Something for the weekend
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Companies have frequently used bonuses as a way to motivate their sales staff into selling more and reaching quota thresholds. However, new research suggests that this might be counterproductive.

According to Harikesh Nair, associate professor of marketing at Stanford Graduate School of Business, the problem lies in the fact that a manager is unaware how much effort a sales person puts into reaching the quota threshold. “In the absence of such knowledge, they can only base payments on agents’ output, not their input.”

Whilst compensation may work for some, for others it can result in “gaming the system”. For those who have already reached their targets, there is little incentive to sell more says Prof Nair, whilst for those who have little or no chance of reaching the target there is no point in trying to generate further sales and indeed they might try to postpone these sales into the next cycle.

Prof Nair and co-author Sanjog Misra, associate professor of marketing at the University of Rochester, Simon Graduate School of Business, have found that by removing the quota threshold, overall sales figures can increase. Using mathematical models they have discovered that dispensing with quotas leads to increased profit as there is no incentive for gaming the system. Furthermore, it can also lead to companies improving their marketing decision making.

Bank bonuses are also under the spotlight at Cass Business School, London, where honorary visiting professor Chris Roebuck, defends the existing bank bonus culture.

Bonuses he says reward performance and performance related pay is better for individuals, organisations and the country. The alternative he adds, is to pay people irrespective of whether or not they perform well.

“In fact, in terms of the perspective of minimising risk in organisations, actually paying people for future performance you are hoping is going to come in, rather than performance they have delivered, creates a greater risk, not a lesser risk.”

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