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A cross-national investigation of incentive sales compensation

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Abstract

Why do managers choose one sales compensation form rather than another? Theoretical answers typically focus on the type of plans managers *should* design, not on the factors that managers *actually* consider. Managers from various national origins pursue and weigh objectives through experience in a way that theoretical models may not capture. Incorporating conceptualizations from a wide range of disciplines, we specify a model examining the influence of cultural factors on sales compensation decisions of managers (incentive vs. fixed pay and parity vs. equity allocation). The model, tested with data collected from bank managers across six European countries, illustrates the importance of considering national culture when designing sales force compensation policies applied across multiple countries. We also find evidence that most European bank managers accept incentive pay to motivate salespeople but, perhaps paradoxically, overwhelmingly reject equity allocations to achieve control and parity. We discuss the implications of our findings for research on international governance systems and the diffusion of sales force management practices.

Keywords: Distributive justice; Compensation; Performance pay; Sales force management; National culture

1. Introduction

B2B salespeople are often the most direct link between a firm and its customers. They usually know a firm's clients better than any other employee and work in extended teams away from direct supervision. Increasingly, good teamwork is a determinant factor in winning sales and building long-term partnering relationships. These factors create important compensation design issues for managers in charge of their motivation.

One fundamental concern for managers wanting to motivate sales teams is how to distribute financial incentives among team members (Ramaswami & Singh, 2003). Specifically, managers need to decide, among other things, (1) how much of remuneration should be contingent upon achievement and (2) how financial incentives should be distributed among sales team members. The distribution of performance rewards is particularly interesting and generates much theoretical debate about appropriate allocation rules (Meindl, 1989). Awards can be based on individually differentiated performance (i.e., equity rule) or equally divided among all members of a sales team (i.e., parity rule). Both types are reflected in actual salesperson pay plans. For example, some firms like Dun and Bradstreet, split all sales commissions equally across salespeople in each team (Churchill, Ford, Walker, Johnston, & Tanner, 2000, p.114) while others such as FedEx, opt for individual bonus and commissions tied to the individual performance of salespeople (Cohen, Gilbert, & Ligos, 2004).

However, there are several reasons to question the applicability of these theoretical prescriptions and the transferability of existing practices for European sales force management. First, cross-cultural compensation literature is fairly limited (Harvey, 1993; Werner & Ward, 2004). Second, most sales force compensation researchers propose normative rules for managing compensation within "traditional selling environments" (Brown, Evans, Mantrala, & Challagalla, 2005) rather than take into account new developments in sales practices such as team selling. Third, with few exceptions (e.g., Coughlan & Narasimhan, 1992; John & Weitz, 1989; Krafft, Albers, & Lal, 2004),

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most of the literature on salespeople compensation addresses the specific question of optimal compensation structure (i.e., optimal ratio of incentive to total compensation). It proposes how managers *should* design their sales force compensation plan with the intent of maximizing long-term profits under a variety of conditions, not on the type of factors that managers *actually* consider. This leads to the fourth reason to examine this issue, namely that the selling environment is becoming rapidly international and that culturally diverse managerial decision-makers are increasingly common among multinational firms. Verifying that national cultures of managers are sources of variance in compensation decisions has the potential to provide insight into the differences in practices that have been evidenced across cultural contexts. Furthermore, most human resource management research investigates the influence of employee characteristics on merit increase decisions (Heneman, 1990). Less is known about the influence of manager orientations, values (Gully, Philips, & Tarique, 2003) or motives learned through experience (Bowman, 1963). To date, only one study (Lal, Outland, & Staelin, 1994) links the perceptions of the manager to specific types of sales force compensation plans. Since individual values are widely presumed to be influenced to one degree or another by personal environmental factors, including a person's national culture, a more diverse set of decision-makers may lead to a more diverse set of pay plans.

The overall objective of this article is to study the design of sales force compensation plans in a cross-cultural context. More specifically, we seek to: (1) highlight differences across regional cultures in sales compensation and reward allocation decisions, and (2) evaluate the relative influence of managerial criteria on sales force compensation decisions.

2. Conceptual framework

In Fig. 1, we present a theoretical framework based on different conceptual approaches developed in the human resource management, management and marketing literatures. Our contention is that managers design sales force compensation schemes by relying on insights developed in these fields as well as idiosyncratic factors related to their personal and cultural characteristics. The model includes three relationships. The first relationship describes the effect of regional culture on compensation structures. The importance of regional culture is based on the following: (1) the many observations that sales force compensation varies not only within countries but also across countries (e.g., Hay Paynet Survey, 2002) and (2) the international compensation literature (e.g., Schuler & Rogovsky, 1998).

The second relationship describes the influence of key managerial decision criteria on two compensation components (level and allocation of incentive). These criteria stem from the resulting difficulties in motivating and controlling salespeople in the new sales environment (Jones, Brown, Zoltners, & Weitz, 2005): (1) the use of team selling (sales force harmony, shirking prevention, social control, pay dispersion) and (2) the increasing interest in long-term customer relationships (long-term versus short-term goals for salespeople). Specifically, our model suggests that managers consider both the overall *level of effort* they want salespeople to achieve as well as the *direction of this effort* when developing compensation plans. We are guided by a number of studies investigating factors stimulating and influencing salespeople effort (e.g., Coughlan & Sen, 1989; Darmon, 1974; Joseph & Thevaranjan, 1998).

The third relationship examines the effects of control variables on compensation. Note that our model will be restricted to variables related to salespeople and sales managers. Other factors, such as market characteristics or industry norms are not being considered here. We discuss each part of the model next and present our formal hypotheses.[1]

2.1. Regional culture and compensation design

Culture and incentive compensation. We take as our point of departure Ronen and Shankar's cultural representation of Europe (1985), which was based upon an extensive review of cross-cultural managerial studies. In their view, countries with geographical proximity, common language roots and religion, tend to share similar values. We use part of their cultural categorization (Anglo: United Kingdom; Germanic: Austria, Germany; and Latin: France, Italy, Spain, cultural clusters) since it is consistent with a number of more recent surveys (e.g., Trompenaars, 1993).

Hofstede's uncertainty avoidance dimension (1980; 1991), examined in branding (Erdem, Swait, & Valenzuela, 2006; Roth, 1995) and consumer innovations (Steenkamp, ter Hofstede, & Wedel, 1999), is particularly relevant to our study. Uncertainty avoidance is defined as a diffuse sense of unease about a situation. When cultures are high on uncertainty avoidance, managers are presumed to focus on risk avoidance and reduction. Conversely, in low uncertainty avoidance societies, managers should be open to risk taking. Gomez-Mejia and Welbourne (1991) argue that multinational corporations should minimize variable pay in countries with high uncertainty avoidance scores. In support of this view, Gooderham, Nordhaug, and Ringdal, (1999) found German firms were using calculative practices (i.e., including incentive reward systems) significantly less than British firms in a multinational study of human resource management practices. Similarly, Tosi and Greckhamer (2004) found a negative relationship between the proportion of variable to total CEO compensation and uncertainty avoidance.

Relating these ideas and findings to sales force compensation settings, we suggest that uncertainty avoidance is related to risk aversion. Since there are uncertainty and associated risks in most effort-sales relationships, managers belonging to cultures where uncertainty avoidance is high are likely to prefer compensation plans that reduce uncertainty, and therefore choose fixed pay plans. Latin and Germanic countries, where uncertainty avoidance is high, are likely to provide a cultural

[1] We do not hypothesize a direct relationship between regional culture and managerial decision criteria as, to the best of our knowledge, there is no theoretical background pertaining to the influence of national origin on managers' decisions pertaining to salespeople's effort level and direction. We thank an anonymous reviewer for raising the issue.

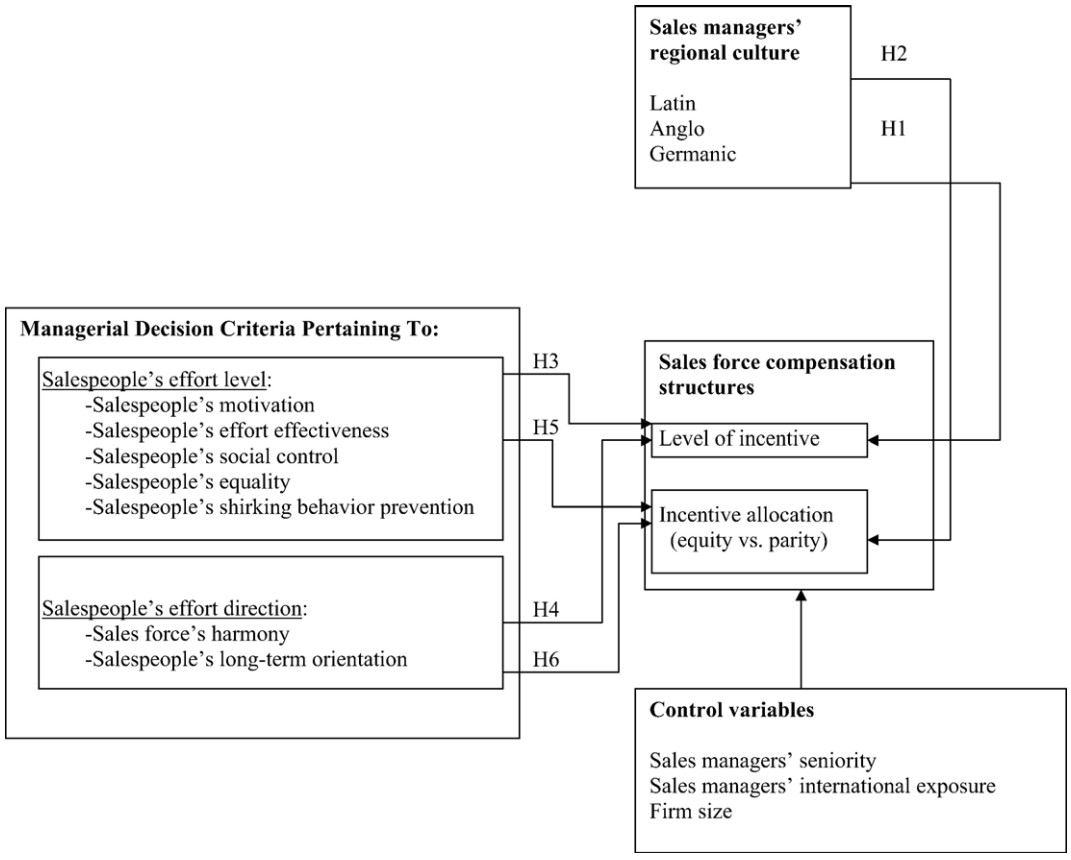

Fig. 1. A framework for examining sales force compensation decisions.

environment that uses less compensation plans involving incentives than countries such as Anglo countries, where uncertainty avoidance is lower. All in all, the hypotheses implied by this discussion suggest:

H1. Managers from (a) the Latin European region and (b) the Germanic region are less likely than managers from the Anglo region to use incentive compensation for their sales force.

Culture and reward distribution. Another of Hofstede's cultural dimensions, individualism–collectivism, is useful for examining sales force reward allocation decisions. This dimension is defined as the degree of connectedness among individuals (Hofstede, 1980; Hui & Triandis, 1986; Triandis, 1995). Countries where individualism is high are characterized by loose ties between individuals. More bluntly, individuals must look after themselves. On the other hand, in highly collectivistic environments ties between individuals are strong (Hofstede, 1991). While European countries are reputed to be collectivistic they are not uniformly the same: Spain stands out from the group with a higher level of collectivism. Researchers find that: (1) people in Spain are more collectivistic than people in Germanic, Anglo and other Latin European countries such as France and Italy (Hofstede, 1980; Stoetzel, 1983); (2) people from the United Kingdom are more individualistic than any other European country (Calori, Lubatkin, Very, & Veiga, 1997; Hofstede, 1980; Kluckhohn & Strodtbeck, 1961; Stoetzel, 1983); (3) the inhabitants of France and Italy are more individualistic than those in Germanic countries (i.e., Austria, Germany) (Hofstede, 1980). Previous cross-cultural research investigating the relationship between reward allocation rules and individualism–collectivism values concentrated on extreme cases (e.g., China vs. USA) or other occupational classes.

In a comprehensive review of allocation decision research, Leung (1997) reports that: (1) individualists prefer the equity principle, whereas collectivists prefer the parity principle (e.g., Bond, Leung, & Wan, 1982; Hui, Triandis, & Yee, 1991; Leung, 1997; Leung & Bond, 1984), but (2) group membership, or (3) status, among other factors, affect this choice of allocation rule (e.g., Aral & Sunar, 1977; Chen, 1995; James, 1993; Leung & Bond, 1984). One explanation is that collectivists prefer to apply parity principles toward in-group members (e.g., family and friends) because it fits with their emphasis on solidarity, harmony, and cohesion. However they use equity principles more than individualists when dealing with out-group members (e.g., unknown people). Perhaps because individualists consider strangers as potential group members, social skills and friendliness become necessary to facilitate potential future interactions. Collectivists however, by focusing on their in-group, view strangers as having low potential to join the in-group (Leung & Bond, 1984).

This conjecture is further supported by the work of Hui et al. (1991), Chen (1995), and Leung (1997). Their work implies that a collectivist's preference for egalitarian allocation rules is influenced by perceived status differences. When collectivists

allocate to equals they use parity but when they allocate to lower status actors they use equity. Leung (1997) suggests that in the absence of equal status to guide allocation, supervisors rely on the organization's dominant goals, such as productivity enhancement. Studies by Marin (1985) and Chen (1995) also found stronger preference for equity among collectivist than individualist actors. We expect therefore that collectivistic managers acting in status differential relationships will use equity rules rather than parity rules. Consistent with the above line of argument, we expect:

H2. Managers from (a) the Anglo region, (b) France and Italy, and (c) the Germanic region are less likely than Spanish managers to decide on equity for sales force incentive compensation allocation.

2.2. Compensation plan structure decision criteria

2.2.1. Salespeople's effort level

Salespeople's motivation. Theories of human motivation support the use of incentive compensation as they encourage managers to tie outcomes to behaviors. In human resource management research, there is considerable evidence that to sustain motivation, managers must demonstrate a close link between performance and rewards through merit pay (e.g., Bloom & Milkovitch, 1999; Campbell, Campbell, & Chia, 1998; Heneman, 1990). Similarly, a central tenet of personnel economics is that workers respond to incentives (Lazear, 2000).

The majority of sales force researchers examining motivational aspects of sales force compensation rely on insights from expectancy theory (e.g., Apasu, 1987; Churchill, Ford, & Walker, 1979; Churchill & Pecotich, 1982). One of their most important findings is that monetary rewards are the strongest motivators for salespeople (Churchill et al., 1979; Ingram & Bellenger, 1983). Similarly, the descriptive sales management literature (for a review, see John & Weitz, 1989) prescribes the general rule that managers should use commissions to motivate salespeople.

Across the board the message seems to be clear: salespeople are motivated principally by money so merit pay should be used to achieve high performance. However, the relationship is not so clearly established among psychologists. Some argue that incentive schemes may undermine intrinsic motivation and ultimately degrade performance because extrinsic motivation conflicts with intrinsic motivation (for a review, see Deci, Koestnet, & Ryan, 1999). Nevertheless, the dominant view in academia and society is that human behavior is motivated primarily by extrinsic rewards (Ferraro, Pfeffer, & Sutton, 2005). In sum, we surmise managers adopt this paradigm and choose incentive plans in order to trigger salespeople's motivation. That is to say,

H3a. Managers emphasizing salespeople's motivation are more likely to choose compensation plans featuring incentives (vs. fixed compensation plans).

Impact of sales effort effectiveness. Normative sales management research, based on agency theoretic models of sales force compensation (e.g., Basu, Lal, Srinivasan, & Staelin, 1985; Lal & Srinivasan, 1993), suggests that incentive compensation is most effective when sales effort is strongly related to sales, i.e. when there is a steep sales response curve. The rationale is that when effort expended by salespeople makes a major contribution toward developing sales, incentive pay is preferable because the incentives capitalize on the increased saliency of the effort–reward relationship (Lal et al., 1994). Conversely, when selling effort has a low marginal return on sales, due to other variables such as advertising effort or product quality, then a fixed salary is more appropriate (John & Weitz, 1989). Basu et al. (1985) recommend higher commission rates if the effectiveness of the sales response function increases, because salespeople will generate more sales for a given level of effort. As a result, we surmise sales managers who focus on sales effort effectiveness will attempt to increase the effectiveness of the sales response function (i.e., the effort-sales function), by using incentives. Consequently, we posit that,

H3b. Managers emphasizing sales effort effectiveness are more likely to choose compensation plans featuring incentives (vs. fixed compensation plans).

Salespeople's social control. H3a and H3b focus on the use of incentive to motivate and control salespeople. Another method, social control, takes advantage of the fact that collaborative forms of selling imply that salespeople are working less in isolation. They are therefore observed more by their peers or colleagues. This permits the evolution of sales force control techniques based on social control. Social control is the informal, undirected evaluation of a colleague's work by his/her peers. It can be a particularly strong method for aligning individual behavior with group norms. Jaworski (1988) advocates the use of informal controls in situation of high environmental uncertainty. In such situations firms hesitate to rely on incentive compensation (for a review see John & Weitz, 1989; Lal et al., 1994) making the need for some other control system necessary. Agency theory justifies this proposition. When a firm can monitor the actions of an agent, such as in a closely-knit group of employees, the need for variable pay decreases[2] (Joseph & Thevaranjan, 1998). But not enough is known about the relationship between compensation and social control strategy in the sales force setting leading Baldauf, Cravens, and Piercy (2005) to argue that even more research is needed in this area. Based on the above argument however we propose that,

H3c. Managers emphasizing salespeople's social control are less likely to choose compensation plans featuring incentives (vs. fixed compensation plans).

The principle of parity. There is consistent evidence of rising wage inequalities within employee groups (e.g., Freeman & Katz, 1996). Batt (2001) reports a 30% increase in wage inequalities among telecommunications service and sales workers between 1983 and 1998 in the United States. She demonstrates that wage disparities of service and sales workers *within* call

[2] We thank an anonymous reviewer for suggesting this line of argument to us.

centers are related, among other things, to business strategies of customer segmentation and human resource practices. In other words, firms seem to be awarding a price premium for working in some segments thereby creating or increasing wage inequalities. These pay disparities may not be well perceived by salespeople and may result in dysfunctional behaviors (Bloom, 1999). Managers confronted by these problems may be less likely to promote incentives schemes in order to respect the principles of internal equity as recommended by Wallace and Fay (1988). Hence,

H3d. Managers emphasizing salespeople's parity are less likely to choose compensation plans featuring incentives (vs. fixed compensation plans).

Preventing shirking behavior. One of the most fundamental ideas of economics is that people are motivated by self interest (Ferraro et al., 2005; Miller, 1999). Consequently, people are assumed to pursue objectives that will conflict with the interests of others in a zero sum situation. A considerable amount of economic research examining the relationship between sales force compensation and firm performance is premised on the notion that compensation systems can be designed to align salespeople's interests with those of the firm. Simply put, conflicts of interest between firms and salespeople arise because salespeople are motivated by their self interest, therefore incentives are advocated to obtain desired behaviors and realign objectives.

Incentive pay is the primary means for achieving this alignment since information on their salespeople's behavior is often difficult to obtain. If managers reward salespeople's behaviors without knowing how they performed they could never be certain their salespeople did not shirk (Eisenhardt, 1985). Consistent with this view, we surmise managers who focus on preventing free riding by salespeople are more likely to choose incentive compensation, because this ties pay to real, if unmeasured, performance.

H3e. Managers emphasizing salespeople's shirking behavior prevention are more likely to choose compensation plans featuring incentives (vs. fixed compensation plans).

2.3. Salespeople's direction of effort

Sales force harmony. One of the most notable changes in selling strategy is the importance of team selling (Weitz & Bradford, 1999). Because of the key role sales teams play, sales managers must coordinate salespeople's efforts and preserve harmony in the sales force. This objective is largely overlooked in the empirical compensation literature. Exceptions include Cravens, Ingram, Laforge, and Young (1993) and Oliver and Anderson (1994) who show that behavior-based sales force control systems (consistent with low levels of incentive compensation) induce salespeople to accept more cooperation and teamwork. The reasoning is that behavior-based controls enhance salespeople willingness to perform activities that contribute to long-term rather than outcome typically based on easily measured, short-term results. This contention is also supported by the practical guideline offered by the traditional sales force literature that salary is deemed appropriate when team selling is used (John & Weitz, 1989; Lal et al., 1994). Although the rationale for this contention is related to the difficulty in assessing individual contribution and performance — and not to sales force harmony, we argue here that maintaining harmony is a necessary condition for sales team work. Furthermore, a social science perspective suggests that managers seeking harmony in their sales force will try to reduce pay differentials in order to decrease social comparisons costs (Nickerson & Zenger, 2006). As a result, managers will choose a pay plan allowing salespeople to be paid at the same level. Accordingly,

H4a. Managers emphasizing sales force harmony are less likely to choose compensation plans featuring incentives (vs. fixed compensation plans).

Salespeople's long-term orientation. The field of personal selling evolved as a result of the increased attention devoted to developing and managing long-term buyer–seller relationships. Numerous publications deplore the short-term orientation of salespeople that is often triggered by incentive compensation tied to a particular time frame horizon (e.g., Coughlan & Narasimhan, 1992). In their model of time and outcome valuation, Mowen and Mowen (1991) provide two explanations for time-related salespeople behaviors. They underline two phenomena, *individual trap* and *individual fence*, that help explain why salespeople are short-term oriented when they are compensated on incentives. The *individual trap* occurs when gains experienced in the present cause a person to engage in an action even though long-term consequences are negative. Hence, because they are paid on an incentive basis, salespeople pursue immediate outcomes by minimizing service and selling to current accounts, even though the long-term consequence of those behaviors is detrimental to new client development. In addition, the *individual fence* may operate, thereby causing people not to make decisions resulting in short-term losses despite gains in the long-term. For example, salespeople may decide not to sell new products or engage in prospecting, which create short-term costs, because they discount the long-term benefits of these activities. In keeping with those predictions, the sales management literature advocates plans emphasizing salary when firms want their salespeople to adopt a long-term orientation to realize future sales (John & Weitz, 1989). Hence, a salary will prevent salespeople to fall in the *individual and fence traps* described above because it neither creates short-term gains (i.e., commissions) nor induces short-term losses (i.e., sell new products or prospecting). Signs of agreement by academics are evident in the literature (Cravens et al., 1993; Oliver & Anderson, 1994). In this sense, managers "buy" the behaviors they want salespeople to adopt. Consequently, fixed pay plans will be more attractive to managers concerned by the long-term orientation of their sales forces, than pay for performance plans. Thus,

H4b. Managers emphasizing salespeople's long-term orientation are less likely to choose compensation plans featuring incentives (vs. fixed compensation plans).

2.4. Incentive compensation distribution decision criteria

A key issue for organizations lies in the competing allocation principles (i.e., equity vs. parity) as related to internal cohesion and economic efficiency (Kabanoff, Waldersee, & Cohen, 1995). Firms pursuing economic efficiency typically rely on processes dominated by equity values. In short, managers focusing on economic efficiency will adopt values that tolerate allocating resources unequally (Deutsch, 1985; Kabanoff, 1991; Kabanoff et al., 1995; Meindl, 1989) to achieve optimal performance. This contention is also consistent with motivation studies in compensation psychology showing that individual incentives are positively related to work motivation (for a review see Werner & Ward, 2004).

Another viewpoint is that since individual rewards are more directly linked to individual effort effectiveness than shared rewards (Hayes, 1976), managers who place a high priority on sales effort effectiveness will prefer individual (i.e., differential) incentive allocation.

H5. Managers emphasizing (a) salespeople's motivation or (b) sales effort effectiveness are more likely to choose equity (vs. parity) as a rule to allocate incentive compensation.

Salespeople's social control. When sales managers emphasize social control, they basically rely on their employees to influence the behavior of each salesperson. A set of unwritten and normative working rules is informally applied to define appropriate behaviors and discourage malfeasance. Moreover, informal controls, such as social control, are related to situations of high dependency (Jaworski, 1988). According to Deutsch (1949) situations of interdependence and cooperation promote perceptions of shared fate and supportive behavior, which in turn promote the development of equality norms (Beersma et al., 2003). Consequently,

H5c. Managers emphasizing salespeople's social control are less likely to choose equity (vs. parity) as a rule to allocate incentive compensation.

The principle of parity. As in any group, members of a sales force are likely to compare themselves to colleagues. According to Festinger's social comparison theory (1954), individuals need to evaluate themselves and choose as a standard for comparison others who are considered similar or slightly better. Consequently, members in a sales team will tend to compare themselves to better paid colleagues. This process is seldom a simplistic – "do we make the same money" – type of question. Rather it involves comparing the ratio of what you put into and get out of a job with some other comparison person input to outcome ratio (Adams, 1965; Jacques, 1961). Estimation of this ratio varies slightly among equity researchers, but the essential point for our discussion is that salespeople will be sensitive to differences in the conditions of their work that influence this ratio.

According to Adams (1965) if the outcome of this comparison results in the feeling of unfairness (i.e., that the ratios are not equal), then salespeople will seek to adjust their outcomes or inputs. Failing this they will adjust, perhaps through social pressure or even sabotage, the comparison person's outcomes or inputs. Recent research demonstrates considerable support for the notion that pay dispersion can lead to negative behaviors (Cowherd & Levine, 1992; Pfeffer & Davis-Blake, 1992; Pfeffer & Langton, 1993). Reviewing a wide range of disciplines, Nickerson and Zenger (2006) suggest managers respond to these comparison costs by compressing wages or by weakening the link existing between pay and performance. Simply put, managers concerned by parity will choose to equally distribute incentives, since differential allocation of rewards is likely to promote pay differentials. Thus,

H5d. Managers emphasizing parity principles are less likely to choose equity (vs. parity) as a rule to allocate incentive compensation.

Preventing shirking behavior. If salespeople are selling in teams (Weitz & Bradford, 1999), managers have to decide how to reward the individual team members. The general logic underlying the prescription of group-based rewards is that they promote trust, harmony and mutually supportive behaviors among team members, thereby improving overall performance (Beersma et al., 2003). However, rewarding team performance can encourage free riding by individual team members (Albanese & Van Fleet, 1985).

Ironically, as noted by Beersma et al. (2003), the approach taken to avoid the free-rider problem involves identifying individual contributions and reward them accordingly. In essence, when managers are concerned by free-riding issues, there are likely to choose differential reward allocation rules. Taken together those arguments imply,

H5e. Managers emphasizing shirking behavior prevention are more likely to choose equity (vs. parity) as a rule to allocate incentive compensation.

Sales force's harmony. Another fundamental issue of sales force management is the promotion of cooperation or competition among salespeople. On one hand, competitive systems based on equity reward allocation rules promote compensation differences. Such systems are advocated to emphasize efficiency, innovation, and speed. On the other hand, cooperative reward systems based on equality norms promote group outputs. Such systems are advocated to focus on trust and cohesiveness (Beersma et al., 2003). Consequently, managers who have high concerns for harmony will try to allocate resources equally (Barber & Simmering, 2002; Deutsch, 1985; Dornstein, 1991; Kabanoff, 1991; Meindl, 1989). Therefore,

H6a. Managers emphasizing the desirability of harmony are less likely to choose equity (vs. parity) as a rule to allocate incentive compensation.

Salespeople's long-term orientation. Managers can develop sales goals of different time frames. The appropriate compensation scheme is not the same for each strategy. Managers with preferences for the long-term approach are more likely to favor parity compensation, which typically is implemented with a fixed salary, because it allows managers to better control behavior or the way salespeople do their selling. Essentially, the

manager buys cooperation, one might even say submission, from the sales force in return for a fixed income. This moves the risk away from the salesperson to the firm, but the firm can then insist on a very specific type of behavior.

Managers with preferences for short-term sales goals however are unlikely to see much benefit in accepting the risk and upfront expense of sales results far in the future. They are likely to buy results rather than behavior. Making rewards contingent on results invariably creates the condition for more differentiation in remuneration. In turn, sharing rewards on the basis of differentiated and individual performance imply best salespeople will get the biggest share. Therefore, if management chooses the equity rule, salespeople will not respond positively to long-term directive since they want the best performance short-term results possible in order to get the biggest share of rewards. Conversely, if the parity rule is institutionalized, salespeople are aware that they will get the same share of rewards as their colleagues, whatever their behavior. So in the best of cases they should be unopposed to behaving as the firm requires. Therefore we suggest,

H6b. Managers emphasizing salespeople's long-term orientation are less likely to choose equity (vs. parity) as a rule to allocate incentive compensation.

2.5. Control variables

The level of managers' international exposure is likely to influence positively their preference for incentive compensation. For example, Brewster (1991, p. 77) reports that expatriate managers are generally compensated with incentive schemes. Hutton (1988), who finds successful expatriate managers have higher ambiguity tolerance, indirectly supports this position. Seniority is also often an important factor in managerial decision-making. So, we argue that older managers are less inclined to prefer incentive and differential compensation plans because they might be less competitive than their younger counterparts (Cron, Dubinsky, & Michaels, 1988). Finally, as shown by John and Weitz (1989) and Joseph and Kalwani (1995), larger firms use a higher proportion of incentive pay because of their higher monitoring and control costs. In conclusion, controlling for managers' international exposure, seniority and firm size provides a stronger test of our hypotheses.

3. Research design and measures

Procedure and sample. The hypotheses were tested using a sample drawn from branch banking networks of six European countries (i.e., Austria, France, Germany, Italy, Spain, United Kingdom). Branch banks were used because (1) branch banking remains a local business in many European countries and (2) international exchange of personnel and use of expatriates remains limited. Thus, the sales compensation practices are likely to reflect local cultural values that are not homogenized by internationalization. A representative sample of banks and savings institutions was contacted by a local research partner[3] and invited to participate in the study. Participating firms were asked to randomly distribute the research instrument to managers within their branch-banking network. The instruments were returned directly to the local project partners.

The total of 652 returned questionnaires provided a 62% response rate. About 100 useable questionnaires were returned by country (100 for Austria, 89 for the United Kingdom, 117 for France, 111 for Germany, 137 for Italy and 98 for Spain). The respondents were mostly males (about 90%), about 42 years old and averaged 15 years of seniority in their firm. More than 90% had neither worked abroad nor for a foreign employer.

A scenario approach was used to assess the basis of compensation decisions in order to (1) increase the contextual similarity of the decision setting across respondents (Alexander & Becker, 1978; Becker & Fritzsche, 1987), and (2) elicit deeply held values accessible through the use of "vivid" data (Nisbett & Ross, 1980). The compensation scenario presented in Appendix A was developed through interviews of about 100 European business managers using semi-structured interviews. The scenario features both a choice and an open-ended question devoted to the justification of the choice.

This procedure is more likely to evoke compensation objectives of managers for several reasons. First, providing respondents with a list of potential managerial objectives to associate with specific compensation plans might alter their true rationales. Second, as few studies investigate this issue, an exploratory mode of investigation (i.e., requiring open-ended questions) seemed appropriate.

The scenario describes a meeting between a director and four managers, where the director outlines the organizational and choice situation concerning a new compensation scheme for a sales force consisting of 450 salespeople. Each of the four participating managers takes different positions defending one of the compensation plans using various arguments based on original stories, actual industry practices, or relevant theoretical propositions. A table summarizing the four choices is provided. In the scenario, the meeting is adjourned before a decision is made. Then the respondents are asked to choose one of the four compensation plans and to justify it.

This scenario, first written in English, was then translated in German, French, Italian and Spanish.[4] In the pretest, local managers from each country reviewed the story and choices to insure that the problem was clearly presented and not far removed from actual choices available in their local industry. Additionally, demographic data about the respondent were collected. In summary, the data collection method (1) provided standardized information to the respondents, therefore reducing the impact of specific firm contexts and (2) generated culturally rich quantitative and qualitative data necessary to compare European managers' objectives for compensation system.

[3] Local research partners were typically professors or researchers at prestigious local business schools.

[4] Back translations were used to check the quality of the original translations and the invariance of the research instrument.

Table 1
Descriptive statistics

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Motivation	0.41	0.56	–	0.10 [b]	−0.02	−0.02	0.00	−0.02	0.08 [c]	−0.05	0.09 [c]	2×10^{-3}	.01	.03	0.20 [a]	0.04	−0.21 [a]
2. Sales effort effectiveness	0.04	0.35		–	−0.05	−0.21	0.02	−0.04	−0.02	−0.04	0.05	0.06	.02	−.03	0.01	0.06	−0.06
3. Social control	0.20	0.43			–	0.05	0.03	0.16	−0.02	−0.05	0.05	−0.03	−01	.00	0.03	0.07	−0.08 [c]
4. Parity	−0.24	0.60				–	0.03	0.07	0.03	−0.06	−0.09	−0.09 [c]	−.04	−.09 [c]	−0.06	−0.04	0.08 [c]
5. Shirking prevention	0.04	0.20					–	−0.06	0.04	−0.01	0.03	0.01	.01	−.01	−0.08 [c]	0.19 [a]	−0.06
6. Harmony	0.56	0.66						–	−0.02	0.01	−0.02	−0.01	−01	.04	0.03	0.01	−0.03
7. long-term orientation	0.04	0.39							–	−0.01	−0.03	−0.03	−.06	−.02	0.23 [a]	−0.04	−0.18 [a]
8. Seniority	18.34	9.51								–	−0.14 [b]	−0.01	−.07	4×10^{-3}	−0.01	−0.11 [b]	0.08 [c]
9. Number of employees (Log)	8.31	1.82									–	0.15 [a]	.06	.05	−0.23 [a]	0.11 [b]	0.14 [a]
10. International experience	0.06	0.24										–	.48 [a]	.21 [a]	−.02	−0.03	0.04
11. Foreign employer	0.10	0.30											–	.20 [a]	−.02	−.09 [c]	0.08 [c]
12. Language ability	0.43	0.50												–	−.26 [a]	−.26 [a]	.05
13. Germanic culture	0.32	0.47													–	−0.28 [a]	−0.75 [a]
14. Anglo culture	0.14	0.34														–	−0.43 [a]
15. Latin culture	0.54	0.50															–

Note: Regional culture is represented by 3 dummy variables (13 to 15 in this table).
[a]Significant at $p<.001$ (two-tailed tests), [b]Significant at $p<.01$ (two-tailed tests), [c]Significant at $p<.05$ (two-tailed tests).
$N=652$.

3.1. Dependent variables

Fixed vs. incentive compensation. As shown in Appendix A, compensation plan structure was assessed through the choice between either a fixed plan (choice A or D featuring 100% fixed compensation) or a plan featuring incentive compensation (choice B or C featuring 85% fixed and 15% incentive compensation).

Individual vs. collective allocation of incentive compensation. The measure used to examine the incentive allocation decision is the choice between an equity (choice B featuring 15% commission for individual salespeople) or a parity rule of allocation (choice C featuring 15% commission shared equally across the sales force).

3.2. Independent variables

Managerial decision criteria. A content analysis was performed to uncover managerial objectives driving compensation decisions. First written statements were parsed and initially classified by local research partners. Then, working collectively, the partners standardized these reasons into about forty distinct items. The research team then recoded their parsed statements using the standardized scheme. Coder reliability was computed by randomly comparing about 25% of the items as suggested by Tull and Hawkins (1987). In addition, Cohen's (1960) kappa statistic was calculated. As it ranged between .7 and 1 across the sample of items, we conclude a good reliability was achieved. Further, we proceeded with a second coding to create compensation decision criteria consistent with prior research presented earlier. Seven new decision criteria categories (e.g., salespeople's motivation, sales effort effectiveness, salespeople's social control, parity, salespeople's shirking behavior control, sales force harmony and salespeople's long-term orientation) were created using frequency counts of earlier items that were coded 0 (item not present), 1 (positive item present) or −1 (negative item present). Thus, the resulting categories were represented by the summation of those frequency counts. To assess reliability, seven additional coders also categorized the items into categories. They reached an average of 88% agreement with the authors' coding scheme. It is possible that the respondent incorporated a threshold when making an assessment as they considered a factor in determining whether or not it was important in their decision about a sales compensation policy. It is also possible that they simply treated this issue as a yes/no decision. Without knowing the process used by respondents, we treated the variable as a yes/no decision. Asking about relative importance would yield more information and might have increased the explanatory power of the estimated model, but our coding leads to a bias of the results toward insignificance.

Consequently, the resulting data set included (1) a choice of fixed (vs. incentive) compensation plan, (2) a choice of equal (vs. differential) incentive allocation, (3) the scores for each decision criteria supporting those choices, and (4) demographic data about the respondent and the firm.

Regional culture. Two dimensions of culture were assessed. One dimension, uncertainty avoidance, is useful for testing hypotheses related to incentive vs. non-incentive compensation decisions. The six countries investigated in the survey were categorized according to their Germanic (i.e., Austria, Germany), Latin (i.e., France, Italy, Spain) or Anglo (i.e., England) origin, which is consistent with Gooderham et al. (1999) and Hofstede (1980). Regional culture was then represented by a set of two dummy variables, with the Anglo culture as the reference category.

The second dimension, collectivism, relates to the reward allocation decisions. Because Spain stands out in terms of

collectivism values as explained earlier, another cultural divide, consistent with that of Hofstede (1980), was used for the incentive allocation decision as explained earlier. Hence, the Latin cluster was split further into two Latin clusters, France and Italy, and Spain, which was used as the reference category.

Control variables. Respondents' seniority was measured in years of employment. Respondents' internationalization exposure was assessed though three dichotomous variables (i.e., foreign work experience, previously employment by a foreign employer, and ability to speak at least one foreign language). We measured organizational size by the number of employees of each participating firm. Because the distribution of the organizational size measure was not symmetrical its natural logarithm was used.

4. Analysis procedure and results

The dummy dependent variables (i.e., fixed vs. incentive compensation and equal vs. differential incentive allocation decision) necessitated the use of logistic regressions. For each of those decisions, we conducted a logistic regression analysis to test for the independent effect of managerial decision criteria and national culture. First, we estimated a baseline model, including a dependent variable and ten independent variables: four managerial decision criteria dealing with the level of salespeople's effort (i.e., focusing on salespeople's motivation, providing evidence for salespeople's impact of effort, salespeople's social control, maintaining parity in the sales force), three managerial decision criteria dealing with the direction of salespeople's effort (i.e., preventing salespeople from shirking, maintaining sales force harmony, emphasizing salespeople's long-term orientation) and five control variables (i.e., respondents' seniority, international experience, foreign employer, language ability and log of number of employees). See Table 1 for descriptive statistics.

Table 2
Logistic analysis for the compensation plan structure decision

Independent variables	
Regional culture*	
Latin (France, Italy, Spain)	.17
Germanic (Austria, Germany)	−.97 [c]
Managerial criteria dealing with the level of salespeople's effort	
Salespeople's motivation	.57 [b]
Sales effort effectiveness	.20
Salespeople's social control	−.02
Salespeople's parity	−.59 [b]
Preventing salespeople from shirking	.73
Managerial criteria dealing with the direction of salespeople's effort	
Sales force harmony	.25
Salespeople's long-term orientation	−.15
Socio-demographics	
Sales managers' seniority	.004
Log of number of employees	.08
Sales managers' international experience	.09
Sales managers' foreign employer	.04
Sales managers' language ability	.85 [a]
−2 Log Likelihood (−2LL)	518.65
R^2 (Nagelkerke)	.15
Model Chi-square (13 d.f.)	53.87 [a]
Chi-square for change in −2LL when regional culture is added to the baseline model (1 *d.f.*). **	17.34 [a]

[a]Significant at $p<.001$, [b]Significant at $p<.01$, [c]Significant at $p<.05$.
*The reference category is the Anglo regional culture (United Kingdom).
**Likelihood-ratio test.
Notes: Positive parameter estimates indicate greater likelihood to include incentives in the compensation plan.
Unstandardized parameter estimates reported. Tests of significance are two-tailed tests.
514 questionnaires were usable for this compensation decision.

Table 3
Logistic analysis for the incentive compensation distribution decision

Independent variables	
Regional culture*	
Alternate Latin (France, Italy)	−1.57 [b]
Anglo (United Kingdom)	−1.85 [b]
Germanic (Austria, Germany)	−1.63 [b]
Managerial criteria dealing with the level of salespeople's effort	
Salespeople's motivation	1.16 [a]
Sales effort effectiveness	1.19 [c]
Salespeople's social control	−2.10 [a]
Salespeople's parity	−1.28 [a]
Preventing salespeople from shirking	2.31 [b]
Managerial criteria dealing with the direction of salespeople's effort	
Sales force harmony	−3.26 [a]
Salespeople's long-term orientation	−.44
Socio-demographics	
Sales managers' seniority	.05 [b]
Log of number of employees	.10
Sales managers' international experience	.33
Sales managers' foreign employer	−.53
Sales managers' language ability	.38
−2 Log Likelihood (−2LL)	271.95
R^2 (Nagelkerke)	.63
Model Chi-square (15 *d.f.*)	239.87 [a]
Chi-square for change in −2LL when regional culture is added to the baseline model (3 *d.f.*). **	11.77 [b]

[a]Significant at $p<.001$, [b]Significant at $p<.01$, [c]Significant at $p<.05$.
*The reference category is Spain.
**Likelihood-ratio test.
Notes: Positive parameter estimates indicate greater likelihood for deciding on equity (vs. parity) allocation rule of incentive compensation.
Unstandardized parameter estimates reported. Tests of significance are two-tailed tests.
388 questionnaires were usable for this compensation decision.

Subsequently, we added regional culture variables to the baseline model and re-estimated the model (see Tables 2 and 3). After comparing the two models using a chi-square statistic, we conclude that the model with regional culture significantly adds to the explanatory power of the baseline model ($p<.001$ for the incentive compensation decision and $p<.01$ for the incentive compensation distribution decision).

4.1. Regional culture and compensation design

Culture and incentive compensation. As expected, regional culture has a significant effect on the level of incentive compensation (Chi-Square for change in −2LL when regional culture is added = 17.34, $p<.001$ for the incentive vs. fixed

Table 4
Empirical test of hypotheses regarding the choice of sales force compensation

Factors influencing the compensation plan system	Incentive vs. fixed compensation decision[1]			Equity vs. parity allocation decision[2]		
	Hypotheses	Expected sign of coefficient	Empirical findings	Hypotheses	Expected sign of coefficient	Empirical findings
Regional culture*						
Latin	H1 $_a$	−	*f*	H2 $_a$	−	*v*
Germanic	H1 $_b$	−	*v*	H2 $_b$	−	*v*
Anglo				H2 $_c$	−	*v*
Managerial decision criteria						
Salespeople's effort level						
-Salespeople's motivation	H3 $_a$	+	*v*	H5 $_a$	+	*v*
-Salespeople's effort effectiveness	H3 $_b$	+	*f*	H5 $_b$	+	*v*
-Salespeople's social control	H3 $_c$	−	*f*	H5 $_c$	−	*v*
-Salespeople's parity	H3 $_d$	−	*v*	H5 $_d$	−	*v*
-Salespeople's shirking prevention	H3 $_e$	+	*f*	H5 $_e$	+	*v*
Salespeople's effort direction						
-Sales force's harmony	H4 $_a$	−	*f*	H6 $_a$	−	*v*
-Salespeople's long-term orientation	H4 $_b$	−	*f*	H6 $_b$	−	*f*
Control variables						
Sales managers' seniority		−	*f*		−	*v*
Sales managers' international experience		+	*f*		+	*f*
Sales managers' foreign employer		+	*f*		+	*f*
Sales managers' language ability		+	*v*		+	*f*
Firm size		+	*f*		+	*f*

[1]Positive sign indicates greater likelihood to choose incentive compensation.
[2]Positive sign indicates greater likelihood to choose the equity allocation rule.
*The reference category is the Anglo regional culture for the incentive decision and Spain for the equity allocation decision. Therefore, the Latin cluster is represented by France, Italy and Spain for the incentive decision and by France and Italy only for the allocation decision.
Notes: *v* indicates the hypothesis is supported. *f* indicates the hypothesis is not supported.

compensation). No support is found for H1a according to which managers from the Latin European region are less likely than managers from the Anglo region to use incentive compensation for their sales force. But, in keeping with our hypothesis H1b, managers from the Germanic region are less likely than managers from the Anglo region to use incentive compensation for their sales force ($p<.05$).

Culture and reward distribution. As expected, regional culture has a significant effect on the distribution norm of incentive compensation (Chi-Square for change in −2LL when regional culture is added=11.77, $p<.01$). Strong and full support is found for H2 according to which managers from the Anglo region, France and Italy, and the Germanic region are less likely than Spanish managers to decide to use equity rules for sales force incentive compensation allocation ($p<.01$).

4.2. Compensation plan structure decision criteria

4.2.1. Salespeople's effort level

The findings provide partial support to H3a, H3b, H3c, H3d and H3e. Results in Table 2 show that managers who emphasize salespeople's motivation are more likely to choose incentive rather than fixed compensation (H3a, $p<0.1$). Moreover, managers willing to maintain salespeople's parity in the sales force are less likely to choose incentive compensation (H3d, $p<.01$). However, we find no support for the effect of salespeople's impact of effort, social control, or shirking behavior prevention on the incentive compensation choice (H3b, H3c and H3e).

4.2.2. Salespeople's direction of effort

We proposed that managerial criteria dealing with salespeople's effort direction influence incentive compensation decisions (H4a and H4b). However we found no empirical support for this hypothesis.

Control variables. Only sales managers' ability to speak at least another language positively affects the preference of incentive (vs. fixed) compensation decision ($p<.001$). Neither the managers' seniority, foreign employment, international experience nor his/her firm size has an impact on the incentive (vs. fixed) compensation decision.

4.3. Incentive strategy distribution decision criteria

4.3.1. Salespeople's effort level

The findings provide full support to H5. Results in Table 3 show that managers who emphasize salespeople's motivation, sales effort effectiveness, or shirking behavior prevention are more likely to choose equity (vs. parity) as a rule to allocate incentive compensation (H5a, $p<.001$; H5b, $p<.05$; H5e, $p<.01$ respectively), whereas managers preferring social control and parity are less likely to use an differential (vs. parity) rule to allocate incentive compensation (H5c, $p<.001$ and H5d, $p<.001$ respectively).

4.3.2. Salespeople's direction of effort

We proposed that managers emphasizing sales force harmony (H6a) and salespeople's long-term orientation (H6b) are less likely to choose an equity (vs. parity) rule. Table 3

provides evidence of strong empirical support for H6a ($p<.001$). The test for H6b, according to which managers supporting salespeople's long-term orientation are less likely to choose a differential rule, is not significant.

Control variables. Contrary to our expectations, the managers' seniority has a positive impact on the equity (vs. parity) incentive allocation rule ($p<.01$). Neither the managers' international experience, foreign employment, ability to speak at least one language nor his/her firm's size exhibits a significant impact on this latter decision.

All in all, the hypotheses testing can be summarized as shown in Table 4.

5. Discussion and summary

Do the personal values of managers, especially those represented by their cultural background, influence the type and distribution method of compensation they recommend for salespeople? The reason we ask this question is its increasing pertinence for multinational sales teams. This pertinence arises from questions left unanswered by theoretical and empirical research. It is reinforced by trends that push firms to become more global, geographic regions to develop multi-country marketplaces, and people to leave their own countries to work abroad. Following the suggestion of John and Weitz (1989) and Werner and Ward (2004), we proposed a cross-disciplinary study and integrated the control and motivation functions of sales force compensation plans. The framework we built draws on insights from human resource management, sales force compensation, economics, psychology, and cross-cultural management to examine both the choice of implementing a variable pay plan and the way variable rewards should be distributed. Based upon existing theory, we developed and tested a number of hypotheses about how national origin and expectations about work behavior influence managers preferred type of compensation.

Our principle contention, that culture matters, is strongly supported by the evidence provided by the survey data. National culture exerts important influence on the choices managers make concerning their preferred type of compensation (fixed or variable) and the allocation rules (equally or equitably) for distributing the reward to sales team members. We conclude that Germanic managers are less likely than Anglo-Saxon to favor incentive compensation. This is not surprising in light of Fiss and Zajac's (2004) findings that a sizeable number of German banks resist the Anglo-Saxon governance system. They provide a detailed account of the mechanisms German banks use when they engage in decoupling, that is, appearing to comply with Anglo-Saxon governance values but actually acting to the contrary.

With regards to distribution of incentive rewards we found Anglo, Germanic, French, and Italian managers more reticent to recommend the equity rule than their Spanish counterparts. Other researchers report similar results of managers from collectivistic cultures making decisions markedly more individualistic in type than managers from predominately individualistic cultures. These include: Chen (1995) who found collectivistic Chinese managers sometimes making more individualistic decisions than US individualistic managers; Marin (1981) who reports collectivistic Columbians supporting the use of equity norms more than North Americans; Marin (1985) again finding the same phenomena between Indonesians and Americans. What is interesting to speculate is whether the well-accepted theory of the importance of the person-situation nexus (Nisbett & Ross, 1980) explains this change in cultural tendency. We tested whether the respondent's banks organizational cultures influenced their decision criteria and found no significant improvement in our baseline model. Examining a wider environment finds that during the 1990s, the Spanish banking sector led Europe in terms of mortgage and consumer credit growth (the principle products of branch banking) by nearly five times the European average (Romani, 1998). No other country was even close in performance. One might speculate that this decade of growth lulled managers into giving up their natural wariness of equity distribution schemes and therefore recommend them for salespeople. Interestingly, during the same period banking growth in the UK actually declined, making it the second worst (after Greece) in Europe. This may have precipitated an inverse effect on the British managers. This is certainly an issue that should be addressed by further research and suggests that there is room to refine the theory explaining when and how traditional cultural distributive norms change. In terms of the broader implications, our study offers important insights for the strategy of creating Europe-wide sales force compensation plans. Linking this with the so-called 'hard HR' approach, attributed to the influence of the Anglo-American shareholder-centered model of corporate governance, we observe that the temptation to implement standardized sales force compensation across Europe may create more conflict than productivity. Given the exclusive North American focus of the majority of research studies, the vast sales management literature should be scrutinized with a cultural framework.

Moving past the cultural findings of our study we find the espoused rationales of managers were consistent with our hypotheses. For example, our empirical results confirm that managers choose (1) incentive compensation to motivate their sales force, or (2) fixed pay to enhance parity. These results mirror the tension firms experience between economic and cohesiveness objectives as suggested by Beersma et al. (2003) or Kabanoff et al. (1995). The fact that only those two reasons describe the compensation structure choice needs to be discussed. One possible explanation for the lack of empirical support for additional decision criteria is that the pay for performance issue has been around for a long time. The use of merit pay is not a new idea even if it has not been applied in Europe as widely as in North America. In fact, managers may no longer have much involvement in the decision to adopt incentives as this decision may be made directly at the C-level of most firms. But managers are probably more often involved in managing the allocation of rewards, which would explain we find strong support for our allocation hypotheses. This possibility is not far-fetched because it is based on the results found in the broad field of persuasion and judgment, particularly salience research (Taylor & Thompson, 1982) and vividness effects (Nisbett & Ross, 1980). McGill

and Anand (1989) joined concepts from these streams of research to demonstrate that when subjects experienced high cognitive elaboration, (i.e., felt knowledgeable about an issue, perceived relevance to themselves, and high problem focus) and were given vivid information about the characteristics of an item, they generated more ideas about the item's characteristics. Simply put, when someone is very knowledgeable and involved and is asked to solve an important problem s/he will think more deeply about its solution and develop more alternatives. We suggest that a similar process explains the gap between empirical support for the choice of compensation type and its allocation. We asked respondents to consider what type of compensation system to adopt. This question may be simply too banal with too obvious a response; incentive for performance and fixed for harmony. But the question of how to distribute reward compensation probably created considerably more stress for a manager who must confront a subordinate with the bad news that s/he will receive less than others. This leads to considerably more attention being devoted to discussing the allocation rules hence providing richer data for the analysis.

This problem highlights the limitations of our research. We tested the hypotheses underlying our framework using a sample of managers from European branch banks from 6 (albeit the largest) countries in the EU. We did not collect data on the actual pay practices of the nearly 50 firms participating in the study. The applicability of our findings to other industries and regions therefore needs to be verified. As the banking markets across Europe open to outside competition and the baby boom generation begins to retire the decision criteria of new, younger, more international managers might change. In fact, we found that more linguistically adept respondents were more likely to recommend incentive pay. If the next generation significantly changes its attitude toward sales force compensation it would be extremely interesting to put the often repeated premise of Hofstede that cultural values change very slowly to the test against the person-situation nexus of Nisbett and Ross. This draws attention to the push, largely attributed to North American firms investing in Europe, toward human resource management practices more focused on maximizing firm profit at the expense of other stakeholders' interests. These 'hard HR' approaches generally follow the blueprint outlined by the compilation of American human resource strategies offered by writers such as Ulrich (1997, 1998). In the short-term, we would like to see studies linking changes in actual sales force compensation to changes in managers characteristics and values.

In addition, our study investigates the influence of criteria, one by one for the sake of tractability, pertaining to salespeople's effort level and direction on compensation decisions. However, sales managers use bundles of criteria that are likely to interact with each other. Future research should therefore focus on how various managerial decision interactions affect compensation structures.[5]

Finally, our descriptive approach to the problem of compensation may lead to different conclusions from what we could have found, had we followed a normative approach. Although desired and actual compensation plans may not be equivalent, the preferred compensation strategies uncovered in our study may help explain actual compensation practices. Moreover, these findings should help researchers build new theoretical models using variables more related to managerial decision making. In addition, the level of incentive compensation in the European financial services sector (which includes occupations such as equity sales, bond traders, and other jobs known for high performance premiums) averages 16% compared to only 10% in the consumer goods industry.[6] We found that most European banking managers (mean = 74%) accept the need for incentive pay to improve control but, perhaps paradoxically, they overwhelmingly reject distributing it on an equity basis (62% vs. 38% respectively). They appear to prefer the additional motivation offered by the pay for performance concept but not the mechanistic control inherent in disbursements linked to individual results. Perhaps this combination is the best way to encourage banking salespeople to engage in long-term relationships with their customers. This suggests that the current compensation strategies of European branch banks meet their market needs. Will the European sales management model converge with the North American one? The American banking industry lost customers to competing non-financial institutions during the 1980s. To win back some of this business, bankers essentially became salespeople, even to the extent of learning sales techniques and receiving incentive compensation. European banking is deregulating, which is creating more and more competition. Consequently it may be tempting to import the market-centric model championed in North America. However, Norwegian experience with American models is mixed. The American sales force training and compensation model offered by one major consultancy ran into extreme resistance by Norwegian bank managers because of value-related issues of equity vs. parity pay (Gjelsvik & Nordhaug, 1996). In our study, the French and Italians were the most resistant to using equity pay distribution methods. The Germans, Austrians, English, and Spanish viewed equity distribution more favorably.

In summary, we suggest European managers consider factors ranging from socio-psychological to economic and furthermore are influenced by their national characteristics. We must therefore be cautious when we model managerial behavior without deep consideration for multinational and cross-disciplinary nature of the actors we study. Failure to take into account existing national and, more importantly, hidden transnational managerial values will certainly cause difficulties for foreign investors and executives managing foreign sales forces.

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[5] We thank an anonymous reviewer for pointing that limitation out to us.

[6] Hay Paynet Survey (2002) in France, England, Germany, and Italy.

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Appendix A

Personnel Director "Thank you for taking the time to prepare for this meeting. The Executive Committee would like recommendations for installing a new remuneration policy for the **450 commercial agents** in the branch bank network. We have distributed to you four remuneration plans developed by four consulting firms. Perhaps you could briefly state your individual opinion about which one we should adopt."

Plan	Fixed pay (% of average remuneration over past 3 years)	Variable pay basis for commission (rate=2% of Sales)	Distribution of variable pay	Bonus basis for bonus linked to profits above target	Distribution of bonus
A	100	–	–	Profits of the group	Equally to all commercial agents in bank
B	85	Meeting individual sales target	Individual	–	–
C	85	Meeting branch sales target	Equally to all commercial agents at the branch	–	–
D	100	–	–	Profits of the branch	Equally to all commercial agents at branch

Richard "I know we have different opinions on this issue. I recommend **Plan B**. Too many of our high seniority employees have not changed their attitudes about their commercial responsibilities. They are simply not active enough and hate to approach customers with the new products we have developed. If their remuneration was based directly on their efforts perhaps they would develop more commercial attitudes."

Michael "I agree with you Richard but the issue is that we have a real problem identifying what actions taken by the commercial agents have actual impact on the group profits. Some of the new products are simply too complicated for the older employees to understand without better explanation. It is not their fault that the new product development team does not have the time to fully explain the new investment instruments. These guys were taken on as generalists many years ago, it's not fair to base their pay on new specialist skills. I believe we should use **Plan A** since it is similar to what we have now."

Bill "Michael is right but we all know that there are certain branches that consistently fail to meet the targets we set for them. We need to apply more pressure for improvement or we will be faced with the prospect of having to close some of the marginal branches in a few years. **Plan D** would be the best way to accomplish this transformation."

Bernard "I believe that each of you is right but the only way to be fair to our older generalists, whilst ensuring some social harmony is to adopt **Plan C**. Although it is based on being paid for results it still relies on team work. With this plan our agents with a more commercial attitude could help train the older generalists. The transition would be slower, but we would not destroy our traditional team approach by distributing rewards individually."

Personnel Director "Thank you very much for your advice and recommendations. I will be meeting with our director this afternoon to discuss the issue further. I expect we will be adopting one of these plans very soon.

You were waiting for your appointment to discuss some business with the Personnel Director at this bank/building society when you overheard the above discussion. Later during your lunch with him he confided that he was not sure which plan he should recommend. He asked you for your opinion about which plan would be best. Which one of the four plans would you recommend?

Plan A	Plan C
Plan B	Plan D
Why?	

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