



*choose wisely*

*They might help maximize returns on your sales force investment, but pay-for-performance compensation begs the question, ‘Whose performance?’*

you ask most top-performing sales reps what’s behind their success, they’ll tell you that there’s more to it than money. There’s also a competitive nature that drives hard work, persistent phone calls, and long hours on the road and at the office. It’s no surprise, then, that when you also ask top-performing sales reps on what basis they prefer to be compensated, most respond with one word: performance.

In fact, the p-word—performance—is on the lips of both sales reps and managers nationwide, according to Brad Hill, principal of Tandehill Human Capital, a Chicago, Illinois-based compensation consultancy. “Pay for performance seems like apple pie,” he says. “It’s a perpetual flavor of the month; it gets thrown out there every day as something that every company should do and will do.”

In reality, though, few sales-driven companies are truly prepared to pay based on performance, insists Hill’s partner, Christine Tande. “Everybody wants to say they pay for performance,” she says, “but it’s often counter to company culture.” In other words, most organizations want to pay for performance because it sounds like the right thing to do. However, when it comes time to launch a new strategic sales initiative, they fall back on other, more traditional systems of compensation—paying, for example, according to market rates or seniority. “The messaging is inconsistent,” Tande says.

Even so, pay-for-performance incentives are popular for a reason, insists Rodger Stotz, vice president, managing consultant for Fenton, Missouri-based Maritz Inc.: When they’re designed and implemented correctly, they work.

“The benefits are both to the organization and the individual,” he says. “If [the plan] is designed to relate to the key performance indicators of the business, which is the goal of variable pay, then pay for performance has the opportunity to align salespeople with the key metrics of the business and reward them for improvements to those metrics.”

#### THE PERFORMANCE PROBLEM

Despite its proven merits, Stotz acknowledges that pay for performance has its rubs. “A poorly designed and poorly implemented program can have either no impact or, in some cases, a detrimental impact,” he says.

Hill and Tande agree. The fundamental problem with most poorly designed pay-for-performance compensation plans, they say, is the lack of a clear definition for the word *performance*.

“No one knows what good performance is,” Tande says. “I work 12-hour days and I think I’m a great performer, but if I work short days and deliver great results, maybe that’s great performance.”

Ambiguity doesn’t just confuse employees; it also upsets customers. “You have to understand what the ‘good performance’ is,” Stotz says. “In the classic example of call centers, if all you’re doing is incenting the time on calls, what you find is that some reps will cut customers off without solving their problems. They figure that if they end the call more quickly they’ll get an incentive, even though their service goes down. So, you have to define good performance, which today often includes customer satisfaction.”

You also have to define *whose* performance, as organizations' attention often tends to focus exclusively on top performers. "Average, by definition, describes the majority of our employees," Tande says. "We can't forget the average because that big group in the middle is our most loyal, consistent folks. It would be great to lift that average, but if we are so focused on paying our top performers that we forget the average, then that group will actually fall backwards in performance because it feels ignored."

Indeed, in implementing pay-for-performance incentives, many companies end up sacrificing the good of the organization for the good of their A-list sales reps. "Pay for performance in America unfortunately means paying for individual performance," Hill says. "Instead of throwing a bunch of money at our high performers, we need to study them and use our learning to lift up the entire sales force."

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## PERFORMANCE SOLUTIONS

Lifting up your entire sales force begins with setting clear and realistic goals, both for them and for you. Upon designing your pay-for-performance incentive plan, Stotz recommends deciding first and foremost what you want your incentives to accomplish.

"What are you trying to measure and improve?" he asks. "Is it productivity? Sales? Customer satisfaction? Once you know what you're trying to focus on, then you can look at who in your organization has the ability to impact that. Is it a group, organizational, or individual effort?"

Once you understand what you're trying to accomplish—and who can accomplish it—then you can move forward with plans for achieving it.

Before you do, however, you should know that there are several options. Indeed, paying for performance doesn't have to mean paying for individual performance; it can mean paying for team or organizational performance instead, or for a combination of all three.

In order to choose the best approach, organizations must consider not only their sales goals, but also their sales processes, says sales compensation expert J. Mark Davis, managing principal of Tustin, California-based Valitus Group. "The question of whether individual- or team-based incentives is appropriate is largely driven by how the sales process is executed," he says. "Is it executed on an individual sales rep-by-sales rep basis, or by a team of individuals working together to achieve a common goal?" Team-based incentives are most compelling in situations where there is a sense of interdependence amongst various sales roles and collaboration is required to execute the sales process.

That's just one question sales organizations must ask themselves. Following are ten more that Hill and Tande recommend posing in order to decide whose performance, exactly, you should be compensating.

### 1 Is the incentive a response to competitive pay rates?

If an incentive is a reaction to changes in rates paid by competitors, it really needs to be tailored to the individual, Hill says. "Instead of giving everyone the same change in incentives, focus on the individual since every salesperson will have a different value." Across-the-board changes in incentive pay tend to foster a sense of entitlement among sales reps, Hill adds, so if you'd rather compensate employees for real rather than perceived contributions, consider steering away from incentives that apply to all of your people in the same way.

### 2 Is internal pay equity critical to incentive plan success?

According to Tande, many organizations are concerned about the ability of sales reps to earn dramatically more than their peers or superiors. If you embrace overachievers, then individually rewarding them might prove an effective way to motivate them. If your corporate culture is more team-oriented, however, then group incentives might be best. "The more that internal pay equity is important," Tande says, "the more you should look at either team or broad-based incentives. That's because in traditional companies, having a culture where everybody can go and make twice as much as everybody else clashes with other messages."

### 3 Is the incentive designed to control compensation expense?

If you're concerned about the cost of compensation, Hill recommends embracing variable pay for individuals. "There are two different ways to recognize people," he says. "One is with a base pay increase and one is with incentive pay." While the former tends to be very expensive—employees re-earn base pay dollars every year—the latter provides an opportunity to keep payouts in check. To do just that, Hill suggests tying the term of the reward to the term of the accomplishment. That means rewarding short-term

accomplishments with lump-sum incentives and long-term development with modest base pay increases.

**4 Is the incentive self-funding or budgeted?** While the use of base pay results in a predictable budget, performance-based incentives can be self-funded for your entire sales organization. With self-funded incentives, salespeople are paid—without limits—for their direct contribution to the company’s bottom line. In order to fund them, however, you have to have broad participation, Hill says; self-funded incentives are more difficult to predict at the individual level.

**5 Is the incentive aimed at sales or support positions?** Because the efforts of salespeople are linked directly to their results within the organization, they prefer to be directly rewarded, according to Davis. “Individual-based incentives are most desirable for salespeople because of the clear connection between one’s individual contribution and the resulting award,” he says. On the other hand, Tande points out, the sales support staff tends to make less tangible contributions. For them, then, team or organizational incentives are best.

**6 Is the incentive for rep or executive positions?** Because sales reps tend to have a more direct impact on an organization’s bottom line, individual incentives make more sense for them than for executives. “The sales reps are the ones who really are on the front lines,” Tande says, “and the leadership is not.”

Davis agrees and says that it therefore makes more sense to incent leaders based on either the performance of their team or on the results of the entire organization. “Organization-wide incentives are actually not very common at the sales rep level,” he points out. “They tend to become more common, though, the higher in the sales management infrastructure that you get.”

**7 Are the incented employees at one or multiple locations?** While broad-based incentive plans can be extremely motivational within small offices and individual locations, they are difficult to implement when your sales force is dispersed. “If everyone’s working in a smaller geographic market, there’s usually a lot more cross-selling activity and a lot more in the way of team sales opportunities,” Hill says. “So if people are under a common roof or they’re sharing a limited geography, that lends itself more to team or organization-wide incentives. If I’m representing South America, though, and you’re representing North America, it might make a lot more sense for us to have individual accountability for our discrete markets.”

**8 Are you trying to incent teamwork?** “If you’re trying to incent teamwork, you may not want to have an individual incentive,” Hill says. “Individual incentives are actually counter-productive to teaming.” By compensating individuals based on team



or organizational performance, you can encourage mentoring, training, and cross-selling within your sales force—even if your sales process is individually driven, Davis adds.

“Company culture can be a secondary impact driver on the decision of whether to use team incentives,” he says. “A company that seeks to reinforce a collaborative ‘one for all’ organizational culture may implement a modest team-based component to complement a largely individual performance-oriented sales comp plan.”

**9 Are you focused on employee development?** If it’s more important for you to foster individual growth than a team dynamic, individual incentives are best, Hill says. However, he stresses that team-oriented companies can have the best of both worlds by rewarding individual development with base pay increases and team development with group incentives.

**10 Are you trying to move employees from a job to a process focus?** If your organization emphasizes the sales process, individual incentives become moot, according to Hill, as everyone should be following the same process and should therefore produce the same results. “If we have a process focus,” he says, “we can pay based on the overall organization’s performance or a base salary, but we don’t have to look so closely at individual results.”

Before designing your next strategic sales initiative, carefully considering these questions will go a long way toward rewarding the right people for the right behaviors. And by keeping pay-for-performance incentives properly directed at sales reps (for individual accomplishments) or team-based (for organization-wide achievements), companies can effectively motivate their employees and reinforce corporate strategy. ■