

**THE IMPACT OF PERFORMANCE TARGETS ON
BEHAVIOUR: A CLOSE LOOK AT SALES FORCE
CONTEXTS**

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2008

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1. Overview

When we think about the impact of performance targets on behaviour the words “high but achievable” immediately spring to mind. We need to set targets at a high level to stretch staff, but the targets need to be perceived as achievable if the staff is going to accept the stretch. However, in real life the world is much more complex than this.

At present, most organisations use performance targets for influencing the behaviour of their employees. The results these organisations obtain are not always the ones expected. There is often disquiet about whether performance targets have the right impact on people’s behaviour and organisational performance. This issue makes managers question the true value of performance targets as a motivational technique. For this reason, it is important that the use and effects of performance targets are reviewed in order to address the problems that management professionals are encountering.

This study reviews existing literature on target setting and undertakes four detailed case studies and a survey of 95 sales representatives to better understand the factors that affect managerial behaviour. The sales function was chosen, as it is known that in this environment performance targets are widely used.

The findings are as follows:

1. To be of practical value, performance targets have to be set within a wider framework of the organisation’s performance measurement system and the incentive system.
2. There are ten common issues associated with the target setting process that undermine its effectiveness. These range from issues with the data being used to set targets, through to the suitability of targets used and the way in which targets are communicated and agreed with sales people.
3. There are three factors that have an impact on the way sales people perceive target difficulty:
 - i. Having a clear idea of what their role and performance expectations are.
 - ii. Having a supportive organisation where risk-taking, continuous learning and improvement are encouraged; this promotes greater ownership of the targets, which in turn positively affects perceptions about how difficult these targets are.
 - iii. Being able to participate in the target-setting process.

The research explores each of these findings in more detail and provides a framework to support organisations in the target setting process – “The Target Setting Wheel”.

2. Objectives

There is a great amount of research looking at the impact of performance targets; however, there are still many gaps that require further investigation if we want to

inform managerial practice. The purpose of this study is to investigate three of these research gaps; namely:

- (1) The impact of sales performance targets in relationship with sales forces' incentive pay plans and performance measures.
- (2) The key issues associated with target-setting processes.
- (3) The effect of a set of organisational factors (role clarity, managerial and peers support, time availability, organisational cultural risk values, participation in target setting and work discretion) on sales people's perception of the level of difficulty of their targets.

The first two objectives have been addressed using case study research. The third objective has been addressed using survey research.

3. Findings

Performance targets have been defined as “the objects or aims of managerial action” or as “borderlines that differentiate success from failure”. They are one of the most commonly used motivational tools in the corporate world. Nevertheless, little consensus exists regarding the true effects of performance targets on people's behaviour and performance.

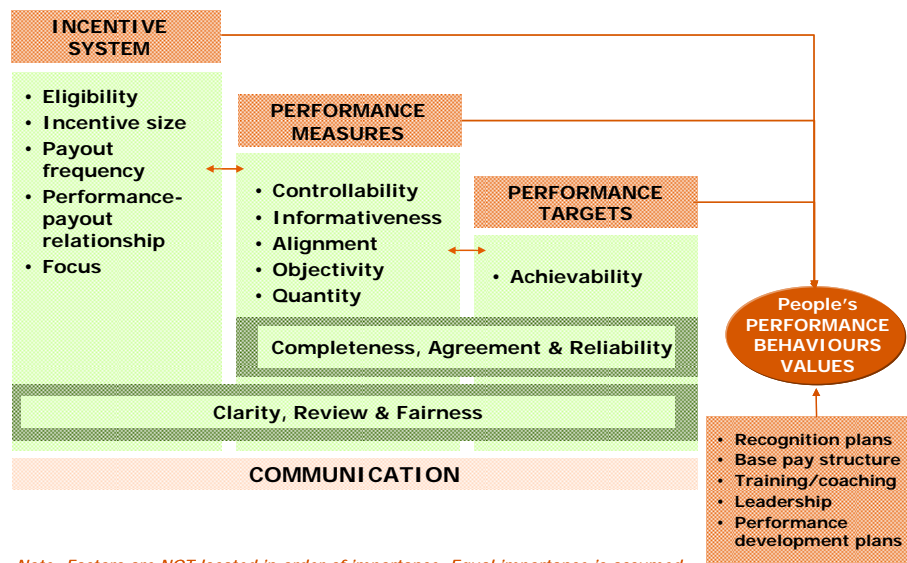
Some researchers stress the fact that performance targets are key mechanisms for improving motivation and organisational performance. Other researchers suggest that the use of performance targets can be detrimental for organisations as they generate stressful work environments, a low trust culture, data manipulation and financial performance losses. This lack of agreement is a hurdle for managers as it does not provide clear guidance about what to expect from the use of this managerial tool.

In order to shed some light into the issues associated with performance targets and their impact on managerial behaviour and performance this study focuses on: the interrelations between performance targets, performance measures and incentive pay; key issues associated with the target setting process; and the factors that influence people's perceptions about the difficulty of their targets., The findings are presented as follows.

3.1 The interrelation between performance targets, incentive pay and performance measures

When looking at the effects of performance targets on behaviour it is important to focus on the way in which incentive pay is associated with the targets and on the characteristics of the performance measures for which targets are being set. The study finds that performance targets, incentive plans and performance measures cannot be considered in isolation as they are highly interrelated. The study shows the factors associated with sales incentive systems, performance measures and targets that have the greatest effect on people's behaviour [see figure 1].

Figure 1. Key factors affecting people's behaviour



A brief description of each factor is provided below.

Factors associated with the incentive system

Performance targets can be used alone but in sales environments they are typically linked to incentive plans. When linking performance targets to incentive pay the following aspects should carefully be considered for avoiding unexpected behaviours:

- Eligibility: Everyone with the same role and influence over sales performance should be entitled to receive sales incentive pay.
- Incentive size: The amount of money the firm has established as incentive pay for their sales people (normally calculated as a percentage of salary) should take into account internal equity levels and be in line with the incentive size that is typically used by peer companies. It should also consider how much influence sales people have over sales performance results. The higher the influence the larger the potential size of the incentive.
- Payout frequency: The frequency of payout to sales people should be in line with the sales processes and strategic planning.
- Performance-payout relationship: The way incentive payments are calculated and how they vary with measured performance needs to be aligned with the context in which the organisation operates, as it will have different effects on behaviour.
- Focus: The proportion of sales people's incentive pay that is linked to individual, business unit and/or organisational performance needs to be in line

with the way in which sales people work and the way in which sales tasks are interrelated.

- Incentives review: Incentive systems need to be reviewed periodically, at least once every two years and every time there is a strategic change in the organisation, in order to keep it up to date and in line with market/industry practices.
- Fairness: Incentive plans need to be perceived as fair by sales people.
- Clarity: Sales people need to clearly understand what they are being paid for and how.
- Communication: Sales people need to know how their incentive system works. The more transparency there is with incentive information the more satisfied sales people will be, which will have a direct effect on their behaviour.

Factors associated with the performance measures used

Performance targets are intrinsically related to performance measures. The selection of the most appropriate performance measures for compensation purposes is a critical decision managers must make. If a compensation system is based on the wrong measures dysfunctional behaviours may occur, which might be detrimental for organisational performance.

Two types of performance measures are typically used in sales contexts: behaviour-based measures and outcome-based measures. Behaviour-based measures have low measurability and are oriented towards the longer term, as their effects may not be fully realised until several years have passed. These characteristics make them less appropriate for target-setting purposes as specific and accurate targets are difficult to estimate. Examples of behaviour-based measures are: sales force product knowledge, relationship management and selling skills. Outcome-based measures have high measurability and are oriented towards the short-term as their impact can be fully realised during the incentive period. For this reason, these types of measures are more appropriate for target-setting purposes. Some examples of these measures are: sales revenues, profits, market share and sales growth from existing customers.

At present, most organisations use both types of measures in order to influence behaviour and performance.

When selecting performance measures, the following factors were found by the study to have the greatest effects on sales people's behaviour:

- Informativeness: Performance measures provide information to sales managers and sales people about the effect of sales people's decisions and actions. It is important that the performance measures used for compensation purposes provide relevant information for decision-making to their users.

- **Controllability:** The more control sales people have over their performance measures the more effective the measures will be.
- **Alignment:** Performance measures need to be aligned with strategy in order to encourage the expected behaviours and avoid the well-known topic of “rewarding A, while hoping for B” (Kerr, 1995).
- **Objectivity:** Measures used for pay purposes need to be perceived as objective by their users. Perceptions of subjectivity generate feelings of unfairness and may have detrimental effects on behaviour.
- **Quantity:** In order to keep people focused, the number of performance measures used needs to be relatively small. Following Miller’s (1956) advice the magic number is five, plus or minus two.
- **Completeness:** Measures used for performance evaluation and reward purposes need to reflect the key sales people’s performance dimensions (e.g. financial dimension, customer dimension).
- **Agreement:** Sales people need to participate and accept the performance measures that are going to be used for assessing and rewarding their performance for better behavioural results.
- **Reliability:** Sales people need to trust their performance data in order to behave appropriately. If performance data is distorted or manipulated this will have a negative effect on behaviour.
- **Measures review:** Performance measures need to be reviewed periodically in order to make sure that they are still valid.
- **Clarity:** Sales people need to understand how their performance measures are calculated and what they mean for better behavioural results.
- **Fairness:** Sales people need to perceive that the performance measures used for assessing and rewarding their performance do not favour any particular territory, team or person for better behavioural results.
- **Communication:** Sales people need to be aware of what their performance measures are, why they have been chosen and how they are calculated. The more transparency there is with performance measurement information the more satisfied sales people will be, which will have a direct effect on their behaviour.

Factors associated with the performance targets used

The study found some key factors that affect the effectiveness of targets. They are outlined below.

- **Achievability:** Sales performance targets need to be perceived as achievable by their users. If they are perceived as unattainable, they negatively affect motivation.
- **Completeness:** There are many factors that can affect sales people's performance (e.g. environmental, individual, etc.) so it is important that management includes these factors when deciding on which targets to establish.
- **Reliability:** The data used for setting targets must be reliable. If it is not, there is a high probability that targets will be perceived as unachievable or distorted. This perception will have a negative effect on sales people's behaviour.
- **Agreement:** Each sales person must accept and agree with his or her performance targets in order to be committed to delivering them. If targets are perceived to be given, sales people's satisfaction with targets decreases and this affects their motivation to attain them.
- **Targets review:** It is important that performance targets are periodically reviewed in order to keep being valid and achievable. It is also important that the performance of sales people against targets is periodically reviewed and communicated as it has a direct effect on sales people's behaviour.
- **Fairness:** Sales people must perceive their targets to be fair and equitable –i.e. that the targets do not favour any particular territory, team or person.
- **Clarity:** Sales people need to clearly understand their targets and how they are estimated as this seems to have a positive effect on their commitment with the targets and on their motivation to achieve them.
- **Communication:** Performance targets need to be communicated clearly. Sales people need to know what the target is, how it has been calculated, who is responsible for achieving them, how well are they doing against it, etc. The timing of the communication is also important. When performance targets are set they need to be communicated as soon as the target period starts and not later. Sales people's performance against target needs to be communicated as often as possible.

In summary, the study finds that the use of performance targets, performance measures and incentive systems cannot be considered in isolation when examining the influence on sales people's behaviour. They are all interrelated and their specific design must be aligned with the organisational and environmental conditions of the company if they are to positively influence behaviour.

3.2 Issues associated with target-setting processes

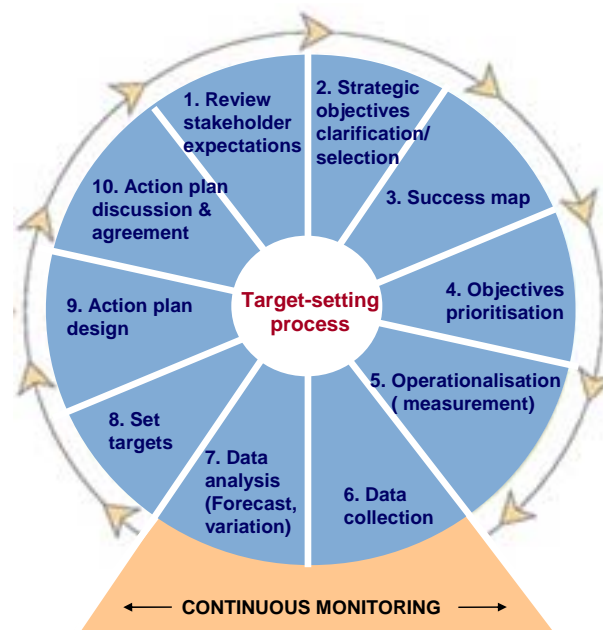
The research team looked in detail at the different target setting processes used by the participating companies. Overall, ten common issues that undermined the effectiveness of targets were found:

- *Forecast was mainly based on past performance* - so people don't over achieve when it will make the next year's target so much harder.

- *Targets were allocated inappropriately across the sales force.*
- *Targets were perceived to be too high or too low - too high de-motivates, leading to non-achievement - too low means paying bonus for poor performance.*
- *Some targets were based on the wrong performance measures - This was often referred to as “hitting the target and missing the point”.*
- *Targets were entirely based on financial indicators – even when factors such as customer relationships were absolutely critical.*
- *The data analysis process on which targets were based was poor and lacked rigour.*
- *Targets were not periodically reviewed – so were overtaken by events.*
- *Targets were “given” to the sales people – so not creating ownership.*
- *The interrelation between targets was not considered – causing inconsistency.*
- *Agreed action plans were the exception and not the norm.*

Based on the insights extracted from each of the companies target setting processes and on the knowledge obtained from the literature reviewed, the research team elaborated a specific ten-step model [see figure 2], which aims to improve the way performance targets are set.

Figure 2. The Target Setting Wheel



1. *Review stakeholder expectations* - “what do they expect from this organisation?”
2. *Strategic objectives clarification/selection* - a few clear statements of what the organisation aims to achieve addressing those key stakeholders’ requirements.
3. *Define the organisation’s success map* – the cause and effect relationship that describes how the organisation creates value to their stakeholders.
4. *Prioritise objectives*
5. *Operationalisation* - defining the KPIs to be used to measure each strategic objective.
6. *Data collection* - defining the data source, who measures and how often.
7. *Data analysis* - including both forecasting and capability analysis:
8. *Set targets* - deciding on specific performance targets for the organisation’s KPIs.
9. *Action plan design* - organisations need to spend time deciding on the actions that will help them achieve their targets.
10. *Action plan discussion and agreement* - Targets must be communicated together with the action plan for delivering the targets. The action plan **MUST** be discussed and agreed with those accountable for reaching the targets.

3.3 Factors influencing perceived target difficulty

Given the maxim “high but attainable”, it is important to understand the factors that influence perceived target difficulty. The study analysed the effects of six different factors that were thought to affect sales people’s perception of targets difficulty. The six factors were: role and performance clarity, time availability, decision-making autonomy, managerial and peer support, organisational cultural risk values, participation in the target setting process. Among these six factors only three helped people to perceive their targets as being less difficult and thus more achievable:

1. Having a clear idea of what their role and performance expectations are.
2. Having a supportive organisation where risk-taking, continuous learning and improvement are encouraged; this promotes greater ownership of the targets, which in turn positively affects perceptions about how difficult these targets are.
3. Participating in the target-setting process.

Interestingly, management’s view of role and performance clarity often differed from the sales force. Similarly, management often believed that the sales force had participated to some extent in the target setting process, whilst the sales people simply perceived that they had been given their targets, often with little explanation of how they were set, why they were important or how they were to be achieved. In this respect, communication is an extremely important factor in the whole process and can help overcome many of the difficulties that can arise when things don’t turn out the way they were expected to.

The study also found that by increasing sales people’s work discretion or decision-making autonomy, management may negatively influence sales people’s perceptions about how attainable their targets are. This finding is somehow surprising as the expectation was to find a positive relationship between work discretion and sales

people's perceptions about how attainable their targets were. This result might be explained if we take into consideration that in today's sales environments sales people need to work in teams and with high support in order to meet their targets.

4. Conclusion

At present, most organisations use performance targets for influencing the behaviour of their employees. The results these organisations obtain are not always the ones expected as there are critical issues associated with the use of performance targets. In particular sales environments are currently experiencing great transformations (e.g. the complexity of sales roles is increasing, team selling is now a critical sales capability as well as relationship selling, and customers are becoming more and more demanding). Most of these transformations are not being reflected in the type of performance targets and rewards that managers use to motivate their sales people. Most sales performance measurement and incentive systems still focus on the maximisation of product sales to meet short-term sales targets, and they assume that sales people are still "lone wolves" working autonomously in their own territories.

The reality is somehow different. At present, most sales people work in teams where customer information must be produced and shared. Their roles are increasingly complex with goals that are not only to maximise product sales from a list of assigned customers but also to engage in profitable and satisfactory relationships with existing customers and to identify, attract and acquire new customers with high lifetime value. This new selling environment requires innovative ways of measuring performance, setting targets and designing incentive plans. The study proposes a new framework and a 10 step process that would help organisations meet the new selling environments and set the type of targets that will generate the expected behaviours.

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