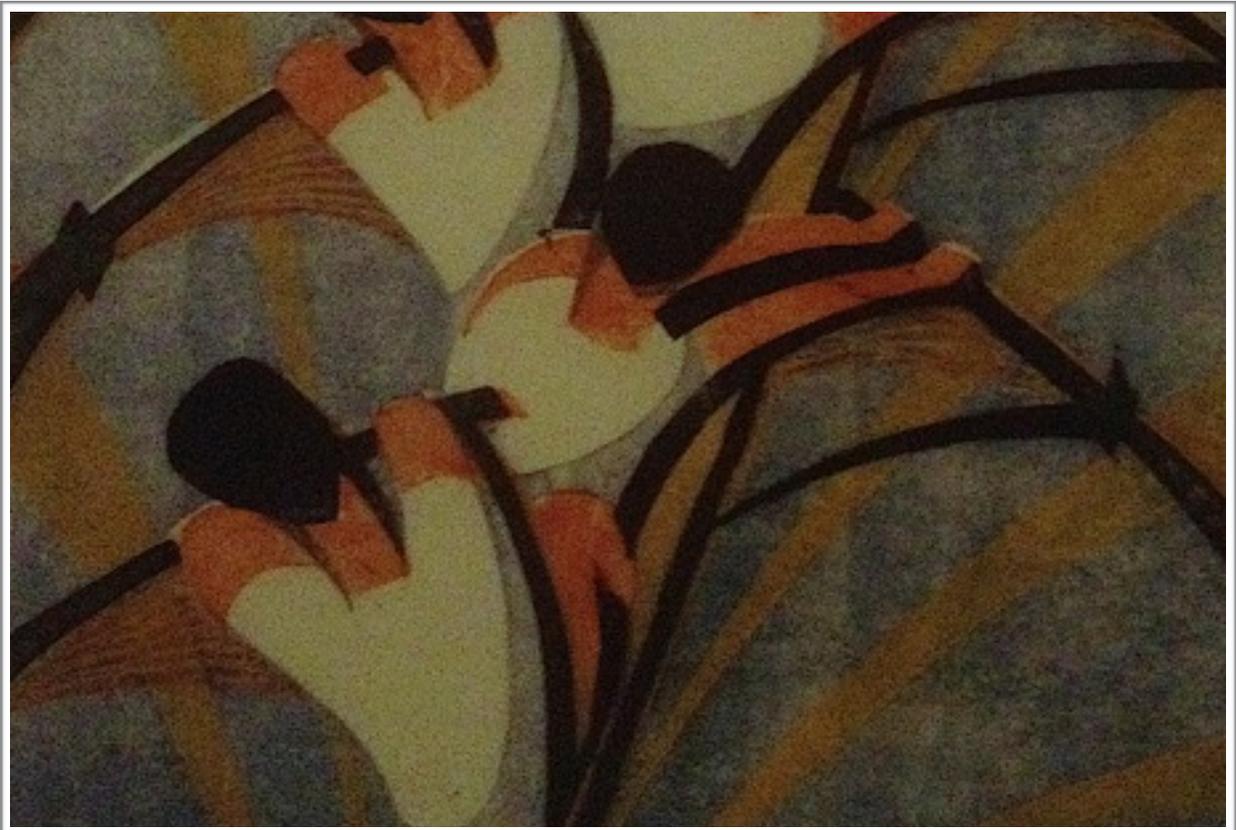


Should you Pay Your Sales Team to Perform Well AND Behave Well?

(Yes - and it might not cost you anything)

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Sales Compensation = Double Edged Sword

Sales compensation is MEANT to motivate behavior. However, incentive designs with even the best of motivational intentions can lead to unethical (or even illegal) actions. Several companies have been left with substantial financial and reputational costs when their sales teams have been caught behaving unethically.

In fact, incentive plan “gaming” occurs on an everyday basis. Many companies implicitly accept behavior from their sales teams that falls into an ethical grey area, such as sandbagging their performance goals so they can easily meet them, or creating side deals that can be drawn upon to make the numbers.

In discussions, we hear from many sales compensation practitioners who want to do something. Even though a sales compensation plan can't completely control a sales team's behavior — we believe there are ways to “nudge” the sales team to better behavior that do require minimal cost or disruption.



The Research on Shaping Better Decisions

For years, academic researchers have been demonstrating that people are not perfectly rational decision makers. Topics such as “behavioral economics” and “nudge theory” that build from this work have recently become more widely popularized and tested.

In sum — people’s decisions and behaviors can be shaped by changing how a decision is presented to them. One notable application of this idea is the recent business trend of automatically enrolling new employees into retirement plans. By asking employees to “opt out” of a retirement plan if they don’t want to participate — instead of the previous practice of “opting in” to it — enrollment rates are increased, which encourages saving and long-term financial security.

While there have been applications of nudge theory carried out in many fields, sales incentives have not yet been considered, though there are many possible improvement ideas to draw from.

Some Ways to Nudge Decisions	
Changing Default Options	People will often choose a default option rather than make an active effort to change options
Sequencing	People tend to remember the first and last options in a decision list most clearly
Using Loss Aversion	People place greater value on not losing \$5 they already have compared to winning \$5
Social Norming	People will change their decisions based on what others most often do

Taking Advantage of the Research in your Sales Incentives

Of course, companies have been trying to encourage good behavior along with good sales performance. Part of their incentive plan may be dedicated to “living the company values”, or incentive amounts may be modified based on adherence to personal behavior standards. These are good steps, but sometimes have drawbacks, too. Incentives for good sales performance might be diluted, or sales management may face conflicts of interest when their best sales performers behave badly.

By taking advantage of nudge theory, incentives for better behavior can be costlessly built directly into incentive structuring and communication. For example, the order in which incentive categories are listed will influence how people make decisions about their behavior. Or, presenting incentives as “money for you to lose” as opposed to “money you can earn” will change how people strive to meet the associated objective.

In our discussions, business leaders have seen the potential for increasing sales performance for minimal cost, as well as a more attractive message around company values for Millennials as they become a greater share of company sales teams. And going forward, these leaders indicate they are going to focus more on encouraging both good performance and positive, ethical behavior in their teams.

