THE IMPACT OF SALES PERFORMANCE GOALS ON BEHAVIORS:
ENHANCING OR COMPROMISING SUSTAINABLE PERFORMANCE?

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INTRODUCTION

Performance goals or quotas, also termed targets, are extensively used by sales organizations despite the fact that their impact on behavior and sustainable performance is questioned in the literature. Performance goals define a ‘desired’, ‘promised’, ‘minimum’ or ‘aspirational’ level of performance, for example, to attain 10 percent more of profits, usually within a specified time period. About 95 percent of Fortune 500 companies use performance goals in their sales compensation schemes (Joseph and Kalwani, 1998). Zoltners et al. (2008) estimate that sales compensation in the US economy totals about $800 billion, almost three times the amount spent on advertising.

The extensive use of sales performance goals contrasts with the inconsistency of research findings about the impact of goals on motivation, behavior and ultimately, business performance. Recent debates in this field have revealed profound discrepancies in our understanding of the effects of performance goals. Whilst setting goals is believed to have significant positive effect on individual behavior and performance (Latham, 2004), Ordoñez et al. (2009a) claim that goals can have very negative ‘side effects’, and thus, goals should be used with care. The very presence of performance goals can lead employees and firms to focus myopically on short-term gains, at the expense of long-term value creation. Locke and Latham (2009) argue that the evidence supporting the negative effects of targets reported by Ordoñez et al. (2009a) is weak, anecdotal and unscientific. In a response to this argument, Ordoñez et al. (2009b) restate the validity of their research and reiterate that goal setting can produce beneficial effects but also “systematic negative outcomes” (p. 82) thus, encouraging further research.

We aim to contribute to the goal setting debate and to the literature on sales quotas studying how goals are set and how they affect behavior and performance in sales organizations. In particular, we question whether sales quotas may compromise sustainable performance. We conceptualize sustainable performance in sales as sales growth in line or above market growth, profitable, and recognized by customers or consumers as adding value to their experience or their businesses. In other words, ‘sustainable’ sales performance is not the result of ad-hoc aggressive promotional activity focused in increasing sales in the short term. Case study research conducted in four mid-sized sales organizations in the UK is presented in this structured abstract. We contribute to the field by providing evidence of three groups of sales goal setting practices that are potentially dysfunctional, as they negatively affect sales people’s motivation and behavior. First, practices related to the definition of goal measures; second, analytical practices leading to setting the quota level, and third, practices related to the management, communication and review of sales targets. We suggest that further research in this area should take into consideration the combined effects of performance goals, performance measures and incentive compensation, as these three motivational mechanisms are highly interrelated.

BACKGROUND: SALES TARGETS AND THEIR IMPACT ON BEHAVIOR

Goal setting theory posits that the use of performance goals improves individual performance. In particular, Locke and Latham (1990) assert that specific and difficult goals rather than ‘do your best’ goals will have a significant positive effect on individual behavior and performance. Abstract or vague goals allow for a wide range of performance levels that may (or may not) be acceptable to different people. However, when a goal is specific and considered difficult but achievable, it helps determining a good level of performance. Due to their instrumentality and predicted effects on behavior and performance, specific and difficult goals are a key component of sales compensation plans (Basu et al., 1985; Coughlan and Chakravarthi, 1992; Chowdhury, 1993; Darmon, 1997).

The use of performance goals, however, may come with several shortcomings. Latham (2004) suggests that for goals to be effective in motivating and driving performance, they need to meet a set of conditions. The individual responsible for achieving the goal has to have control over the actions needed to attain it, as well as the required ability and knowledge. The person has to be committed to attain the goal, and the individual needs to receive feedback on his/her progress towards the achievement of the goal, so appropriate improvement actions can be taken. Furthermore, Latham (2004) argues that the use of goals may fail to achieve its desired outcomes if performance goals are set for complex tasks, or for tasks that are interrelated requiring a balance between individual and group goals. In addition, when targets are set for any single dimension of performance (e.g., quantity at the expense of quality) or for two or more potentially conflicting dimensions, goals may have
detrimental effects. Despite these potential drawbacks of targets, goal-setting theory shows that goals are an effective tool for motivating people and improving performance.

The same year Locke and Latham’s (1990) seminal work on goal setting came out, Deming (1990) –considered the ‘father’ of the Total Quality Movement– published a book reporting the detrimental effect of the use of goals in organizations. Deming (1990) argued that performance goals negatively affect continuous improvement; they diminish the level of trust in management; and compromise firm performance in the long run. An additional unintended consequence of goals is unethical behavior. Perceived external pressures to meet performance goals may induce cheating (Van Yperen et al. 2011) and stunting over performance (Schweitzer et al. 2004). Other ‘side effects’ of using goals may be distorted risk preferences, corrosion of corporate culture, inhibited learning, and reduced intrinsic motivation (Ordoñez et al. 2009a).

Recent studies in sales management have challenged received wisdom about the (positive) effect of quotas in fostering sales growth. Misra and Nair (2011) describe a case where a new sales compensation plan without quotas resulted in a 9% improvement in revenues. Once a quota-based incentive system is implemented, Larkin (2010) argues that a risk exists that employees will ‘game’ to fulfill the quotas, with actions such as offering additional discounts. The consequences of not achieving quotas also need to be considered, particularly in relation to the future performance of individual salespeople (Schweiker and Good, 2004). Failing to meet sales targets may also be associated with perceptions of personal non-accomplishment contributing to staff burnout (Hollet-Haudebert, et al. 2011). In sales, there is evidence that when reward schemes are based on high quotas, this stimulates excessive high-risk behaviors (Gaba and Kaira, 1999). Similarly, short-term sales goals may induce problematic behaviors when there is high motivation to attain them (Murphy, 2004).

The disagreement in the literature on the effects of performance goals suggests that some principles of goal setting theory may not apply in practice or, at least, in fast-moving and complex organizational environments like the ones reported by Ordoñez et al. (2009a) and Deming (1990). Ordoñez et al. (2009b) claim further research in ‘real life’ settings is required to better understand the constructive and the harmful effects of performance goals as well as their determinants. We respond to this call by studying how four sales organizations in the UK set their performance goals along with the effects that these goals have on sales people’s behavior. We examine, in particular, the relationship amongst performance goals, performance measures and sales compensation, since the combined effect of the three on behavior and performance is not sufficiently well understood in the literature.

**METHODS**

In order to gain an in-depth understanding of how the sales goal setting process affects sales people and to gain insights about the link between performance goals, measures and rewards, we conducted four exploratory case studies employing interviews, archival data and documentary evidence. Four companies were selected, each well established and widely recognized in their respective industries: the mortgage division of a large commercial bank, a media company, a building and construction products company and a company supplying specialist industrial gas. The bank and the media company operate in high competitive environments whereas the cement and the gas companies operate in lower competitive environments. The level of competitiveness of the environment was chosen as a selection criterion as it has been found to seriously affect the nature and impact of goals (Greve, 2003). These companies had a sales force ranging from 25-30 sales people. This facilitated interviewing a highly representative as well as manageable sample of sales people.

We had access to key informants who provided insightful insider perspectives. Multiple respondents from each company (ranging from 6 to 8) were selected including the sales director, sales managers, sales representatives and the individuals in charge of setting the goals and rewards for the sales force. We employed semi-structured interview, which is a flexible and well-suited method for studying people’s understanding of the goal setting phenomenon (Kvale, 1996). Our questioning was driven by an emphasis on detailed explanation-building (Lincoln and Guba, 2000). In total, we conducted 26 interviews, each lasting for an average of 1.5 hours. Interviews were recorded and transcribed verbatim and further analyzed using a qualitative analysis software package to identify themes from the data. These themes were allowed to emerge inductively and through an iterative process, grouped and organized into higher order categories and further developed into clustered themes. Insights from the interviews were supplemented with internal company documents and sales performance data. This enabled us to contextualize individuals’ accounts within the companies’ policies and compare people’s perception of the impact of goals with actual sales outcomes. Two researchers analyzed the data separately and then compared and crosschecked their findings to enhance the reliability of the study (Eisenhardt, 1989).