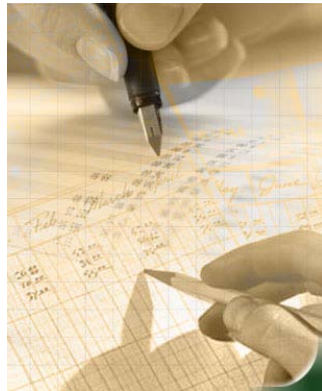


The impact of performance targets on sales people's behaviour



Monica Franco & Mike Bourne
Cranfield School of Management

- We would like to thank ...
 - ✓ the Chartered Institute of Management Accountants (CIMA) for its support through the research project R151
 - ✓ The organisations that have participated in this research

Prof. LOCKE & Prof. LATHAM

The fathers of goal setting theory



*R.H. Smith School of
Business, University of
Maryland*



*Rotman School of
Management, University of
Toronto*

“The beneficial effect of goal setting on task performance is one of the most robust and replicable findings in the psychological literature” *(Locke, Shaw, Saari & Latham, 1981)*

Dr. DEMING

Together with Shewhart - fathers of the TQM movement

“Eliminate numerical quotas for the work force.”

“Eliminate numerical goals for people in management.”

“A quota is a fortress against improvement of quality and productivity” *(Deming, 2000)*



...can both be right?

“Internal goals set in the management of a company, without a method, are a burlesque”

(Deming, 2000)



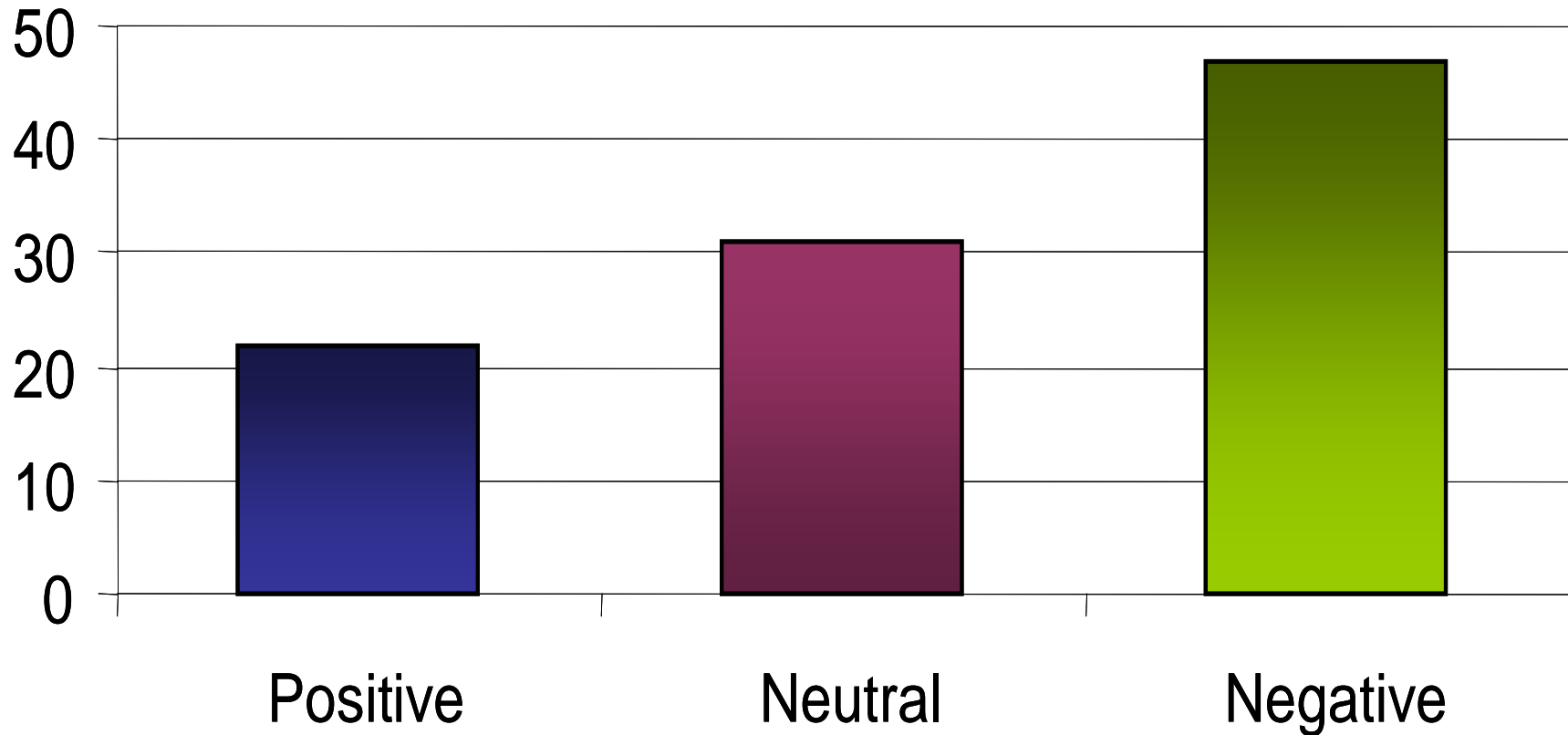
Target setting, like most management processes, is part science, part art...

- To what extent performance targets used to determine bonuses are having an impact on sales people's behaviour?
- How are targets being set in sales organisations?

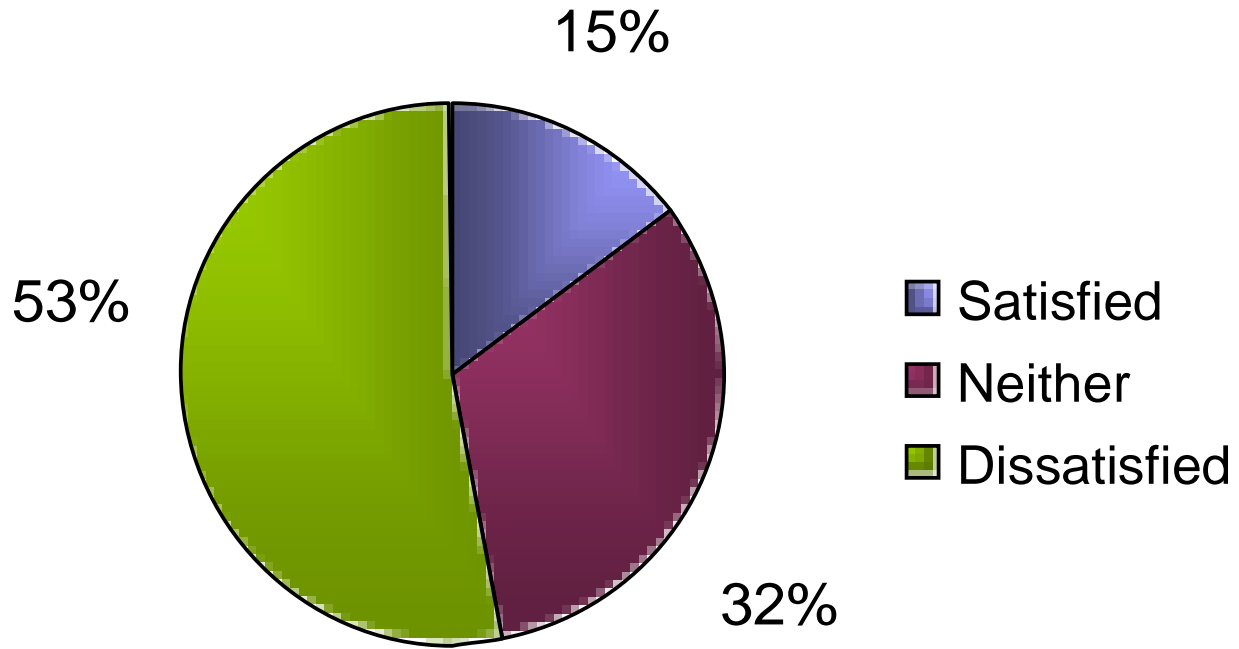
- Literature review
- Pilot study
 - ✓ On – line survey (70 Msc & MBA Cranfield students)
- Field Research
 - ✓ Main selection criteria:
 - Market uncertainty (stable vs. volatile) and sales force size
 - ✓ Data regarding 4 sales organisations' bonus schemes, performance measures, and target-setting processes have been collected using a number of means:
 - 28 Interviews with people from the sales department
 - On-line survey (95 completed questionnaires, 70% response rate)
- Data analysis
 - ✓ Data has been examined using qualitative and quantitative analysis with the assistance of Nvivo7, SPSS v.14 and SPC.

- The forecast was mainly based on past performance.
- Targets were allocated inappropriately across the sales force.
- Targets were perceived to be either too high or too low.
- Some targets were based on the wrong performance measures.
- Targets were entirely based on financial indicators.
- The data analysis process on which targets were based was poor and lacked rigour.
- Targets were not periodically reviewed.
- Targets were “given” to the sales people.
- The interrelation between targets was not considered during the target-setting process.
- Agreed action plans were the exception and not the norm.

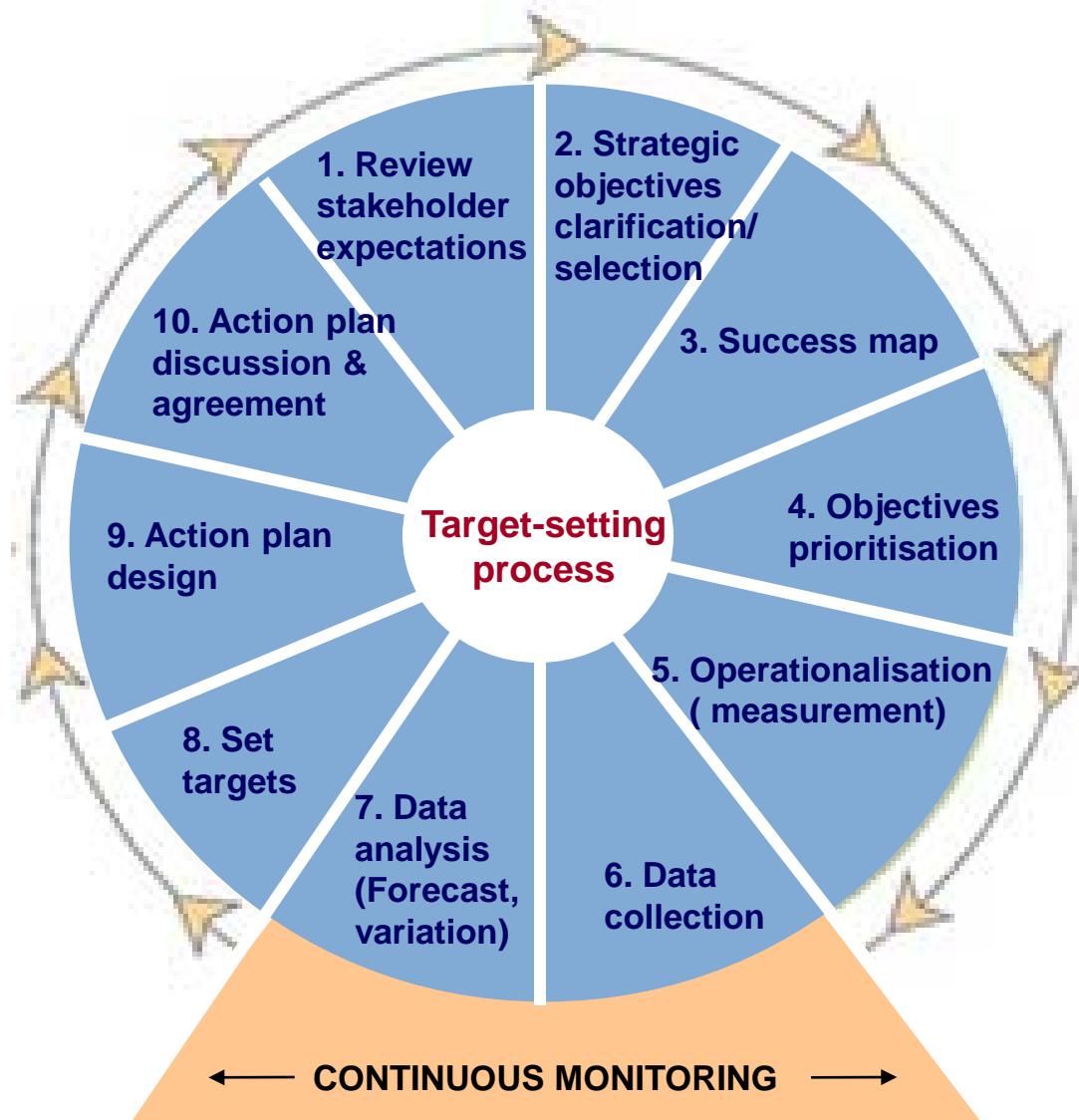
Impact of sales performance targets on behaviour



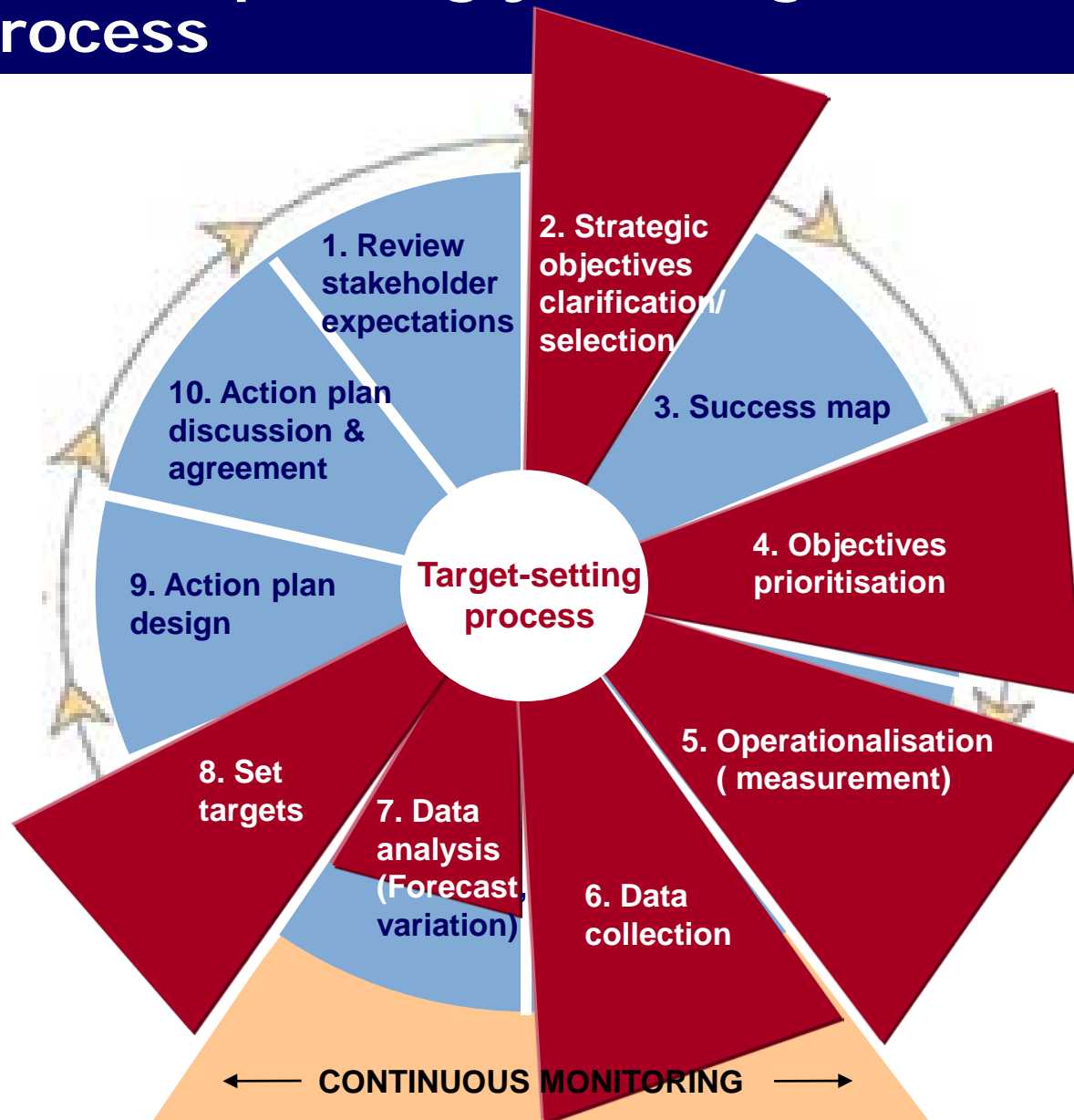
Sales people's satisfaction with performance targets



10 STEPS for improving your target-setting process



10 STEPS for improving your target-setting process



10 STEPS for improving your target-setting process



1. REVIEW STAKEHOLDERS' EXPECTATIONS

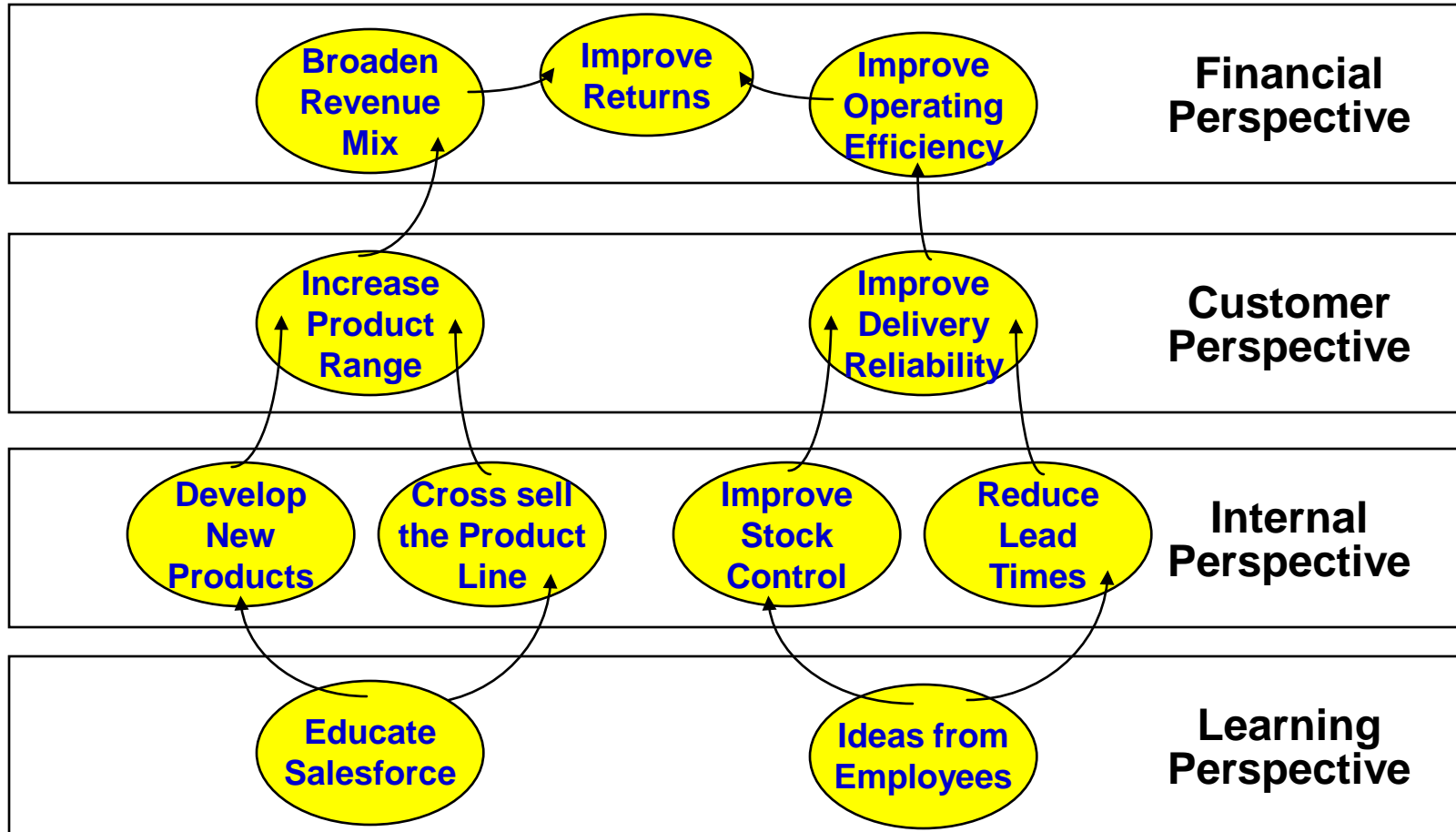
Stakeholders...

	Customers	Top Management	Employees	...
What are the expectations of our various stakeholders?				

10 STEPS for improving your target-setting process

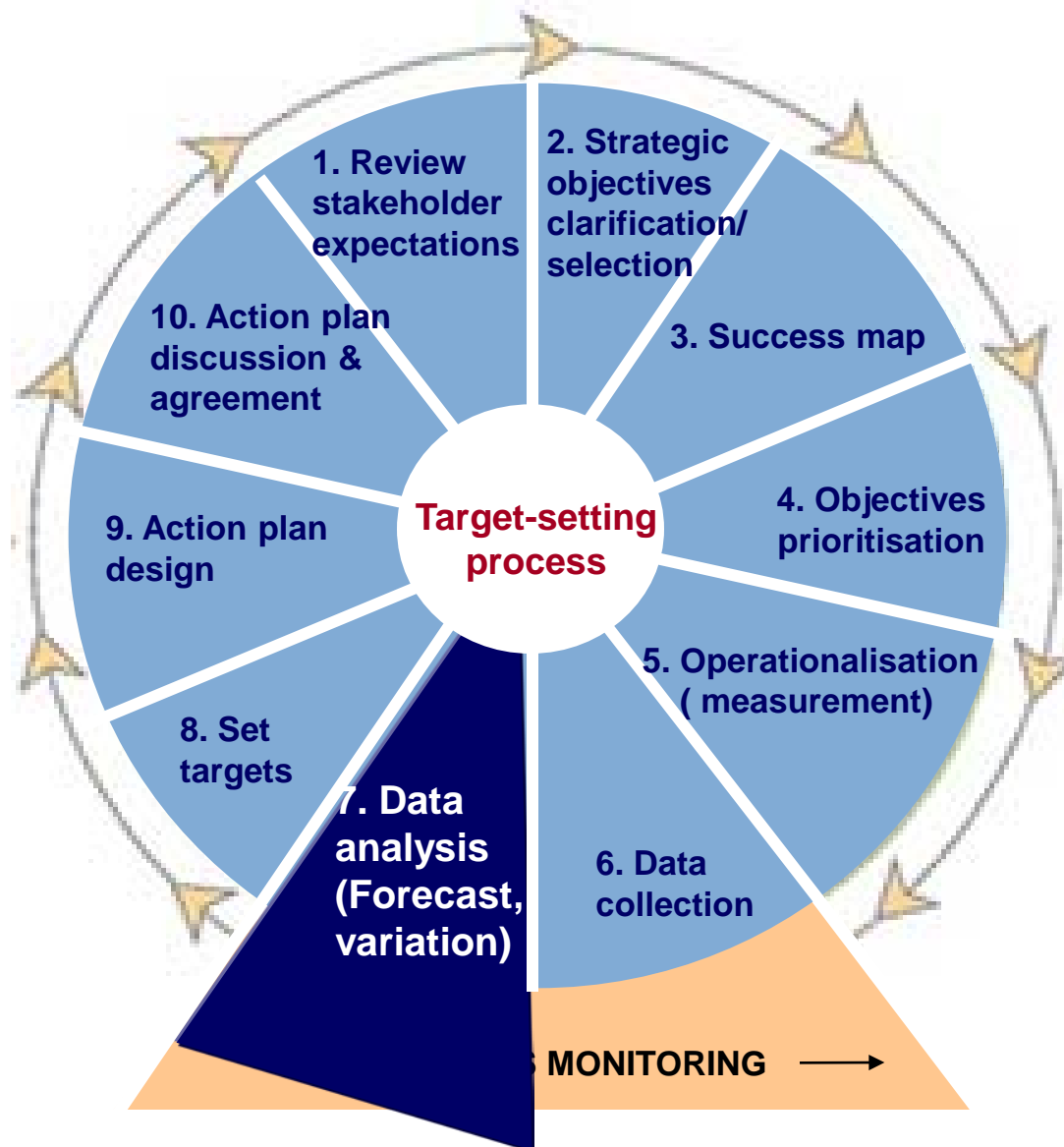


3. SUCCESS MAP



Source: Neely, Adams, Kennerley (2002)

10 STEPS for improving your target-setting process



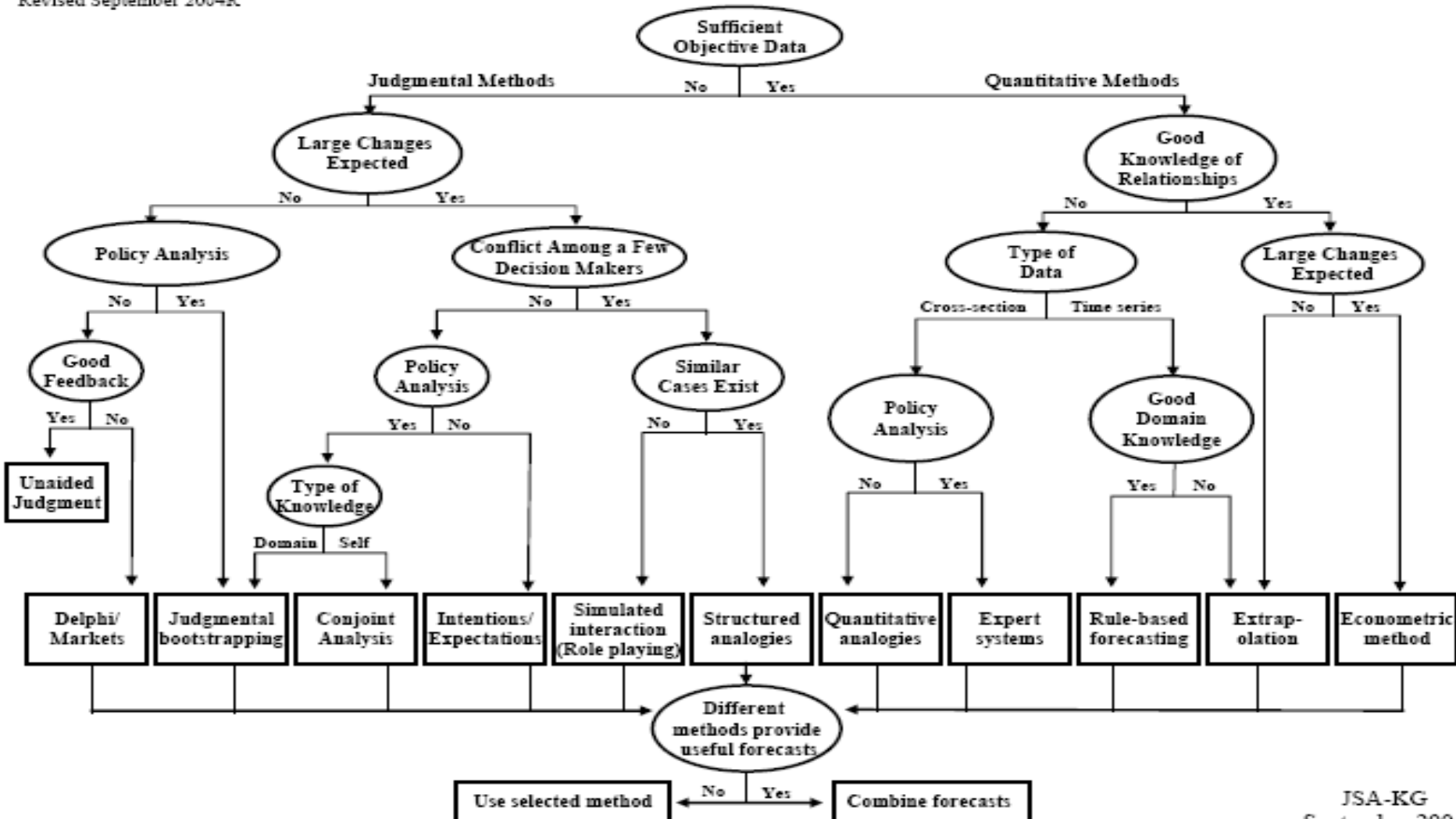
7. DATA ANALYSIS: Forecasting

- What forecasting method should we use?

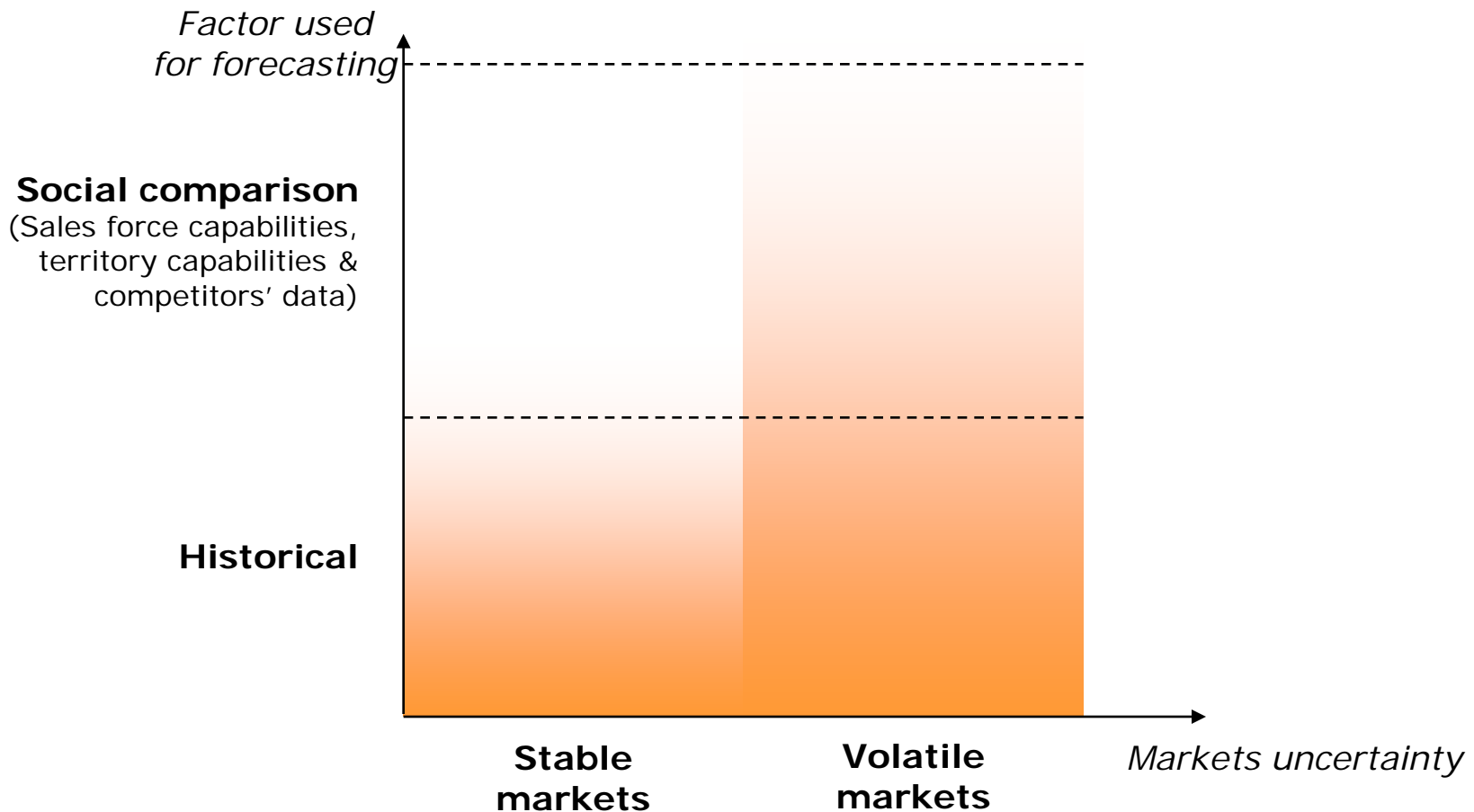
Reprinted from J. Scott Armstrong,
Principles of Forecasting. Kluwer Publishing, 2001
Revised September 2004R.

Forecasting Methods Selection Chart

forecastingprinciples.com



- What factors should we take into account in our analysis?



“Variation there will always be, between people, in output, in service, in product. What is the variation trying to tell us?” (Deming, 2000)

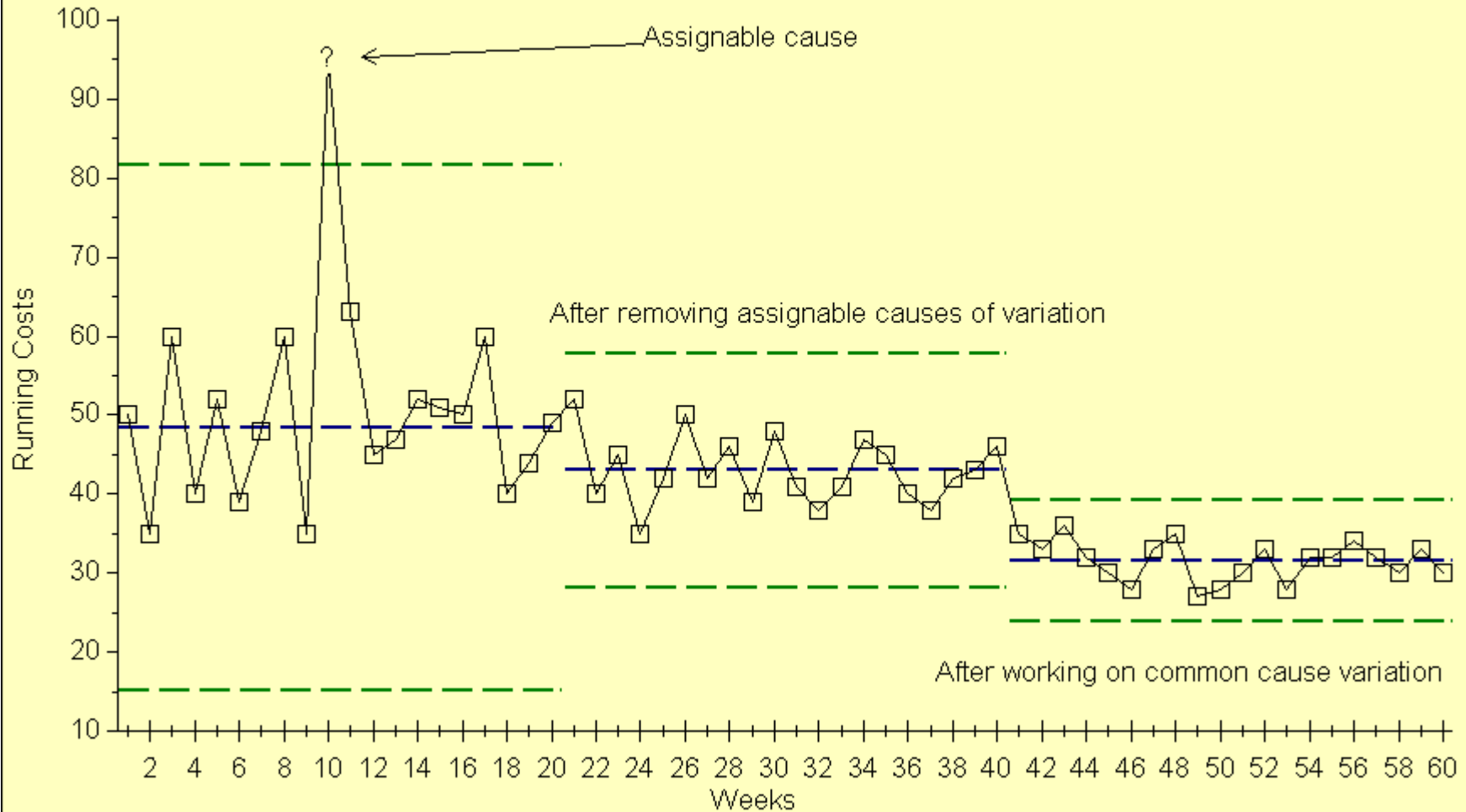
- Two basic sources of variation: **Common Cause variation** and **Special Cause variation**



- If the type of variation is not identified then it is highly likely that the wrong actions will be taken

DATA ANALYSIS: *Understanding variation – AN EXAMPLE*

Demonstrating Improvements Over Time

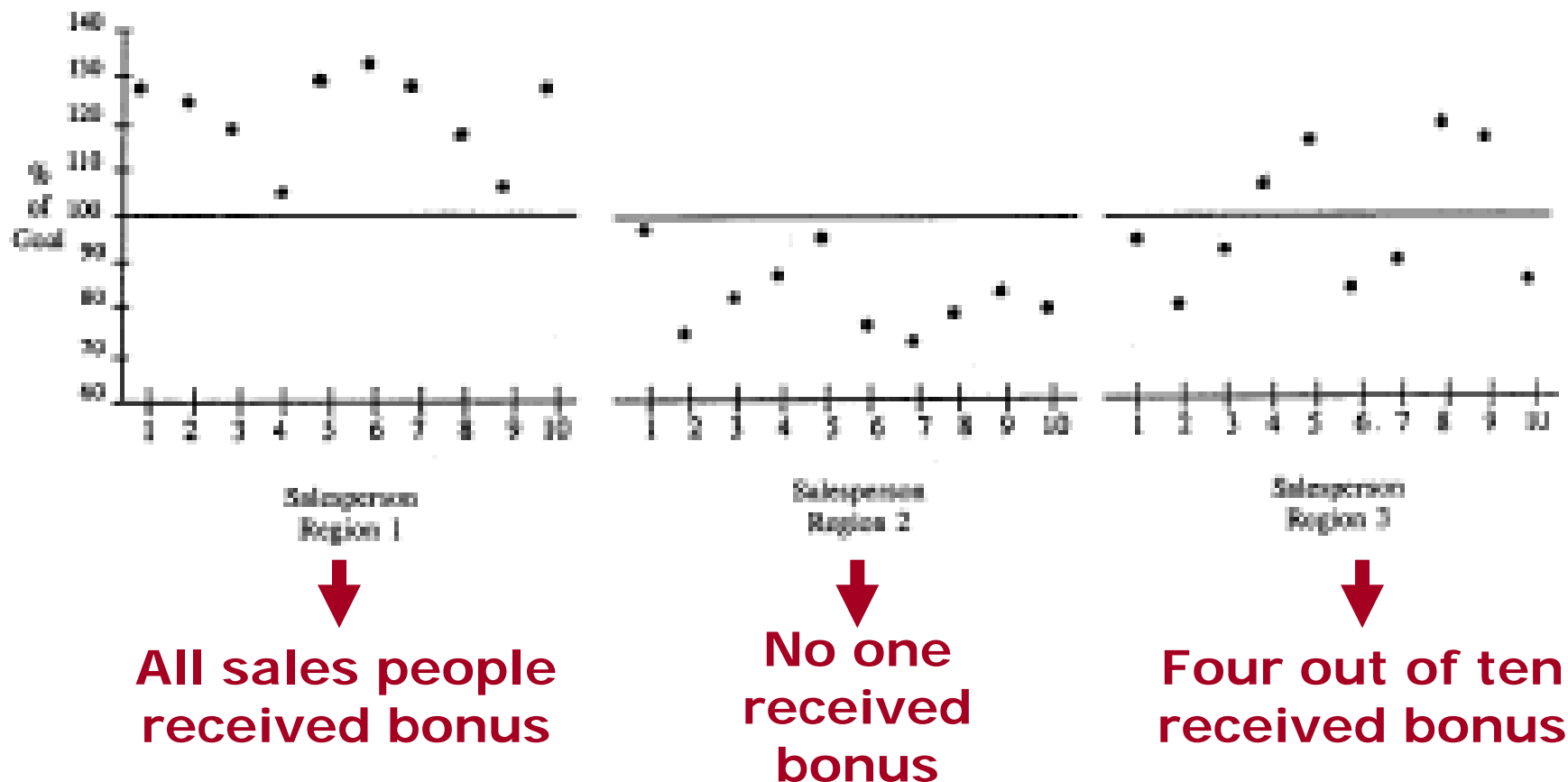


Source: Steve Mason (2006)

- The marketing manager of a large division establishes a forecast of sales for each region
- Each regional manager uses this forecast to establish goals for each of the sales people under his supervision
- A salesperson receives a bonus of 1% of his/her salary for each percentage point that sales exceed the goal

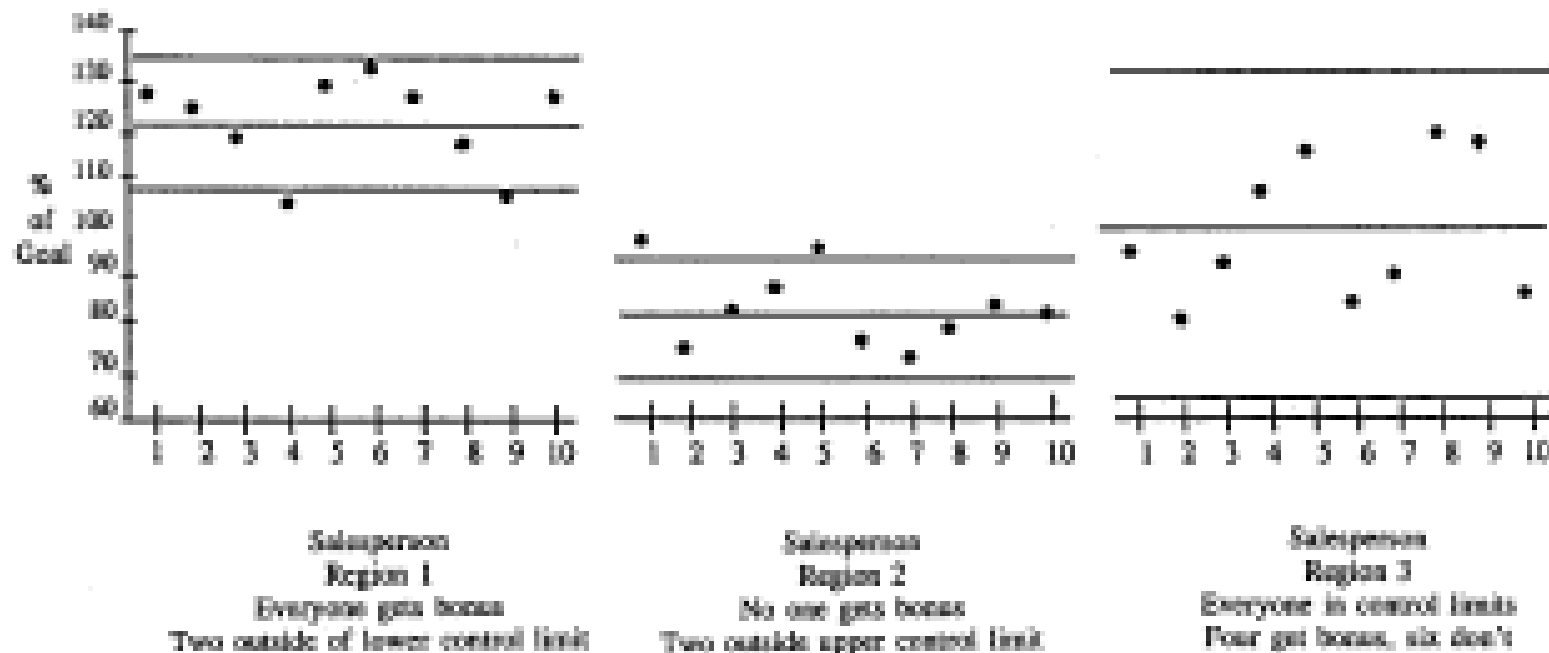
DATA ANALYSIS: Understanding variation – AN EXAMPLE

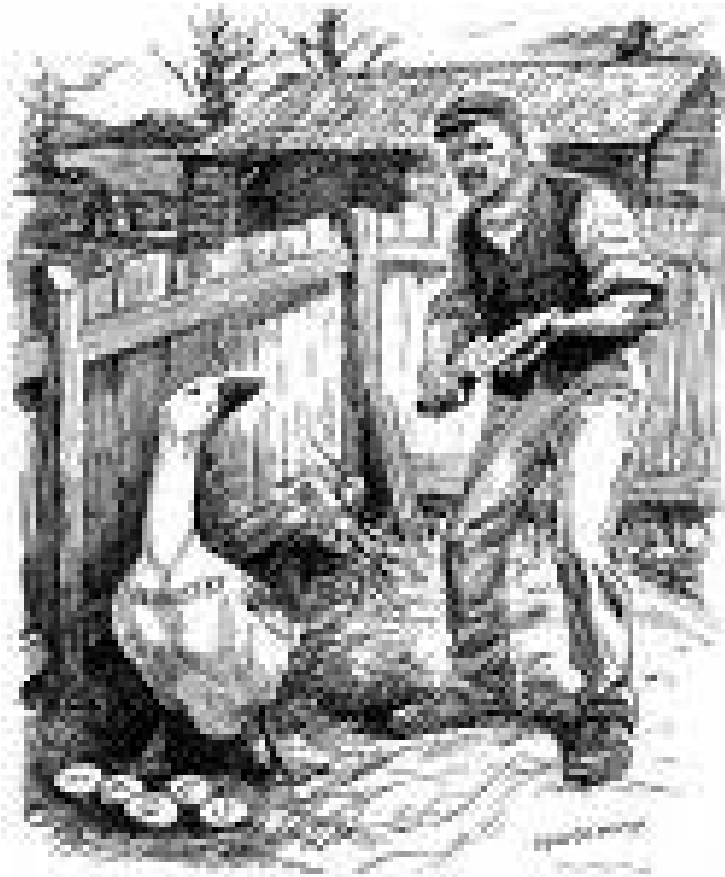
- Sales figures vs. sales targets (*Nolan & Povost, 1990*)



DATA ANALYSIS: *Understanding variation – AN EXAMPLE*

- Control charts for sales figures (*Nolan & Povost, 1990*)





There was once a farmer who bought a golden goose. A week later the golden goose laid a golden egg!

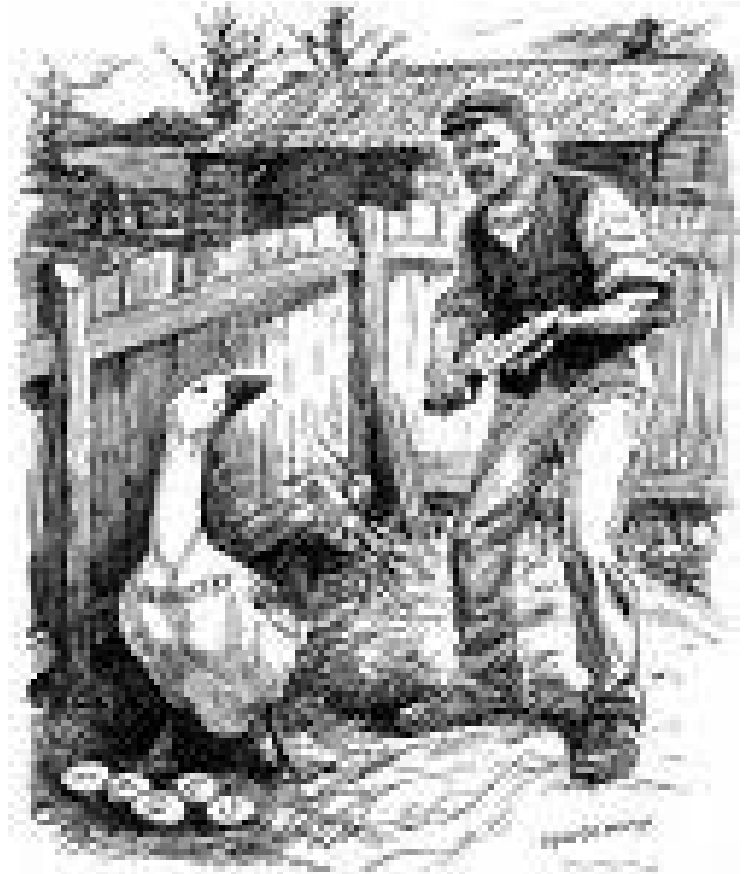
The farmer was ecstatic! He cashed the golden egg and had a wild time.

The following week he finds that the golden goose laid another golden egg! Again he cashes it in and spends the money.

Adapted from Stephen Covey (1998)

This happens week after week until one week the farmer just can't wait till the end of the week to get the golden egg so he kills his golden goose and takes the golden egg out of it.

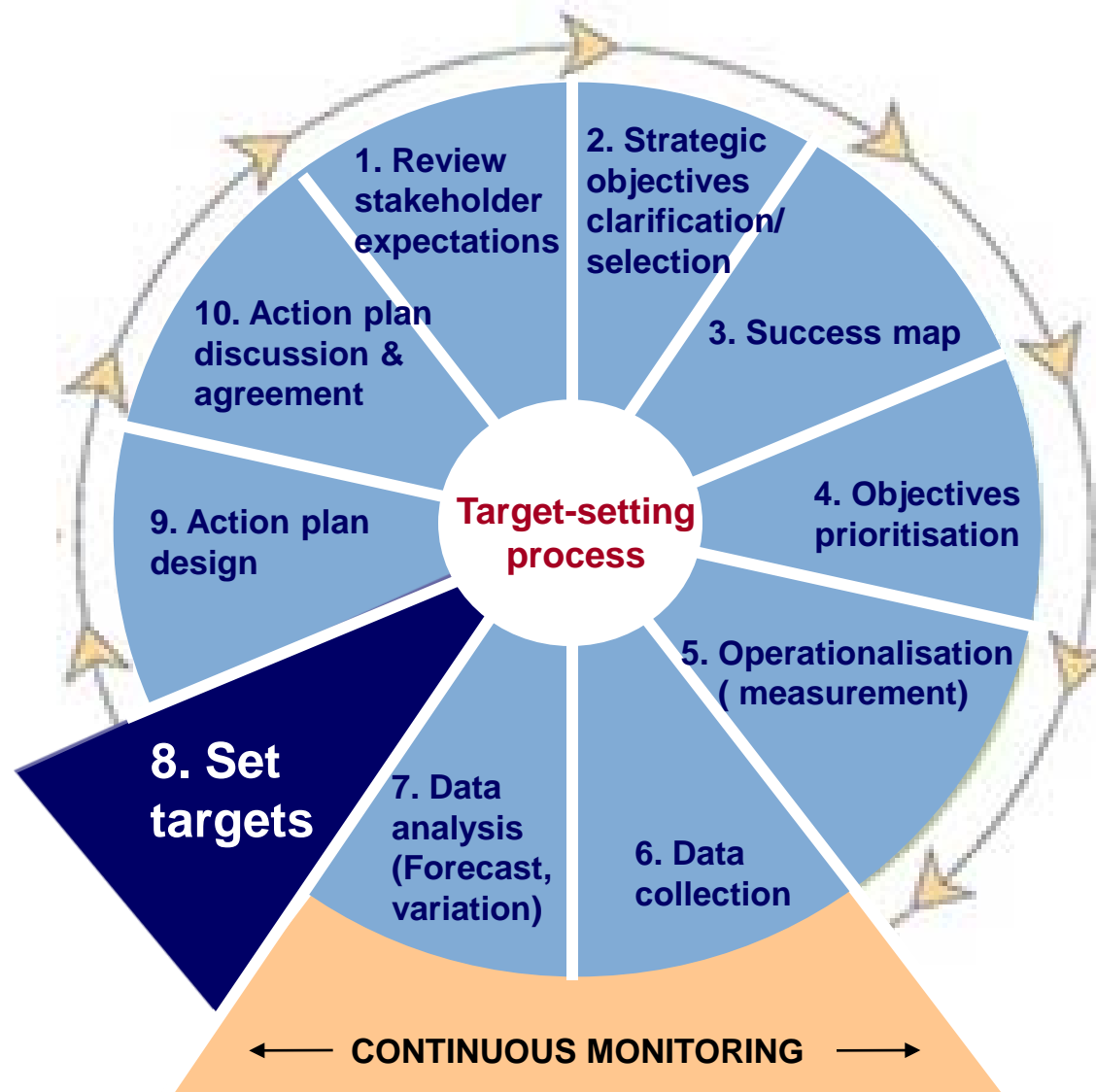
But the next week he realizes that there is no golden egg, for he has killed his golden goose.



Production is taking the golden egg every week *(i.e. focus on the target)*

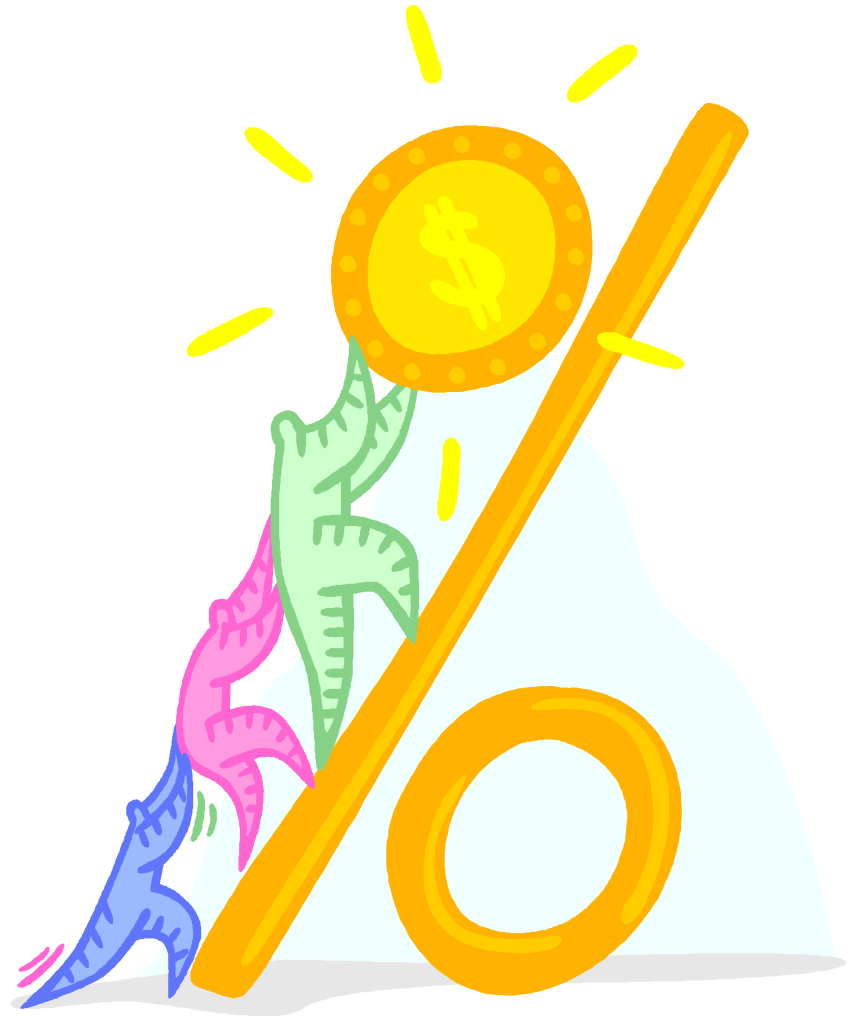
Production Capability is taking care of your golden goose. *(i.e. focus on how capable your system/people is/are to deliver the target)*

10 STEPS for improving your target-setting process



8. SET TARGETS

- Based on forecast and variation analysis a specific target can now be set.



10 STEPS for improving your target-setting process



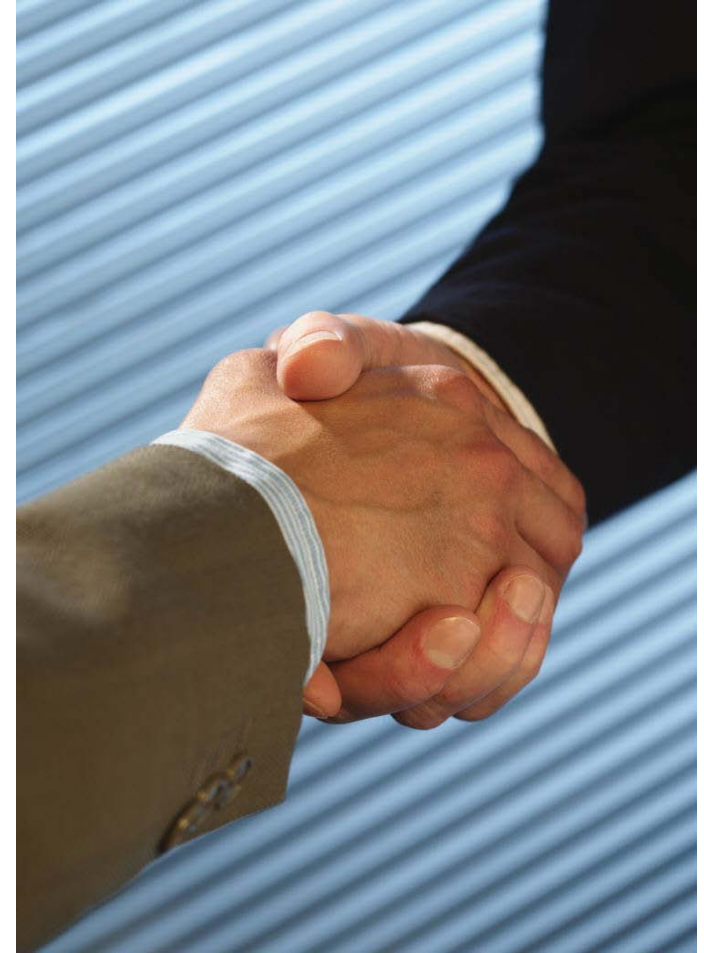
- Once the target is set, an action plan **MUST** be designed
- This plan will enable the system to change and meet the target



10 STEPS for improving your target-setting process



- Targets **MUST** be communicated together with the action plan designed to reach them
- The specific action plan **MUST** be discussed and agreed with the people that are going to be accountable for reaching the target



“The plan should not be ‘given’, it should be discussed and agreed”

Performance targets will not serve as an effective management process unless managers make certain that their targets are:

- ✓ Clearly defined and communicated so everyone understands them
- ✓ Neither too high nor too low
- ✓ Allocated appropriately across individuals and teams
- ✓ Consistent with each other, the company's economic and competitive environment, and business strategy
- ✓ Based on rigorous data analysis that takes into consideration more than just past performance
- ✓ Periodically reviewed
- ✓ "Owned" and accepted by the individuals that have to attain them
- ✓ Followed by a specific action plan

Q & A

For any further questions do not hesitate to contact us:

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Email: monica.franco@cranfield.ac.uk

- **Professor Mike Bourne**

Mike is Director of the [Centre for Business Performance](#). Before his academic career, Mike spent 15 years in business, spanning the valve, paper & board, building materials, machine tool and airline catering industries. He held a number of positions, with roles in production management, strategy and acquisitions, IT, HR, commercial and general management, including directorship positions in subsidiary companies.

He gained his PhD from the University of Cambridge in 2001, researching the design and implementation of balanced performance measurement systems. He has spent the last ten years working with companies supporting senior management teams through the process of designing, implementing and using their balanced scorecards and related performance management techniques. He has worked with, and consulted to, a number of organisations including Accenture, Amadeus, BAe Systems, European Central Bank, Lloyds TSB, McCormick Europe, NHBC, Oki Europe, Schering, Tube Lines, Unilever and Wolseley.

His current research activities are in the arena of corporate performance measurement and management, including the interface with the planning and budgeting process and performance related pay. He has authored over 100 publications, and is co-author of several books including *Understanding the Balanced Scorecard in a Week*, *Getting the Measure of your Business* and *Change Management in a Week*. Mike is also the editor of the *Gee Handbook of Performance Measurement* and the journal *Measuring Business Excellence*.

■ **Monica Franco**

Monica is a Research Fellow in the Centre for Business Performance. Monica's research broadly concerns the design, implementation, and management of performance measurement systems. In particular, Monica is interested in the relationship between performance measurement systems and *reward systems* in both private and public sector organisations.

Monica has been with Cranfield School of Management for the last four years and during that time, she has participated in EPSRC funded research looking at how organisations manage through measures and what impact performance measurement systems have on business results. She is also involved in organisation-specific research to gain detailed insights on performance measurement and incentive systems. This approach enables her to provide specific suggestions based on the analysis of evidence, bringing research closer to practice.

Monica is part of the teaching faculty of the Cranfield MSc in *Managing Organisational Performance* and of the Cranfield short-course *Pay for Performance: Designing and Implementing a Scorecard-Based Annual Incentive System*. Monica is also an occasional lecturer and speaker in a number of European academic institutions.

Prior to joining Cranfield University, Monica was a consultant working for Watson Wyatt Worldwide. Her expertise was in the design and implementation of compensation systems and other Human Resources (HR) initiatives (e.g. employee satisfaction surveys, definition of HR strategic options, etc.). She has also worked in the HR departments of the electric utility Endesa and the Spanish airlines IBERIA. She is currently studying a PhD in Cranfield School of Management. Her educational background includes a postgraduate degree on Organizational Behavior and Human Resources Management from the University of Barcelona (Spain) and a Bs in Economics and Business Administration from the University Autonoma of Madrid (Spain).