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The Influence of Compensation on Performance of Sales Representatives of Pharmaceutical Companies Based in Ilorin –Nigeria *(Pp. 223-239)*

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Abstract
Almost all employers tie at least some portion of their workers' pay to the workers' and / or the company's performance. Employees do not see a strong connection between pay and performance and employees' performance is not particularly influenced by the company's incentive plan. The study specifically identified the link between rewards and individual performance; and the types of rewards that elicit greater performance among sales people. The research employed questionnaire to collect data from respondents. Two research hypotheses were formulated and tested. The data used were primary data. Convenience sampling was used to select samples. Data were analysed by the use of Pearson's Chi –square technique (X^2).The study indicated that 56.00% of the respondents had between 1 -3 years experience as sales representatives. 46.00% of the respondents indicated that salary alone influenced their performance. The hypotheses indicated that there is no significant relationship between demographic variables with performance except experience of respondents which significantly influenced performance. There was a significant relationship between rewards and performance. The study recommends that experience of salesmen should be a plank to determine their compensation and salary should be emphasized

rather than combination of salary and commission to enhance better performance.

Inroduction

To attract good salespeople, company must have an appealing compensation plan. Ideally sales representative should be paid in such a way that what they want to do for personal interest and gain is in the company's interest too. Most companies focus on financial motivation, but public recognition, sales contests and simple personal recognition for a job well done can be highly effective in encouraging greater sales effort.

To build a competitive sales force a company must pay at least the going market wage for different types of sales people. To be sure it can afford a specific type of salesperson, the company should estimate when the job description is written how valuable such a sales person will be. If a job requires extensive travel, aggressive pioneering, or contacts with difficult customers the pay may have to be higher. But the salesperson's compensation level should compare at least roughly, with the pay scale of the rest of the firm.

Sales compensation plans typically rely heavily on incentives in the form of sales commission. However some salespeople get straight salaries and most receive a combination of salary and commissions. Some firms pay salespeople fixed salaries (perhaps with occasional incentives in the form of bonuses, sales contest prices and the like). Straight salaries particularly make sense when main task involves prospecting (finding new clients) or when it mostly involves account servicing (such as executing product training programmes for a customer's sales force or participating in trade shows). Straight commission plans pay sales people for results. Under these plans, salespeople have the greatest incentive. Commission plans tend to attract high performing salespeople who see that effort clearly produces rewards.

Most companies pay salespeople a combination of salary and commission, usually with a sizeable salary component. An incentive mix of about 70% base salary/ 30% incentive seems typical: this cushions the salesperson's downside risk (of earning nothing), while limiting the risk that the commission could get out of hand from the firm's point view (Bill, 1996).

Today, tying workers pay to their performance is very popular. Indeed with emphasis on competitiveness, productivity and delivering measurable bottom line results, the trend for virtually all employers is to tie at least some portion

of their workers' pay to the workers' and / the company's performance (Dessler, 2008).

The problem is that doing so is easer said than done. Many such programmes are ineffective or worse. Employees don't see a strong connection between pay and performance and their performance is not particularly influence by the company's incentive plan (Chu 2004). The reasons are: many employers institute and change their plans' standards arbitrarily; others ignore that fact that incentive pay is, at its heart, psychologically based. Therefore, not every one reacts to a reward in the same way, and not all are suited to all situations. This calls for an awareness of the motivational bases of incentive plans.

The main objective of the study is the identification of the influence of compensation on employee performance. Specifically the study identified the link between rewards and individual performance and the types of rewards that elicit greater performance among sales people.

The scope of the study is limited to representatives of pharmaceutical companies that cover Ilorin sales territory in Nigeria.

Literature Review

Compensation is made up of several elements - a fixed amount, a variable amount, expenses, and fringe benefits. The fixed amount, usually salary, gives the sales person some stable income. The variable amount, which might be commissions or bonuses on sales performance, rewards the salesperson for greater effort and success. Expense allowances which repay salespeople for job related expenses, let salespeople undertake needed and desirable selling efforts. Fringe benefits provide job security and satisfaction (Kotler and Armstrong 2006; Perreault and Mc McCarthy, 2006)

Management must decide what mix of these compensation elements makes the most sense for each sales job. Different combinations of fixed and variable compensation give rise to four basic types of compensation plans- straight salary, straight commission, salary plus bonus and salary plus commission. A study of sales force compensation plans showed that 70 percent of all companies surveyed use a combination of base salary and incentives. The average plan consisted of about 60 percent salary and 40 percent incentive pay (Galea, 2004).

Rewards bridge the gap between organizational objectives and individual expectations and aspirations. To be effective, organizational rewards systems should provide four things: a sufficient level of rewards to fulfill basic needs,

equity with the external labour market, equity within the organization and treatment of each member of the organization in terms of his or her individual needs (Milkovich and Newman, 2005). Pay systems are designed to attract, retain and motivate employees. The most important objective of any pay system is fairness or equity. Equity can be assessed on at least three dimensions; Internal Equity, External Equity and Individual Equity (Cascio, 2006).

Increasing payroll cost and compensation in the global market place have caused managers to search for ways to increase productivity by linking compensation to employees' performance (Brown and Armstrong, 2000). High performance requires much more than motivation. Ability, adequate equipment, good physical working conditions, effective leadership management, health, safety and other conditions all help raise performance levels. But employees' motivation to work harder and better is obviously an important factor. A number of studies indicated that if pay is tied to performance, the employee produce a higher quality and quantity of work (Lawler 2000). Evidence indicates that incentives work (Banker, Lee, Potter, and Srinivasan, 1996). A quantitative review of 39 studies containing 47 relationships revealed that financial incentives were not related to performance quality, but were related fairly strongly to performance quantity (Jenkins, Mitra, Gupta and Shaw, 1998).

Early evidence linking pay and performance is found in the code of Hammurabi, written in the 18th century B. C., which documents the use of minimum wage, a fixed wage, and incentive rewards (Peach and Wren, 1992). However during the Middle Ages it was "Common knowledge" that workers would be productive only as long as they needed to be, perhaps working three days a week and spending the other four celebrating (Ivancevich, 2007).

The down of industrialisation found capitalist seeking a way to use rewards to encourage productivity; the incentive wage. Incentive wages were supported by early economists on the basis of the "hungry man" theory. Adam Smith, (1776) modified this to develop the 'economic man' theory (Adam Smith, 1776). Instead of physiological needs, money becomes the motivator for work. Frederick W. Taylor built on this theory, urging managers to learn to design jobs properly and then link pay directly to measurable productivity (Taylor 1903).

When it comes to performance incentives the possibilities are endless (Kerr, 2003; Sturman and Short 2000). Because each has different consequences, each needs special treatment (Lawler, 1989). One way to classified them is according to the level of performance target – individual, team, or total organization. There are two basic types of "pay-for-performance" plans; individual incentive plans and group incentive plans (Luthans, 2005). Individual incentive plans have been around for many years. They were particularly popular during the height of the scientific management movement. Like the piece rate incentive plan of the pioneering scientific managers, today individual incentive plans also pay people based on output or even quality. Most salespeople work under an individual incentive pay plan earning for example, 10 percent commission on all sales (Hodgetts, 1997).

Pay for some jobs is based entirely on individual incentives. However, because of the risk factor, in the uncertain economy of recent years many companies have instituted a combination payment system plan in which individual receives a guaranteed amount of money regardless of how the person performs. So a sales person might be paid 10 percent of all sales with minimum guarantee per month. Another popular approach is to give the person a combination salary/incentive plus 5 percent of all sales. A third approach is to give the person a "drawing amount" against which the individual can take money and then repay it out of commissions (Luthans, 2005). Other individual incentives are; use of bonus and the use of stock options.

Individual incentives have potential problems yet to be overcome. One obstacle is that these reward systems are practical only when performance can be easily and objectively measured. A second problem is that individual incentive rewards may encourage only a narrow range of behaviours. Also there may be considerable differences along customer and industry lines with sales people operating under the same incentive plan. Finally individual incentive plans may pit employees against one another that may promote healthy competition, or it may erode trust and teamwork (Wiscombe, 2001). A way around these problems is to use group incentive plans.

Organizations are increasingly aware that teams and teamwork can lead to higher productivity and better quality than do individuals working on their own. As a result, group incentive pay plans have become increasingly popular (Honeywell – Johnson and Dickinson, 1999). One of the most

common forms of group pay is gain sharing plans (Collins 1998). These plans are designed to share with the group the cost savings from productivity improvements. The logic behind these plans is that if every one works to reduce cost and increase productivity, the organization will become more efficient and have more money to reward its personnel. Other forms of group incentive plans are profit sharing and employee stock ownership plan.

Group incentive plans have a number of short comings. One is that they often distribute rewards equally, even though everyone in the group may not be contributing to the same degree. A second short coming is that these rewards may be realized decades later as in the case of an employee's profit sharing that is placed in a retirement account. A third short coming is that if group rewards are distributed regularly, such as quarterly or annually, employees may regard the payment as part of their base salary and come to expect them every year.

Standard base- pay techniques provides for minimum compensation for a particular job. It does not reward above-average performance nor penalize below-average performance. Pay-for- performance plans correct this problem. In fact in many cases, such as those in which pay is tied directly to measured performance, pay-for- performance plans not only reward high performance but also punish low performance. Some times these plans are unfair in the sense that some jobs may be easy to do or carry very high incentives thus allowing employees to easily earn high rates of pay; whereas in other case the reverse is true. Similarly, in a group incentive arrangement in which all members are highly productive, the personnel will maximize their earnings but in groups where some individuals are poor performers, everyone in the group ends up being punished (Luthans, 2005)

Organizations undergo continual changes brought about by changes in the domestic and international environments. As a result of these changes many enterprises are rethinking and redesigning their pay plans to reflect 21st century demands. Recent attention has bean given to the role that rewards systems play in both knowledge management and globalization (Bartol and Srivastava, 2002; Reynolds, 2001). What is emerging is a series of new pay approaches, which are; Commission beyond sales to Customers, Rewarding leadership effectiveness, Rewarding new goals, Skill pay, Pay for knowledge workers in teams (Luthans and Stajkavic, 1999).

Commission beyond sales to customers is the commission paid to sales personnel which are aligned with the organisation's strategy and core

competencies. As a result, besides sales volume, the commission is determined by customers' satisfaction and sales team outcomes such as meeting revenue or profit goals.

The manager devising a compensation plan should first remember that different people react to different pay structures in different ways. Several motivation theories have relevance to designing compensation plans. These include theories associated with Frederick Herzberg, Edward Deci, Victor Vroom and B. F Skinner.

Herzberg said the best way to motivate someone is to organize the job so that doing it provides the feedback and challenge that helps satisfy the person's "higher – level" needs for things like accomplishment and recognition. The needs are relatively insatiable, so recognition and challenging work provide a sort of built–in-motivation generator. Satisfying "lower level needs for things like better pay and working condition just keep the person from becoming dissatisfied (Dessler 2008).

Deci (1975) highlighted another downside to relying too heavily on extrinsic rewards: they may backfire. Deci found that extrinsic rewards could at times actually detract from the person's motivation. Vroom was of the opinion that people won't pursue rewards they find unattractive, or where the odds of success are very low. Vroom's theory echoes these observations. He says a person's motivation to exert some level of efforts depends on three things; the persons expectancy that his or her effort will lead to performance; instrumentality or the perceived connection between successful performance and actually obtaining the rewards, and valence, which represents the perceived value the person attaches to the reward (Campbell and Prichard, 1976)

Using incentives also reflects the idea that to understand behaviour one must understand the consequence of that behaviour (Peterson and Luthans, 2006).Skinner's findings provides the foundation for much of what we knew about this. Managers apply skinners' principle by using behaviour modification: Behaviour Modification means changing behaviour through rewards or punishments that are contingent on performance. This has two basic principles: that behaviour that appears to lead to positive consequence (rewards) tends to be repeated, while behaviour that appears to lead to negative consequence (punishment) tends not to be repeated; therefore Mangers can get someone to change his or her behaviour by providing the properly scheduled rewards (or punishment).

Hypotheses

The research hypotheses were;

Ho_1: There is no significant influence of demographic Variables (Age, Sex Marital Status, and experience) on performance

Ho_2: Reward has no significant influence on performance

Methodology

The research design is descriptive survey, which employed questionnaire to elicit information from respondents.

The data for the research were primary data. Convenience sampling was used to select samples for the study by visiting the designated distributors of pharmaceutical companies which the sales representatives must visit so, sixty of the representatives were chosen.

The method of data collection was questionnaire. The questions in the questionnaire were closed-ended items. The questionnaire comprised of two sections; section **A** comprised of demographic data and section **B** consist of variables on the influence of compensation on performance. The questionnaires were administered on the respondents at Hospitals, distributor and retail outlets of pharmaceutical products.

A five point Likert scale was used in the questionnaire. The scale had the following pattern:

Strongly Agree	5
Agree	4
Partially Agree	3
Disagree	2
Strongly Disagree	1

Data collected analyzed by the use of parsons' chi-square technique (X^2) which test the significance involving two or more nominal variables.

Data Analysis and Discussion

The returned questionnaires were fifty and the percentage of returned questionnaires was 83.33 which is high enough to enable valid analysis. The results of frequency distribution analysis on the demographic characteristic of respondents are shown in Table 1.

Results of frequency distribution of demographic characteristics of respondents' shows that 94.00% of the respondents were male, while 6.00%

were female. The high percentage of males is as a result of the stress and risk involved in the sales representatives job because of a lot of traveling and spending more time outside the base of the representative.

8.00% of the respondents were within the age bracket of 20 – 25 year, 34% were in the age bracket of 26 – 30 years; while age bracket of 31 above accounts for 58% .Sales representatives of ages between 20 - 25 years is very small because of length of training of pharmacists in the University and most of these respondents are pharmacist. Majority of the respondents were within age brackets of 26 – 30 and 31 above, this is because the job of a salesmanship requires a lot of energy and vigour.

64% of the respondents were married while 36% were single. 56% of the respondents had 1-3 years experience on job of salesmanship; 14% had 3 -6 years experience and 30% of the respondents had 6 – above years experience. Majority of the sales representatives do not stay long with one particular company because of the stress of the job and the risk involved. Some of the sales representatives look for alternative jobs while those respondents who stay beyond six years are majorly those who enjoy relative autonomy and independence that the job of sales representative offers.

From Table 2 it is evident that 38.00% of the respondents disagree that they meet their sales target because of rewards. 32.00% strongly disagree that they meet their sales target because of rewards. 16.00% of the respondents partially agree that they meet their sales target because of rewards. 2.00% and 12.00% strongly agree and agree respectively that they meet their sales targets because of rewards.

The influence of monetary rewards on performance had the following responses: 4.00%, 20.00%, 14.00%, 36.00% and 26.00% for strongly agree, agree, partially agree, disagree and strongly disagree. Majority of the respondents were of the opinion that monetary rewards do not influence their performance.

50.00% of the respondents disagree that rewards in any form motivate them to perform better. 50.00% of the respondents strongly agree, agree, and partially agree that rewards in any form will influence their performance.

40.00% of the respondents were of the opinion that their companies do not have definite reward structure as shown in Table 2.00. 40.00% of the respondents were also of the opinion that the criterion for reward in their companies is tedious.

46.00% of the respondents were of the opinion that promotion from one rank to another is not an incentive for them to meet their sales target. 34.00% disagree that their performance is influenced by flexible working hours to meet sales target. 82.00% disagree and strongly disagree that if they are given opportunity for advance study that it would influence their performance. 98.00% of the respondents were of the opinion that independence and autonomy do not influence their performance. Annual recognition by companies of their sales representative's contribution to the company does influence performance of sales representatives. 46.00% of the respondents were of the opinion that salary alone influences their performance. 38.00% were also of the opinion that commission influences their performance. 66.00% disagree that combination of salary and commission influences their performance. The data in Table 2 were subjected to chi-square analysis to find out the association between compensation and performance of sale force.

Hypotheses I: *Gender is independent of reward, performance or both.*
Sex is not related to rewards, sex is not related to performance and sex is not related to both rewards and performance. The Pearson's chi-square values, P – values in brackets were: 0.0298 (0.960), 3.578 (0.167) and 3.844 (0.427) for reward, performance, and for both reward and performance respectively were shown in Table 3. The result indicated that performance, reward, or both are not related to sex at 0.05 significance level.

Hypothesis II: *Age is independent of reward, performance or both.*

From Table 4 age is not related to rewarded, age is not related to performance, and age is not related to both reward and performance. The Pearson's chi-square value with P-values in brackets are 3.595 (0.731), 4.570 (0.334) and 10.382(0.239) for rewards, performance and both combined respectively are shown in table 4. This shows that there is no significant relationship between performance, reward and both combined are not related to age at 0.05 significance level.

Hypothesis III: *Marital status is independent of reward, performance or both.*

From Table 5 marital status is not related to rewards, marital status is not related to performance and marital status is not related to both reward and performance. Pearson's chi-square values with P-value in brackets are shown in Table 5 were; 1.979 (0.577), 0.655 (0.721) and 5.062 (0.281) for reward,

performance and both combined respectively. The result indicated that reward, performance and both combined are not related to marital status at 0.05 significance level.

Hypothesis IV: *Experience is independent of rewards, performance or both*

From Table 6 Experience is not related to rewards, experience is related to performance and experience is not related to both reward and performance combined. Chi-square values with P-value in brackets were; 6.652 (0.354), 7.884 (0.046) and 12.483 (0.131) for reward, performance and both combined are shown in Table 6. The results indicated that reward and both reward and performance combined are not related to experience. Performance is found to be related to experience at 0.05 significance level.

Hypothesis V: *Reward is independent of performance*

From table 7, rewards is related to performance i.e. reward influences performance. The Pearson's chi-square calculated is 13.667 with P-value of 0.034 as shown in Table 7. This shows that reward significantly influence performance at 0.05 significance level.

Conclusion

The study indicated that 94.00% of the respondents were male. 58.00% of the respondents were above thirty years old. 56 % of the respondents had between 1 -3 years experience on the job of sales representative. 38% of the respondents disagree that they meet their sales target because of rewards. 36.00% of the respondents disagree that monetary rewards influence their performance. 50.00% of the respondents disagree that rewards in any form motivate them to perform better.

40.00% of the respondents were of the opinion that their companies do not have definite reward structure. 40.00% were also of the opinion that the criterion for reward in their companies is tedious. 46.00% strong disagree that promotion form one rank to another is not an incentive for them to meet their sales target. 98.00% of the respondents indicated that independence and autonomy do not influence their performance.

46.00% of the respondents indicated that salary alone influence their performance. 66% of the respondents disagreed that combination of salary and commission influences their performance.

The research hypothesis indicated that there is no relationship between sex, age and marital status with performance. However, experience of the sales

representatives has significant influence on their performance on the job. There was equally a significant relationship between reward and performance of sales representatives.

Based on the findings, the study recommends that to enhance the performance of sales representatives, the experience of different sales men should be the major plank to determine their compensation to improve better performance. Salary should equally be emphasized rather than combination of salary and commission by employers to give the sales representative some security on their job if they are not able to meet their sales target.

Table 1: Demographic Characteristic Of Respondents.

	VARIABLES				
1	SEX	Sex	FREQ.	PERCENTAGE	CUMMULATIVE PERCENTAGE
		Male	47	94.00	94.00
		Female	3	6.00	100.00
		Total	50	100.00	100.00
2	AGE	Range of Years			
		20-25	4	8.00	8.00
		26-30	17	34.00	42.00
		31-Above	29	58.00	100.00
		TOTAL	50	100.00	100.00
3	MARITAL STATUS	STATUS			
		Single	18	36.00	36.00
		Married	32	64.00	100.00
		Total	50	100.00	100.00
4	EXPERIENCE	Number of Years			
		1-3	28	56.00	56.00
		3-6	7	14.00	70.00
		6- Above	15	30.00	100.00
		Total	50	100.00	100.00

Source: Field Survey 2009

Table 2: Monetary Rewards, Mix Of Compensation And Non Monetary Rewards

VARIABLES	S.A	A	P.A	D	S.D	TOTAL
Meet sales target because of reward	1(2)	6(12)	8(16)	19(38)	16(32)	50(100)
Influenced by monetary rewards	2(40	10(20)	7(14)	18(36)	13(26)	50(100)
Reward in any form is basis for motivation	4(8)	3(6)	18(36)	25(50)	-	50(100)
I am not influenced by monetary rewards	6(12)	19(38)	9(18)	14(28)	2(4)	50(100)
No reward structure in my company	23(46)	20(40)	4(8)	1(2)	2(4)	50(100)
The criteria for reward in my company is tedious	17(34)	20(40)	6(12)	5(10)	2(4)	50(100)
Strive to meet target because of promotion	1(2)	2(4)	13(26)	11(22)	23(46)	50(100)
Influenced by flexible working hours	3(6)	16(32)	7(14)	17(34)	7(14)	50(100)
Influenced if given opportunity for further training	1(2)	2(4)	6(12)	18(36)	23(46)	50(100)
Independence and autonomy improve performance	-	-	1(2)	23(46)	26(52)	50(100)
Annual recognition increases performance	-	5(10)	7(14)	15(30)	23(46)	50(100)
Given opportunity for special personal savings	3	-	-	25(50)	22(44)	50(100)
Motivated by comfortable car	6(12)	11(22)	16(32)	10(20)	6(12)	50(100)
Increased salary alone	9(18)	23(46)	6(12)	7(14)	5(10)	50(100)
Commission based pay	18(36)	19(38)	6(12)	4(8)	3(6)	50(100)
Combination of salary and commission	1(2)	1(2)	13(26)	33(66)	2(4)	50(100)

Source: Field Survey 2009

Table 3: Chi-Square Result For Hypotheses 1

Variable	D. F	Chi-Square	P-Value
Reward	3	0.298	0.960
Performance	2	3.578	0.167
Performance and Reward	4	3.844	0.42

Source: Field Survey 2009

Table 4: Chi-Square Result For Hypotheses II

Variable	D. F	Chi-Square	P-Value
Reward	6	3.595	0.731
Performance	4	4.570	0.334
Performance and Reward	8	10.382	0.239

Source: Field Survey 2009

Table 5: Chi-Square Result For Hypotheses III

Variable	D. F	Chi-Square	P-Value
Reward	3	1.979	0.577
Performance	2	0.655	0.721
Performance and Reward	4	5.062	0.281

Source: Field Survey 2009

Table 6: Chi-Square Result For Hypotheses IV

Variable	D. F	Chi-Square	P-Value
Reward	6	6.652	0.354
Performance	4	7.884	0.046
Performance and Reward	8	12.483	0.131

Source: Field Survey 2009

Table 7: Chi-Square Result For Hypotheses V

Variable	D. F	Chi-Square	P-Value
Reward versus Performance	6	13.667	0.034

Source: Field Survey 2009

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