**Literature review – 7th draft**

Companies around the world are facing the challenge of retaining their best sales reps for long periods. This research suggests that one of the tools companies can use to retain sales people is investing more time in the sales compensation plans that they are offering their salesforce.

Compensation plans is a multidisciplinary subject. It involves Psychology, Economics, Mathematics and even IT. Therefore, exploration and reviewing the literature on this subject is vast, complicated and involves many intra-connections. In this review the author presents the different aspects of compensation plans, as explored in the literature so far.

This paper investigates the different angles and considerations of designing a plan, changing a plan, executing a plan, as well as other environmental and industry related factors that can influence the success or failure of a compensation plan. This review does not only present a detailed description of what the research on my topic has found in the last four decades, but also presents the gap in which this research fits in.

To better understand the different aspects of the subject, the researcher used VOSviewer tool (Waltman et al., 2010) to create a map of all relevant keywords that appeared in the literature in this review. The map presents the interconnections between the different aspects of the topic and discloses the complexity of the subject. At the same time, it helps to distill the most important factors needed to be discussed while exploring the subject.



This review focuses on the main three clusters shown in the map: motivation (types, drivers, mindset and influencers), compensation (design, incentives and different pay mix) and company (organization, sales role and customers). This literature review has several sections and sub sections: coming out from these three main clusters and exploring the challenges of designing the optimal sales compensation plan, taking into consideration main topics like pay mix, quota setting, involving managers, new sales role, sales contests, risk aversion as well as other design considerations and tips for plan designers. The following chapters deals with issues of retention, supporting plans, implementing new plans and heterogeneity, which is an essential part of this thesis.

Sales reps compensation is crucial for the organization's success. "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" (Bowen et al., 2023, P. 20).

**Motivation**

Motivation is maybe the most important factor for having and maintaining an effective and performance driven salesforce (Reddy, 2019). Having a motivated salesforce is one of the top influencers on the firm's performance. 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. In Akbar's (2021) research, on a single organization, he clearly demonstrated that motivation influences performance, and compensation is the main influencer on motivation (Akbar, 2021).

As motivation has many different angles, this literature review and article focuses on motivation of individuals (as opposed to team motivation). As this research suggests personal compensation plans, the main focus is the motivation of individual sales reps.

The linkage between compensation, motivation and performance is well described in the literature. Highly motivated sales reps will demonstrate high productivity, and also deliver better sales performance. The main factor to achieve high motivation is having an effective plan that will create incentive, especially in the short term but hopefully also in the long term (Reddy et al., 2019).

Even early literature presented a strong linkage between sales compensation and motivation. Though there is a need to modify the plans according to the industry and the product sold, there is no doubt that the compensation plan is the main motivator for the salesforce to achieve better performance (Winer, 1976). This statement was validated in many studies and many industries. One of them showed that compensation plans are very effective in motivating and improving performance of sales reps of breweries in Nigeria (Ipuele et al., 2019).

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. In this type of selling, motivation can be even more critical than other products sales (Mullins et al., 2020). It is expected from a firm, not only to create, but also to maintain a high level of motivation constantly in order to enable value based selling.

When discussing motivation, the literature tends to describe two main forms of motivation: intrinsic and extrinsic. The first one, is described as something someone does for himself or herself, as a part of his passion, nature, etc. The second one, is doing something in order to achieve something external, or to please someone or receiving an award (Reiss, 2012). Intrinsic and extrinsic motivation has been quite often in the discussion regarding sales reps (Mallin et al., 2017; Solbach, 2021; Good et al., 2022).

On one hand, the compensation plan is a reward system that may be perceived as extrinsic motivation. On the other hand, the compensation plan can influence intrinsic motivation as well. This is one example why these two types of motivation are not detached from each other (Solbach, 2021). However, it is shown that the more reps are intrinsically motivated the higher performance they will demonstrate (Cerasoli, 2014).

Therefore, one of the challenges of organizations is to influence intrinsic motivation to improve performance. Compensation plan has proved itself as one of the firm's tools to do so. It has found that the compensation plan has an impact on intrinsic motivation and thus on the salesforce performance (Fatima, 2017).

Pullins (2001) has studied the implications of different compensation plans on the intrinsic motivation of reps, and has found that some plans may result in a positive impact, and some may result in a negative impact on the intrinsic motivation of the sales reps. He demonstrated the direct connection between the plan type, and the intrinsic motivation of the rep (Pullins, 2001). Fatima's (2017) review has demonstrated the strong connection between compensation plan and intrinsic motivation throughout the years (Fatima, 2017).

Intrinsic motivation has many other benefits besides the performance of the rep. It has found that intrinsically motivated reps' well-being is better, they contribute more to the team spirit, they decrease ugly competition between the reps etc. (Solbach, 2021). Of course, all of these come on top of better performance as mentioned earlier.

Sales reps well-being is a topic that interests research for quite some time. Many possible connections between organization's performance and the well-being of its sales reps were investigated and will be investigated in the near future. This issue should become more important for the organization's stake holders as this topic becomes more relevant nowadays (Dugan et al., 2023)

Research done in Addis Ababa showed very interesting findings. The research focused on medical representatives in pharmaceutical companies, has shown that there is no correlation between motivation and demographics. The findings showed that age, education, gender, and experience did not influence differently the motivation of the sales reps. However, Once again, it demonstrated a direct connection between compensation and motivation especially when financial incentives are practiced (Mesfin, 2018). This thesis revisits the influence of both demographics and job lifecycle on motivation.

Aside from the compensation plan, there are other factors that may influence the intrinsic motivation of the sales rep. These can be autonomy, competence, and relatedness. Again, there are inter-connections between these influencers and the compensation plan, however, they may also influence the rep with no connection to the plan (Solbach, 2021).

Another important influencer on the intrinsic motivation of the rep, is the brand identification. The more the rep is identified with the brand and the organization, the more intrinsically and extrinsically motivation was observed (Mallin et al., 2017). However, as my research aims on influencing motivation using a compensation plan, the author does not dive too deep into factors that are not related to compensation and incentive. It is also important to mention that sales compensation plan is a tool that any company can use whether they sell a strong brand or a no name brand.

It has shown that in some cases, that 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). Organizational justice serves also as an important influencer on the motivation of the reps. The more justice is practiced the higher motivation observed (Wolor et al., 2019). As this research is dealing with different plans to different salespeople, it is important to maintain organizational justice in order to be successful.

One of the methods to achieve organizational justice is practicing transparency. Previous research has shown that wage transparency benefits the firm. This can create positive competition and increase the collaborations between the team members (Long & Naisry, 2020). Another important role of wage transparency is better explaining the reasons why certain decisions are made (Grensing-Pophal, 2023).

An additional aspect of organizational justice is paying extra for the top performers. Even early literature shows that extra incentive for top performers is necessary (Tallitsch and Moynahan, 1994). Paying top performers not only helps in motivating those reps, but also contributes to motivating fellow reps and improving their skills. Again, this is all valid when organizational justice is present, and compensating top performers is not perceived as a compensation favoritism (Miao et at., 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).

The extensive review on sales rep motivation done by Khusainova et al. (2018) amplifies the diverse challenges the sales world has today in influencing the motivation of the sales reps. They describe factors like the new sales role of the reps (will be addressed deeply later), cost cutting goals, new skills required to be successful and of course the new generations (Millennials and Generation Z, born in 1981-2012). The entire arena of sales rep motivation needs to be redefined (Khusainova et al., 2018).

Another important topic to mention in the exploration of motivation is Self-Determination Theory (SDT). Self-Determination Theory is a macro theory that investigates both intrinsic and extrinsic human motivation. "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" (Deci et al., 2016 P.20).

One of the influencers on the motivation according to their theory is the pay and compensation. They believe that Pay for Performance is an effective compensation system, however they think that there are several additional factors to consider in order to create positive motivation. These factors include differentiation between simple and complex tasks, psychological health and well-being of the rep, etc. (Deci et al., 2016).

When discussing motivation and designing a compensation plan, there is a need also to mention possible factors that may create negative motivation. A plan designer should avoid any factors that may result negative motivation for the sales reps of the organization. There are several factors that mya influence negatively on the motivation of the sales force.

One of these factors is described by Bowen et al. (2023). In their review, they mentioned ratcheting quotas (quotas update within the quota period based on past performance) as one of the factors that is influencing negatively on the sales rep's motivation. Another possible factor is sales contests.

The design of the sales contests as well as their possible influence on specific sales reps may result the opposite outcome: dis-motivating the salesforce (Coughlan and Joseph, 2012). Selecting and defining critical parameters are crucial for the design of the right sales contest. This research investigates and discusses sales contests and other factors that may result in negative motivation of the sales reps.

Of course, the recent pandemic has taught us new things about motivating sales reps. COVID-19 has created a new sales environment that involves working remotely. In a world where most of the interactions are face-to-face, a new way of generating sales and working with sales reps was implemented. This challenge of motivating the reps remotely opens a new gate for future research (Lundback and Sarkimukka, 2021).

Although COVID-19 has changed the way sales reps engage customers (using video conference tools like Zoom), the face-to-face interaction remains crutial, mainly in B2B. This means that the interaction of sales reps and customer, in person, still counts as one of the most important factors for business to generate 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 has a major role in this task, but it is clearly not the only factor, and there are other influencers on motivation, as presented. The top influencers on motivation are compensation, job enrichment, training and enlargement (Tumi et al., 2021). The goal of a good compensation plan is to motivate salespeople – intrinsically and extrinsically. The plans that this work presents will have this task as a primal one.

The many influencers on motivation will have to be considered when the design of a different compensation plan will take place. A good plan should include, on one hand, as many motivational factors as possible. However, on the other hand, it should still be simple enough for the reps to understand and for the organization to follow. As Roberge nicely phrased it "Salespeople should not need a spreadsheet to calculate their earnings" (Roberge, 2015, p.74).

This work also fills the gap between the motivational factors and the compensation plan. It will not only let the sales rep choose the right plan for him or her, but also recommends which type of a plan is recommended for him or her, according to their motivational drivers, their needs and their wishes.

**Compensation**

Looking at the literature on compensation plans the most common subject that researchers focus on is the design of a compensation plan. The research on design of a compensation plan is sectioned into many areas: different stages the design should go through, quota setting, bonus vs. commission rules and tips for designing the ultimate plan, different plan components, pay mix, different sales roles etc. In the following chapter, this paper will review the research done on the design of a compensation plan and present the complexity and the different angles the research has explored so far (Madhani, 2009, 2015; Gundy, 2002; Coughlan et al., 2012).

The importance of a good design of a compensation plan is very clear. As showed earlier, the connection between compensation motivation and performance is very strong, and has been proven by research many times. It is clear, that a good plan should create the right motivation to improve performance.

One of the essential studies on design discusses 7 different stages in designing the perfect plan. Freedman (1986), one of the pioneers in this area, recommended beginning the design by defining the sales role of a rep (an issue the author will explain later in this review). The next stages should include understanding the environment, and competition before selecting the target, pay mix and incentive. The last stage according to Freedman is piloting and communicating the plan (Freedman, 1986). This is a crucial stage will discuss towards the end of this review.

22 years later Conlin (2008) added 3 more steps to Freedman's planning stages and has raised the issue of the company's goals when designing the optimal plan. Conlin grasps that the first stage of the design, is aligning the design of a plan with the company's vision and targets, before even looking at the environment or the sales rep's needs and wishes (Conlin, 2008).

Achieving company's goals requires also discipline on top of the right compensation. Discipline has many aspects; the main purpose is setting rules and regulation by the company to make sure the work is being done in a certain manner. It wants to make sure the sales reps are doing their job according to the organization's policy and to social norms the organization adopts. Enforcing discipline in a sales compensation plan will improve the organization's performance (Sitopu et al., 2021).

Many other studies also emphasize the fact that a good plan should be multidimensional. As a sales rep's job is multidimensional, there is a need for a multidimensional plan. One of the dimensions is the efforts the rep is required to invest in an average sale. These efforts are sometimes measurable and can be used as a factor in compensation (Erevelles et al., 2004).

**Pay mix**

When evaluating a compensation plan, one of the main considerations is the pay mix. Pay mix is the ratio between the fixed component of the remuneration and the variable/ incentive part of the income. Variable pay has been proved to increase the sales rep's efforts, performance and motivation level (Madhani, 2009). The pay mix is a well-studied issue in the quest of finding the right balance between the fixed and the variable proportions of the pay.

In the past, the most common plan to compensate sales reps was a low base salary and a high commission rate (Darmon and Rouziès, 2002). The idea behind this perception, was that the bigger the incentive the sales rep receives, the bigger the effort he or she invest in the selling process. However, Modern studies show that this model might not be optimal nowadays (Chung, 2015). When designing a plan, and especially when improving a plan, in most cases, there is no need to increase the variable incentive part of the remuneration. The study demonstrated that just increasing the variable pay, did not improve the performance of the reps. 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 change depending on different factors. These factors can be career life cycle (Madhani, 2014), marketing efforts (Madhani, 2015) and even behavioral elements, like the way to achieve the quota, and not only the performance by itself (Wakabayashi, 2022). However, surprisingly, research has proven that the pay mix has no connection to age, but a strong connection to the seniority of the sales rep and the education level (Coughlan and Narasimhan, 1992). In this research the author pays attention to these different factors in suggesting the right pay mix in the different plans that this plan will suggest.

Organization can easily become addictive to sales incentives. The more complex the sale is, organizations tend to increase the proportion of the pay mix in favor of the incentive pay. For example, high tech and medical reps might have a variable proportion of 50%-60% of their pay. Saying that, it is important for organizations to limit the variable parts even when sales are complicated, and sales efforts required are high (Zoltners et al., 2012).

As written earlier, organizations, especially today, need to look not only at achieving the sales quota, but also on how the quota was achieved. Research has shown that when the incentive proportion is high, organizations are at higher risk of sales ethics issues that may harm customer satisfaction along the way (Madhani 2021).

To the discussion on the pay mix and its different considerations there is a need to add the debate between bonus vs. commission. The variable part of the pay mix can be translated to different types of incentives. The most common incentives in compensation plans are bonus and commissions. Commission is usually a cut, most commonly, a percentage of the sales, generated by the rep. Bonus, however, is in most cases, a fixed amount that is being paid for certain achievements, like achieving a quota, completing sales assignments etc.

Each one of these compensation methods has advantages and disadvantages. The literature shows no agreement on the winner in this debate. In practice, commission is more commonly used to compensate salespeople. An interesting study in this field was done on a pharmaceutical company and evaluated the change in performance switching their entire sales force from a bonus plan to a commission plan. The research that has evaluated 14,000 monthly observations, determined that commission is not only more desired by the reps, but also more effective for the firm and generates better sales results (Kishore et al., 2013).

However, things are not so simple as it seems. Bonus plans are much more effective when it comes to compensating reps for additional tasks (i.e. number of sales calls) and on job related targets (Kishore et al., 2013). A plan that offers commission only to the rep might create difficulties in motivating the rep in the last period of the quota (if the quota is already achieved or not achievable). In this case it is suggested to have periodical incentives, and not only annual incentive (Schoettner, 2017). Maybe the resolution of this debate is creating a mix of both commission and bonus within the same plan (Chung et al. 2020).

Pay mix is not connected to sales results only. A study that involved 294 salespeople, who sell complicated and innovative products, evaluated the influence of the incentives on the problem-solving behavior of the sales reps. The results showed that increasing the incentive (variable component) of the income had a negative effect on problem-solving behavior and innovative service selling (Alavi et al., 2021). This can implicate that the pay mix may have an influence not only on the performance and motivation of the rep, but also on the problem-solving attitude of the rep and a direct influence on the customer.

Anther possible method to deal with the pay mix, is building a plan where the incentive in the first year are very high, and in three years period the incentive decrease and the base salary increases relatively. This system allows the rep to have a bigger fix portion of his pay once he has more experience and has proven his sales skills (McGhie, 2022).

Reviewing the literature on pay mix, has presented clearly that a good plan should have a decent base pay, periodical and annual bonus/ commission and a set of incentives that will drive not only performance but also the activity and the behavior of the sales reps according to the firm's DNA and code of conduct. This study will address the pay mix issue when designing compensation plans.

**Quota setting**

Commission and Bonus pay is usually connected to quota. Quota setting is one of the most researched areas in sales compensation plan studies. Quota is the sales target of the sales rep. The sales target can be quarterly/ annually/ multi-year, etc. While setting the right quota has a direct influence on motivation (Lai and Gelb, 2019), the most important thing in understanding quotas is to accept the fact that quota will never be perfect (Sands, 2000). Once this is understood there are several aspects in quota setting to better understand the challenges and possible resolutions.

The quota needs to be fair and achievable. Otherwise, it may have a negative effect on the motivation and performance of the rep (Teau, 2013). The main goal is that at least 75% of the sales force will achieve their quota. The rest (25%) are the top performers (12.5%) and sales rep who didn’t meet their quota (12.5%) (Gundy, 2002). This consideration is a very important one, for designing and defining the right quota. This can also be a good benchmark for piloting a new plan.

Quota is one of the most delicate parts of the compensation plan. If a sales rep does not meet his quota, in most cases his income will suffer a significant loss. Setting the right quota is a fragile process. Setting it too high may de-motivate the sales rep (as mentioned above). However, lowering the quota can have a negative effect as well: increasing cost for the organization and not necessarily improving performance (Winter, 2004).

There is a rich discussion regarding the right period for quota setting: A single period, multi-period, annual, quarterly etc. (Jain, 2012; Chung et al., 2020; Waiser et al. 2022; Sands, 2000). Modern literature grasps that it is recommended to have not only annual quota but also periodical (quarterly) quotas in order to keep the salesforce motivated (Chung et al. 2020). An area that remained outside of the research scope is setting different quotas for different types of salespeople. This research will try to address this issue as well.

Some studies recommend involving the sales reps in setting their own quotas. This process will create a strong commitment from the rep's side to the company's targets and goal (Gundy 2002; Chung, 2015; Chung et al. 2020, Sands, 2000). In some cases, it is even recommended to let the reps not only set their quota, but also choose and define other goals to be achieved and to be compensated for, on top of the quota (Bommaraju and Hohenberg, 2018).

The literature also suggests that giving the rep the possibility to set his/ hers own target and choose the reward for it may have good consequences. It might both improve sales outcomes and connect the rep to his sales target. At the same time, it might also better connect him or her to the organization (Brooks, 2019).

When the sales rep has a direct influence on the profitability of his or her sales, it is recommended to consider setting a profit quota as well. This should lead to better profitability as there is a direct linkage between the company's profit and the sales rep's commission and/ or bonus (Zoltners et al., 2015).

**Sales contests**

Sales contests have been proved as a good add-on to the compensation plan design (Coughlan et al., 2012). Some of the researchers even think it is the most effective tool to motivate the salesforce (Roberge, 2015). Sales contests can be a part of the compensation plan but also implemented as a stand-alone component. It can be individual or a team-based contest (Roberge, 2015). While sales contests are mostly effective as a short-term incentive (Bullemore and Cristobal-Fransi, 2018), it is occasionally a good tool to motivate and align the reps toward specific goals of the organization (Coughlan et al., 2012).

Sales contests, however, also require a design attention. Some researchers have studied not only the influence of a sales contest on the results but also the effect of different sales contests on different sales reps. One of them has demonstrated that different types of salespeople react differently to the same sales contest, and assuming all reps are the same is a big mistake. The study has shown that sales reps with high risk aversion (will be discussed in the next paragraph) will not respond positively to sales contests in general. However, if a sales contest is in place, it is more effective for all kinds of reps to have a "winner takes it all" contest (Kalra and Shi, 2001).

As mentioned earlier, it is important for the designer of a plan to be aware that some sales contests may result a negative motivation effect on some sales reps. This study shows that most sales reps would not like to have the sales contests as a part of their compensation plan. Therefore, this tool remains debatable.

**Risk Aversion and Heterogeneity**

Risk aversion of sales reps has been an influence on the design of compensation plans. Sales reps can be divided into high risk aversion, low risk aversion and neutral risk aversion. Risk aversion represents the level of vulnerability of the sales rep and his tendency to deliver good performances for long time periods. Measuring the risk aversion of a salesperson is described in the literature (Oliver and Weitz, 1991) and is a good tool that can recommend different factors of the compensation plan. The most effective reps are the low risk aversion ones (Rubel and Prasad, 2016).

Defining the risk aversion of the rep is not only important for designing the optimal compensation plan, but also for better understanding the threats and opportunities. A firm should invest efforts in recruiting low risk aversion sales reps. It has been shown that this kind of reps are more effective, have higher performance rate, and are much more profitable for organizations (Chen et al., 2018). For this kind of reps, 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 discussion on risk aversion points out that not all reps are the same. It is recommended to consider the risk aversity of the reps when designing a plan. However, the literature does not discuss the option to let the rep choose his own plan. The literature recommends assessing the risk aversity of the rep and according to the findings match the plan that the firm believes is the best for him (Chen et al. 2018; Yu and Kong, 2020). However, these studies do not connect other parameters, other than risk aversion, to the design of a plan. Moreover, they do not address the fact that most organizations offer only one compensation plan to all their sales representatives.

One of the research hypotheses suggests that not all reps are the same: different people are motivated by different factors. The literature had some discussion about this topic that the author would like to present.

The most relevant work on this topic was done by Daljord et al. (2016). They explained that the model of homogenic contract for heterogeneous sales reps may not always be a good idea. The concept of one contract fits all, may be cost effective for the firm, however it might not generate the optimal sales performance. They suggest making minor changes in the contract to better compensate different types of sales reps (Dalgord et al., 2016).

Their theory and mathematical model are based on the fact that the organization knows the different types of its reps and can easily categorize them (which is usually not the case in reality). They also offer an alternative model (that was not tested) in which the rep chooses his contract (Dalgord et al., 2016). However, their excellent research lacks the connection between the plan and the motivational factors for the rep. They did not consider the demographics nor the lifecycle of the rep in their design. Their work did not discuss the possible effects of attraction and retention of the best reps. They mainly discussed the cost of such plans to the firm. This is exactly where this thesis aims to fill the gap.

Another important study on the topic of heterogeneity of sales reps was done by Bommaraju & Hohenberg (2018). They found out that it is essential for organizations to understand the heterogeneity of their sales force and therefor pay attention to the design of a plan when investigating this heterogeneity. They believe that the challenge of keeping the compensation plan simple and addressing the heterogeneity issue is a conflict that can be solved only once the reps understand the sophistication of plan and their bonus or commissions scheme (Bommaraju & Hohenberg, 2018).

Patil and Syam (2018) also investigated the influence of specialized personal incentives (SPI) on the performance of the sales reps. This is in the context of similar incentives for all reps. They found that creating a personal incentive may increase sales performance in some cases. Of course, it has a different influence on different sales reps and has a direct connection to the performance state (low, medium or high performance states) of the rep. (Patil and Syam, 2018).

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

Timing of the bonus and commission is also something that should be considered. A payment that is given at the end of a period, is more motivating than a payment at the beginning of a period (Chung, 2015). Moreover, having quarterly bonuses and not only annual bonuses is more effective. This is even more critical where the rep has a direct influence on the timing of the closing date of the deal (Chung et al., 2013).

One of the latest articles that were published on this issue, claims that adding a long- term incentive to the plan will result better engagement and fulfillment of the long term strategy of the firm. Immediate and short-term incentive are important, but long-term incentives should not be neglected once a company is aiming for a strategic compensation plan (Gupta, 2023).

On the other hand, due to the personality and characteristic of young employees (Millennials and Generation Z, born in 1981-2012), it is sometimes needed to shorten the measurement periods, as these kind of sales reps are looking much more on the short terms results. If we talked in the past on periods of quarters, maybe we should look at month or even on weekly compensations (Athitakis, 2024).

Most of the bonuses and of course commissions described so far are monetary. However, it is important to mention that bonuses can be non-monetary as well. Although financial benefits are more effective in generating and maintaining motivation, non-financial incentives can achieve good results in many cases (Rentola, 2018). Non-financial incentives are found even more effective, when the sales force is satisfied with their overall income (Najmulmunir, 2020). This research evaluates whether non-monetary incentives are of interest for the sales reps.

There are also some concerns and negative implications that need to be considered when designing a compensation plan. One of them is health issues. Parker et al. (2019) were among the first ones to discuss potential collateral damage of pay per performance compensation plans. They discovered that there is a potential that these plans create stress that may damage the performance of the reps (Parker et al., 2019).

An empirical study including over 1400 sales reps, showed the harmful effects of variable compensation portion on reps' health. The study presented an increase in stress, more sick days, and emotional exhaustion. The recommendation was to limit the variable share in order to lower the possible negative effects (Habel et al., 2021).

As a resolution to these negative effects, one of the recent studies on this subject recommends organizations to leave behind the classical pay-for-performance (PFP) concept. It is suggested to consider team bonuses, overachievement rewards and even increased base salary (Solbach et al., 2022).

Another possible negative effect is described by Madhani (2021) in his work about compensation and ethics. There is a risk that sales reps will not demonstrate ethical sales, and will possibly damage the long-term customer relationship. In their pursuit for quota, they might harm the customer's lifetime value and jeopardize the trust, loyalty, and satisfaction of their customers. Ethical sales behavior, or in other words, the way to achieve the sales quota, is something that needs to be looked after as well (Madhani, 2021).

It is clear that designing the optimal plan is a challenging task. Many considerations should be taken care of, and many aspects and dimensions should be implemented in the design. It is also shown that an optimal plan for one organization will not necessarily be an optimal plan for another organization. The plan should be designed according to the DNA of the organization, its goals, the industry and the types of sales reps it would like to have in the organization.

This research handles some of the gaps that were described in the literature when designing a plan. The main gaps this thesis addresses are: (1) Matching between the plan and the rep – not every plan is the right plan to every rep. (2) Recommend the rep which plan he should choose, but give him the liberty to choose his own plan (not only several components of the plan).

This thesis offers a new design scheme that takes into consideration all of the above and also offers new angles that are not yet published. It suggests a bridge between the current quota design to a more contemporary design that have the potential to better address more motivational factors.

So far, this paper presented mostly the rep's side, his or her motivation, and what considerations should be made to have better performance at the end of the day. Another issue that should not be forgotten is the cost of the plan. A good plan should have all the mentioned components, at a cost that is reasonable for the firm to pay. Having a great plan that the company cannot bear cannot survive for the long-term (Leake, 2000). This and other considerations from the Company's side is addressed in the next chapter.

**Company**

This chapter will focus on different aspects of the company when evaluating, designing and implementing a compensation plan. It is clear that sometimes, the interest of the company and the salesforce do not match. While both wants to maximize the sales performance and financial results, the company's profit is influenced directly from the pay to its salespeople. Therefore, paying more incentive to the salesforce will harm the bottom line of the company. The goal of a good plan is to find the right balance between the salesforce pay and the company's profit. In other words, to find what is the plan that will generate the best results with the lowest cost for the company. The right balance is the goal.

Zoltners et al. (2015) defined a few cases where the sales rep's compensation plan should be based on profit and not on the top line. These cases, as mentioned earlier, where the rep has a direct influence on the firm's profit, and where the firm shares with the reps the profit margin data of the sales performance, are classic for profit compensation. By using this method, firms not only will improve their profits but also create a stronger connection between the rep and the firm's goals (Zoltners et al., 2015). This method is perfect for aligning the goals of the company with the goals or the rep as it motivates the reps to generate more profitable deals instead of less profitable deals.

The company has other factors that needs to be addressed when looking into a compensation plan. These can be general or product or industry related factors. For example, supply chain. For companies that sell a single product with a limited stock availability, it is recommended to consider the supply chain when designing a plan. Such a scenario has been nicely demonstrated in the theoretical model that Xiao and Xiao (2020) presented.

Another issue is the transparency of the compensation plan (as mentioned earlier). Wage transparency has been proven to positively influence motivation and performance. Wage transparency will also improve the possible collaboration among reps and improve the teams' spirit (Long and Nasiry, 2019). It is very important to communicate the plan well, and present the rationale behind it. Open communication will improve the trust and will better connect the reps to the plan (Conlin, 2008). This comes together with the positive influence of organizational justice on motivation that described earlier.

A plan should also reflect the growth stage of the company. Literature shows that different growth stages of the organization require different types of incentives (Roberge, 2015). In his research he found out, that for fast growing companies, there is an importance of increasing the incentive, and sales contests found to be a practical tool for this purpose (Roberge, 2015).

**New sales role**

One of the major complexities in designing compensation plans is connected to the change in the role of a salesperson. Today many businesses see the sales reps, not only as the deal closer, but also as the customer's long-term point of contact. The sales rep has become an account manager. This change in the role of the sales rep, also dictates a change in the design of a compensation plan. The evolution of professional sales roles is extensively described by Hughes and Ogilvie (2020) and is offering many questions for future plan designers.

There is an understanding that the classic pay per performance (PFP), variable pay, for account managers (sales reps that not only close a one time deal but have a long-term relationship with the customer) can be very problematic. The requirements and expectations from this kind of reps (account managers), are different and should be compensated separately. Paying reps who perform as account managers only by commission is considered a bad move (Ryals and Rogers, 2005).

Understanding the new role of the typical sales rep brought to the understanding that a salesperson's performance should not be judged only by his or her performance (Bolander et al., 2021). There are many methods for compensating the diverse sales role. These can be an increased fixed component, a dedicated bonus, ABI (Activity Based Incentive) pay etc. (Chung et al., 2021).

Another solution to deal with customer relation management (CRM), is not to put the customer's management in the hands of the sales rep, who is closing the deal, and who hunts for new customers. Organizations may form a team within there are hunters (salespeople who close deals) and farmers (people who take care of the long-term relationship). This can be a good combination of acquisition and maintaining customers (Kim et al. 2019).

**Involving managers**

The involvement of sales reps in the quota setting process brings into the discussion the involvement of their managers in the design process of a plan. At first sight, there seems to be a conflict of interest: a direct manager has a direct influence on his employee's remuneration. However, studies showed that involving managers in the design of compensation plans for their subordinates improves performance (Gundy, 2002; Waiser, 2020). It is also recommended to involve leaders from different functional areas (not only sales managers), as the work of the salespeople influences the entire organization (Rouziès and Onyemah, 2018).

However, there is a need to define a set of constraints to limit the possible conflict of interest. These constraints and limitations should include, for example, a limit on the rep's pay, incentive level etc. Once such constraints are in place, the contribution of the manager to the design is much greater than a possible conflict (Waiser, 2020).

Some studies emphasize on not only involving the managers in the design process, but also include them in the pay program. Again, at first sight looks like a conflict of interests. However, literature reveals that paying managers for the results of their employees improves the motivation of both the employee and the manager (Lu and Kittimanorom, 2019).

While it is easy to understand when managers get compensated for the sales results of their reps, it is less obvious to pay the managers for their salesforce activity-based incentive. Activity based incentive (ABI) is a bonus related to specific activities the rep is required to do in order to optimize his/ her job. A very interesting study done with a pharmaceutical salesforce over three years, statistically showed that when managers get paid for their reps ABI performance, the results and productivity has increased by 7%-9% (Rao et al., 2021).

The management has obviously a strong influence on the motivation of the salesforce. Data collected from 128 salespeople showed that coercive and legitimate power used by sales managers on sales reps, has a positive influence on motivation and performance. This was found valid for both intrinsically and extrinsically motivated salespeople (Mallin and Ragland, 2017).

Other studies have demonstrated the correlation between compensating the management and the motivation of their subordinates. In cases where managers were compensated, the higher the motivation and the performance of their teams (Emmanuel, 2020; Baskoro et al. 2021).

There are some considerations that are relevant to specific products or industries. These can be: long sales circles (how we compensate during the process and not only at the end of it?), post sales incentive (when the sale involves also post sales tasks), customer satisfaction sales goals, effects on other departments, etc. It is important to modify any good plan to the unique environment and the specific challenges of each firm in order to achieve the best performance (Bhadra, 2015).

Quotas, as discussed, is a major part of a compensation plan. However, a good plan should not only compensate for achieving the quota, but should also give extra compensation for overachievements. Compensating overachievements helps to sustain the high productivity and the excellent performance of the top performers. It drives excellency and pushes the entire organization forward (Chung et al., 2013).

This review presented earlier compensation of top-performers and the importance of doing so not only for retaining and attracting salespeople but also as a peer-influencer (Miao et at., 2017). However, it is also very important to address talents as well. Talents are reps who make the difference, not only when it comes to performance. They influence their colleagues, the organization, the customers, and their contribution to the firm is sometimes unmeasurable. A good compensation plan should be a tool in winning talent wars, attracting and retaining talents. This can be done by setting a different base pay, specific annual bonuses, and long-term incentives (Berger and Berger, 2015).

As the new sales role is more demanding, the product is more complex and the environment is more competitive, it is recommended not to use a single dimension compensation plan but a multidimensional one. These plans can compensate for many different factors (and not only top or buttom line performance). These factors may include long-term profit, operational procedures, etc. (Darmon and Rouziès, 2002).

An early study suggests that selling behavior should also be considered when designing a compensation plan. It points out that factors like marketing strategy ("push" vs. "pull"), buying processes and market structure should also influence the compensation plan. For example, if it is expected from the sales rep to wait for results rather than influence results, the pay for the same result should vary (Cespedes, 1990).

Maybe the most important tip for plan designers is that it is very dangerous to copy compensation plans. It is recommended to copy the guidelines and maybe the structure, but it is critical to make the relevant modifications that will fit the company goals, the industry, the sales role, sales structure, sales objectives, selling cycle etc. (Rouziès and Onyemah, 2018).

**Retention**

One of the goals of a good plan is retaining the best salespeople within the organization (Lo et al., 2011). This thesis aims for this task as well: retaining the best salespeople: The reps that have the lowest risk aversion, require less management efforts, have the highest abilities and can sell any product and would have the best influence on the sales team. In the following chapter the author will review the work done on the correlation between retention, motivation and compensation, and present different ideas regarding retention of salespeople.

In a study done in the context of industrial sales, the correlation between high incentive pay and retaining the best sales reps, was empirically proven. In the environment of complex industrial sales, increasing the incentive serves the purpose of retaining the best reps and not only providing a good income. The increased incentive pay is particularly important to the low risk averse and the high ability reps (Lo et al., 2011).

However, increased incentive is not only measured by absolute value. A work done in the beginning of the nineties of the last century showed that the incentive should be above the average incentive in the relevant industry in order to have the retention effect on the good reps as described above (Joseph and Kalwani, 1992). Paying above industry average will not only retain good people but also attract good people to work in organizations that practice this philosophy (Kissan, 1992).

It is clear that retention is not correlated to pay or incentive only. An organization should have a retention strategy. This strategy should include different factors besides compensation. These should include professional development opportunities, leadership, investing more in hiring the right people, practicing open and transparent communication, etc. (Wang and Chen, 2017).

On top of all these, also comes the culture and the vision of the organization and its leaders. A study done in the bank industry in Malaysiashowed that visionary leadership was the strongest factor on retention. Afterwards came the culture of the organization and teamwork (Kosim, 2017). Of course, all of these aside from a decent pay.

As in most businesses, the relationship between the manager and his/ her subordinate is one of the most important factors in retaining good people and also salespeople. Respect and recognition from the manager will influence positively on the extrinsic motivation and will help retain reps for longer periods (Lagace et al., 1993).

The relationship between the manager and the rep has even a larger magnitude in the discussion about Millennials (born 1981-1996) and Generation Z (born 1997-2012) sales reps. Generation Z are strongly influenced by consulting with their managers, while Millennials are very sensitive to the leadership, the relationship with their manager and work-life balance. Millennials are more likely to resign even when they are satisfied with their job. Both generations are looking for a fun environment. All of these considerations come even before 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 piece of information emphasizes the magnitude of this phenomena and requires corrective actions to bring this percentage down as much as possible.

As one of the goals is presenting a concept that will also have a positive influence on retaining the best salespeople of the organization. This work will implement some of these findings in my plans. It will suggest adding to the compensation plan some components that may improve the retention of the sales reps.

**Supporting plans and implementing new plans**

Having a good plan design is definitely not enough. In order to be successful there are several actions and requirements needed. The first consideration should be the ability to support the plan. Automated sales compensation management is critical. Not only that it simplifies for the company and the rep to forecast the commission, but it also creates the transparency and the open communication needed to have better requirements of the salesforce (Conlin, 2008).

Organizational support of the compensation plan is critical for the success of a plan. A plan can fail due to lack of organizational support. Such support involves not only the IT department to provide automated sales compensation management. A good support should include long-term career development strategy, supply chain support, business strategy etc. 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 a compensation plan. Managers often fear from bad consequences that a plan change could result (Ryals and Rogers, 2005). However, there is a need to change the plan from time to time, especially when we look at the career lifecycle (Madhani, 2014). Maybe the first rule to have a successful plan change, requires the assurance that there will be no drastic reduction in compensation (Buehler, 2021).

A study done on a firm that had an average 7% reduction in pay, resulted in a short term good financial result, but a long-term damage to the firm. Their best reps left the firm and pursuit their career elsewhere. The compensation plan change was a failure (Sandvik et al., 2021).

Even when a good change of plan is on the table, it is not easy to recruit the management to implement the change. Roush Performance, which manufactures different products for the automotive market, was evaluating the possibility to change their plan that remained unchanged for 25 years. The management feared that the new plan might jeopardize the working environment of the reps and after a long debate process decided not to change a thing. Not even a mere tweak in the existing plan (Chung, 2019).

This is one of the reasons why piloting a new plan is essential. Piloting a plan is a multipurpose process. It evaluates the cost, the engagement and connection of the reps to the new plan, the ability of the firm to support the plan etc. This process enables the firm to make the right corrections and changes to the plan before it is rolled out to the entire salesforce (Gundy, 2002).

The author believes the research grounds for this thesis are set. Many of the components of this research were already discussed. However, this work will suggest a new way to look at compensation. Not only a technical and mathematical model, but something that will change the toolbox the organization has to maximize performance while attracting and retaining the best salespeople in the industry.

This review helps understanding the current status of the research and the gaps not yet explored. As this topic involves many different disciplines it is easy to recognize so many overlapping in the different aspect mentioned in this chapter. However, an ultimate compensation plan must consider all the different aspects and dimensions mentioned in the literature in order to be successful.

This work will consider the most relevant studies done in this field and will rise from them and suggest a totally new approach on compensating sales reps. Relaying on past research and looking into a future where motivating salesforce is getting more and more challenging than before.