards, and even increased base salary. As already noted, Madhani (2021) also argues that variable compensation may encourage that sales reps 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 it operates within, and the types of sales rep 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 rep and recommending the best plan for him/her to choose, while also letting them choose their own (not just elements of one). This thesis sets out a new design scheme that takes all of this into consideration in order to better address motivational factors and addresses relevant research gaps.

So far, this section has addressed matters mostly from the rep’s perspectives, motivations, and performance levels, but one cannot ignore the cost of the compensation plan. A great plan that the company cannot sustain over the long-term is self-defeating (Leake, 2000). It is to the company’s side of things that we now turn.

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

Sometimes the interests of the company and the salesforce 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 rep payroll. Paying more in incentive pay to the salesforce will, other things being equal, harm the company’s bottom line, so the goal of a good compensation plan is to find the right balance between pay and profit for the company.

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

The company has to address other matters when looking into a compensation plan, which may be general, product-, or industry-related. For example, supply chain is an important consideration for companies that sell a single product with limited stock when designing a plan. This scenario is elegantly presented in the theoretical model in Xiao and Xiao (2020). Another issue, mentioned earlier, is compensation plan transparency, something proven to positively influence motivation and performance levels and may improve collaboration and team spirit among reps (Long and Nasiry, 2019). It is very important to communicate the plan and its rationale well. Open channels of communication enhances trust and reps’ 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 incentive (Roberge, 2015). Roberge, (2015) shows the importance for fast-growing companies of increasing incentives, with sales contests a practical tool for this purpose.

***Compensating sales reps for new roles***

One of the major challenges in designing compensation plans relates to the changing roles salespeople play now. Many businesses today see sales reps as not only deal closers but also as the company’s long-term contact point with the customer. The sales rep 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 is extensively described by Hughes and Ogilvie (2020), who raise many useful questions for plan designers.

Classic PFP and other forms of variable pay can be problematic for such sales rep/ account managers, since account management is a separate discipline that should be compensated separately. Paying reps who perform as account managers only in commission is a bad move (Ryals and Rogers, 2005). Understanding the new roles typically played now by sales reps has brought about an understanding that they should not be judged on performance alone (Bolander et al., 2021). There are many methods to compensate sales reps 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 out of the hands of the sales rep, who stays 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 the long-term relationship). This can be a good combination for acquiring and retaining customers (Kim et al., 2019).

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

The involvement of sales reps 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 has a direct influence on his 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, is also recommended, as the work of the salespeople influences the entire organization (Rouziès and 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 rep’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 is much greater than the threats of possible conflict (Waiser, 2020).

Some studies emphasize 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 improves the motivation of both employee and manager (Lu and Kittimanorom, 2019).

While managers being compensated for the sales performance of their reps is well-recognized, paying managers for their salesforce’s ABIs is less so. An ABI is a bonus related to specific activities the reps 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 reps’ ABI performance, sales results and productivity increased by 7–9% (Rao et al., 2021). Management obviously strong influences on salesforce motivation levels. Mallin and Ragland, (2017), based on data collected from 128 salespeople, showed that sales managers’ direction of sales reps positively influenced their motivation and performance, whether their motivation was predominantly intrinsically or extrinsically driven. Other studies have demonstrated a positive correlation between compensating management and the motivation levels of their subordinates (Emmanuel, 2020; Baskoro et al., 2021).

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 match 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 overachievement 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 very important to address other talents than performance-related ones. Some reps make a positive difference through 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 and Berger, 2015).

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

Cespedes (1990) argues that selling behavior 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 from the sales rep to wait for rather than influence results, the pay for the same result should vary. It is very dangerous 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 and 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 reps that 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. (2011)’s study empirically demonstrates a correlation between high levels of incentive pay and retention of the best sales reps in industrial sales, particularly important for low risk-averse, high-ability reps. However, increased incentives should not only be measured in absolute terms. Joseph and Kalwani (1992) shows that the incentives should be above the relevant industry average in order to retain good reps. 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. Organization 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 and 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 retention of good people salespeople, as in other industries. Managers’ respect for and recognition of their staff positively influences the extrinsic motivation that aids retention of reps (Lagace et al., 1993).

The importance of the relationship between sales managers and sales reps is even greater for millennials and Generation Z-ers. Generation Z-ers are strongly positive 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 the plan. Automated sales compensation management is critical, not only for simplifying matters for the company and the rep 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 bad consequences from doing so (Ryals and Rogers, 2005). However, plans need to change periodically, especially in relation to at 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. (2021)’s study of one firm that 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 reps left to pursue careers elsewhere. Changing the compensation plan ultimately failed.

Even when a change of plan on the table is good, it is not always easy to get management buy-in to implement the change. Chung (2019) shows how Roush Performance, which manufactures different products for the automotive market, had mulled changing their plan for the first time in 25 years, but management feared that the new plan would undermine the reps’ working environment, so it was left entirely unchanged. This makes piloting new plans essential to evaluate costs, engagement and of the reps 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 study 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 of these matters must be considered to pursue optimal compensation planning and new perspectives are needed motivating the salesforce is increasingly challenging.