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To cite this article: Dominique Rouziès, Vincent Onyemah & Dawn Iacobucci (2017): A multi-cultural study of salespeople's behavior in individual pay-for-performance compensation systems: when managers are more equal and less fair than others, Journal of Personal Selling & Sales Management, DOI: 10.1080/08853134.2017.1337519

To link to this article: http://dx.doi.org/10.1080/08853134.2017.1337519

Published online: 29 Jun 2017.
A multi-cultural study of salespeople’s behavior in individual pay-for-performance compensation systems: when managers are more equal and less fair than others

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In this research, we examine salespeople’s behavior in individual pay-for-performance compensation systems and show how perceived management fairness seems to energize sales employees in some environments but not in others. We use a large multicountry database of individual-level remuneration for more than 2,500 salespeople across four B2B industry sectors to demonstrate cultural adaptations of the effect of perceived management fairness. The results indicate that top management should be concerned with employees’ perceptions of fairness in addition to the more typical concerns of control and motivation widely acknowledged in the microeconomics-based sales-force compensation literature. In particular, we show that perceptions of management fairness are key to salespeople’s proportion of total pay generated by pay-for-performance formulas.

Keywords: financial incentives; fairness; salespeople; international compensation; culture

Few classes of employees have their performance more closely scrutinized than business-to-business (B2B) salespeople. To optimize their effectiveness, firms typically rely on sales managers and on performance-related compensation plans. Given that sales managers’ subjective decisions differentially affect salespeople, it is of interest to examine how salespeople’s perceptions of sales managers’ fairness influence salespeople’s behavior, especially as few research studies have investigated this topic. This lack of interest is surprising given the widely acknowledged importance of justice in the management and marketing literature. Further, given the performance-driven nature of sales jobs, many firms calibrate compensation plans featuring financial incentives in order to motivate salespeople. However, theoretical compensation research studies based on economic theories typically focus on the type of plans managers should design to motivate salespeople, not on the factors that actually motivate salespeople. In essence, the effort–reward mechanism of salespeople from various national origins may operate in a way that theoretical models may not capture. Thus, it is important to study this mechanism, too. Yet, these two key drivers of salespeople’s effort (i.e., supervisory fairness and incentive compensation) are rarely investigated together, let alone in different cultural settings.

In this article, we examine – in various cultural settings – how perceived management fairness drives salespeople’s effort in individual pay-for-performance compensation systems. In other words, we examine how perceived supervisory fairness and incentive compensation motivate salespeople in different cultural settings. Toward this end, our research provides substantive insight into the effect of perceived management fairness on salespeople’s behavior. First, we use a theoretical lens (i.e., fairness) rarely adopted in sales-force compensation research. Thus, most empirical research on this topic is based on microeconomics and addresses the sorting and incentive issues (Lo, Ghosh, and Lafontaine 2011). This new theoretical perspective sheds new light on sales-force compensation, one of the top preoccupations of sales leaders.

This leads to the second reason to examine the issue of perceived management fairness in individual pay-for-performance compensation systems, namely, that this theoretical perspective is particularly relevant to studies of sales-force compensation. Hence, sales leaders must use their discretion for many decisions related to compensation (e.g., allocate territories or key accounts that may be unbalanced, decide on the fixed salary–incentives mix under uncertain conditions and limited information of a radical technological change) (Arnold et al. 2009; Kaplan

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and Henderson 2005). Consequently, even in a seemingly “objective” pay-for-performance environment, salespeople’s perceptions of unfairness are likely to emerge and it is important to understand their effect.

Furthermore, research on cross-cultural sales management has not kept pace with the jobs of sales managers whose responsibilities often include the supervision of salespeople in different countries (Deloitte and Oracle 2008). Indeed, one of the big challenges for global sales organizations is to set up compensation plans for sales forces operating in different cultures (McGinn 2015). Given that most existing research on salespeople is skewed toward understanding what firms within one country (often the United States) want, investigating salespeople’s behavior in various cultural environments is of inherent interest. In this article, we verify that cultural contexts are sources of variance in reactions to individual performance-related compensation schemes. Specifically, we show that the effort benefits of individual pay-for-performance depend much more on contingencies (e.g., international firm, industrial sector, cultural dimensions) and their interactions with perceived management fairness than on other variables typically included in the sales-force literature (e.g., risk-related variables). We find that perceptions of fairness may be magnified by the cultural environment. For example, when salespeople and supervisors operate in high-power distance countries, salespeople do not seem to work less when they perceive low supervisory fairness.

Modeling the effect of fairness on performance

Our framework incorporates perspectives drawn from the fields of economics, psychology, and culture to examine the role of salespeople’s perceptions of fairness. We study fairness because little is known about its effect on salespeople’s effort in various cultural environments. We will show that salespeople’s perceptions of the fairness with which their managers treat them can be an important motivating factor, directly affecting their own compensation in some settings but not in others. Indeed, salespeople’s efforts directly affect their actual pay mix beyond the target pay mix their firm offers. Notably, salespeople’s actual pay mix (i.e., salespeople’s realized financial incentives and fixed salary) can be different from the target pay mix (i.e., “average across all salespeople showing how much variable pay the firm desires to provide its salesforce” [Zoltners, Sinha, and Lorimer 2006, p. 95]) typically investigated in sales-force compensation research studies (e.g., Coughlan and Narasimhan 1992; Krafft 1999; Krafft, Albers, and Lai 2004; Misra, Coughlan, and Narasimhan 2005). Presumably, a subsequent implication of fairness is that sales organizations in turn realize greater financial rewards in some cultural environments but not in others. Thus, we begin our theorizing with a focus on the “fairness→ pay-for-performance” link, predicting and showing that perceived fairness has an effect on pay-for-performance plans, even after controlling for the traditional factors represented in the economics-based sales literature. It is noteworthy that our research objective is to examine how perceived supervisory fairness and incentive compensation motivate salespeople in a culturally diverse setting. We now explain the elements of our model depicted in Figure 1.

The model includes three relationships. The first describes the effect of perceived fairness on salespeople’s variable-to-total pay. We are guided by researchers’ call for the integration of psychological and economic theories to capture the richness of compensation mechanisms (e.g., Gerhart and Rynes 2003; Larkin, Pierce, and Gino 2012). Thus, part of our contribution in this research is to incorporate a psychological factor (i.e., perceived management fairness) into a compensation model that draws on economic theory. Such integration is rare in compensation research, let alone in cross-cultural research settings. The second relationship examines the influence of cultural dimensions on salespeople’s behavior in pay-for-performance environments. These factors stem from the international compensation literature and the heterogeneity of compensation plan structures across countries (e.g., Segalla et al. 2006). The third relationship deals with the moderating effect of cultural power distance on salespeople’s reaction to fairness. The importance of this interaction effect is based on the premise that cultural power distance is more relevant to the study of managers’ influence on salespeople’s behavior than any other cultural variable because it deals with beliefs related to status inequality. In short, we anticipate that salespeople’s views of their supervisors will interact with their accepting of inequality of power distribution in keeping with Shao and colleagues (2013). We present each of these relationships and our hypotheses hereafter.
Fairness and salespeople’s behavior

In this research, we did not investigate distributive justice specifically or the rules that salespeople may use to form fairness perceptions, such as equity (Adams 1965). Some studies focus on specific types of fairness (i.e., procedural, distributive, interactional, interpersonal, or informational justice [Colquitt et al. 2001]); however perceptions of overall fairness – a global assessment of the fairness of a social entity, such as a manager – have been shown to better capture people’s experiences of justice (e.g., Aryee et al. 2015; Jones and Martens 2009). Therefore, we define fairness as overall fairness, in keeping with prior literature. In addition, recent evidence shows that when employees are asked about fairness, they tend to categorize in memory event-level information according to the source accountable for enacting justice (e.g., supervisor) (Shao et al. 2013). In addition, given that supervisors embody the organization and serve as the bridge between top management and employees (Wieseke et al. 2009), it is important to investigate the effect of salespeople’s perception of management fairness.

In their meta-analytic review of justice, Shao et al. (2013) note that fairness theory underlines the moral perspective according to which “people care about fairness because treating people unfairly violates universal norms of ethics and morality” (p. 273). It has also been shown that perceived overall fairness leads to higher job satisfaction (Kim and Leung 2007). Further, Masterson et al. (2000) provide evidence that management fairness motivates employees to reciprocate with better performance. Therefore, we posit that reactions to perceived fairness will lead to more effort. Indeed, research (e.g., Masterson et al. 2000) has shown that the positive relationship existing between fairness and performance behaviors can be explained by social exchange theory (Blau 1964) and the reciprocity norm (Gouldner 1960). That is, perceived fairness is expected to create social exchange relationships that promote job performance through the reciprocity norm. As noted by Zhang and colleagues (2014), “employees perceive fair treatment by the organization and its authorities to be a benefit, and, as a result, they feel a sense of obligation to reciprocate with acts that contribute, either directly or indirectly, to the goals of the organization” (p. 678).

Accordingly, we theorize that managers perceived to be fair increase salespeople’s effort in individual performance-related compensation plans; thus, in turn, we posit that management fairness increases salespeople’s proportion of total pay generated by pay-for-performance formulas. Hence, we investigate the effect of perceived management fairness on salespeople’s actual pay mix because it depends on salespeople’s efforts relative to a firm’s expectations (Zoltners, Sinha, and Lorimer 2006, p. 94). In particular, we hypothesize that perceptions of management’s fairness will enhance drive and performance, which will be reflected in additional (variable) compensation. Therefore, we predict the following:

H1: The greater the salesperson’s perceived management fairness, the higher his or her proportion of total pay generated by pay-for-performance formulas.

Cultural modifiers

As noted by Werner and Ward (2004), the compensation literature is dominated by studies conducted within single countries. This is true even though there has long been a push for multicountry data to reflect the globalization of most industries (e.g., Gomez-Mejia and Welbourne 1991; Schuler and Rogovsky 1998; Segalla et al. 2006).

We consider it to be an important contribution of this research that we derive and test predictions regarding the effect of cultural variables on our model. To examine the effect of salespeople’s perceptions of management fairness on compensation in various cultural environments, we sampled a span of 11 countries to represent a wide range of Hofstede’s (2001) cultural dimensions (uncertainty avoidance, individualism, power distance, masculinity, and long-term orientation) across four B2B industry sectors. Further, we adopt the dominant view that incentive plans trigger salespeople’s motivation. We discuss predictions about each cultural dimension in turn.

Uncertainty avoidance

Hofstede’s (1980, 1991) uncertainty avoidance dimension is particularly relevant to our study given that risk preferences are culturally bound (Weber and Hsee 1998). Thus, managers from countries high on cultural uncertainty avoidance are presumed to prefer predictable situations, low risk, and low ambiguity. Only a few studies have examined the use of financial incentives across countries and their relationship with uncertainty avoidance. For example, Tosi and Greckhamer (2004) found a negative relationship between CEO compensation and uncertainty avoidance. Miller, Hom, and Gomez-Mejia (2001) showed that guaranteed rewards based on seniority are more acceptable in countries that exhibit high uncertainty-avoidance scores. Gooderham, Nordhaug, and Ringdal (1999) indicated that firms in high uncertainty-avoidance countries (e.g., Germany) used incentive reward systems significantly less than firms in low uncertainty-avoidance countries (e.g., Great Britain).

Similarly, Segalla et al. (2006) found that German managers were less likely than Anglo Saxon managers to favor incentive compensation, a finding attributed to Germany’s higher score on uncertainty avoidance. Consistent with the foregoing, compensation plans that are
based less on pay-for-performance are more likely to be valued by salespeople in cultures where uncertainty avoidance is high. In such countries, salespeople will be more motivated and invest more effort in response to such plans.

**Individualism**

This cultural dimension is defined as the degree of connectedness among individuals (Hofstede 1980; Hui and Triandis 1986) and should shed some light on sales-force compensation. Individualism is characterized by values that are also conveyed by financial incentives. Incentive compensation has been shown to reduce collaboration among employees (Beer and Cannon 2004; Du and Choi 2010) and increase turnover intentions (Miller, Hom, and Gomez-Mejia 2001). It has also been shown that employees in individualistic cultures prefer that financial incentives be tied to individual performance (Schuler and Rogovsky 1998; Tosi and Greckhamer 2004). Compensation plans that promote individual performance are more likely to be appreciated by salespeople in cultures where individualism is high. In such countries, salespeople will work harder in response to such plans.

**Power distance**

*Cultural power distance* refers to the level of inequality expected and accepted by the members of a society (Hofstede 1980). Consistent with this description, Schwartz (1999) argued that in high power distance countries, managers higher up the hierarchy enjoy higher status and authority along with financial privileges. Such privileges include a higher proportion of variable-to-total compensation to enrich powerful managers, as shown by Tosi and Greckhamer (2004). In other words, economic performance is highly valued in high power distance countries because it is considered instrumental to attaining employment security, higher status, and authority (Chiang and Birch 2012). These arguments suggest that in countries featuring high levels of power distance, salespeople will work harder in response to performance-related plans.

**Masculinity**

The masculinity–femininity dimension is also relevant to compensation issues. Masculinity is the degree to which members of a society value challenge, competition, achievement, and assertiveness. By contrast, feminine cultures emphasize cooperation and relationship quality. Since managers in high masculinity countries tend to show more concern for job performance (Tosi and Greckhammer 2004) and material possessions (Gomez-Mejia and Welbourne 1991), they should have a natural inclination to use incentive compensation, and salespeople in masculine cultures have a greater expectation that they will be expected to perform to such outcomes. Such an inclination is consistent with theories of motivation, human resource, and sales-force management, all of which support the use of incentive compensation as they encourage managers to tie outcomes (money) to behaviors (Segalla et al. 2006). Therefore, compensation plans that promote job performance (i.e., plans using incentive compensation) are more likely to be accepted by, and function as a motivator for, salespeople in cultures where masculinity is high. In such countries, salespeople will be more motivated and invest more effort in response to such plans.

**Long-term orientation**

Long-term orientation, a cultural dimension proposed by Hofstede and Bond (1988), is also relevant to the design of sales compensation plans. In short-term oriented cultures, people are more focused on immediate outcomes and discounting future outcomes than their counterparts in long-term oriented cultures. This tendency is particularly salient in the sales environment as salespeople have typically been characterized as being short-term oriented (e.g., Homburg, Jensen, and Krohmer 2008; Kim and McAlister 2011). When firms want their salespeople to adopt a long-term orientation, plans emphasizing salary are advocated (John and Weitz 1989; Cravens et al. 1993; Mowen and Mowen 1991; Oliver and Anderson 1994). Therefore, we surmise that cultures where long-term orientation is high are likely to use more fixed compensation plans than are cultures where short-term orientation is high. In countries with stronger short-term orientation, salespeople will be more motivated and invest more effort in response to such plans.

Thus, we hypothesize the following cross-cultural relationships:

H2: The salesperson’s proportion of total pay generated by pay-for-performance formulas:
(a) increases with individualism,
(b) increases with power distance,
(c) decreases with uncertainty avoidance,
(d) increases with masculinity, and
(e) decreases with long-term orientation.

The influence of power distance on salespeople’s reaction to fairness

In positing the elements to H2, we have incorporated theoretical predictions for each of the five dimensions of Hofstede’s (2001) popular cultural framework. The predictions drew from theory, such that the hypothesized results are substantively meaningful – we are not simply including the cultural main effects as statistical controls or covariates.
In addition, we seek to develop further contributions to the literature in beginning to test moderating effects, starting with our focus in this article, on power distance. We focus on power distance because it deals directly with beliefs related to status inequality, so we anticipate that it is highly relevant to our study of salespeople and their views of their supervisors, and their attitudes and behaviors regarding their jobs, at least more so relative to the other cultural dimensions. We discuss the other cultural dimensions in future research directions later in the article. We also note that it is not particularly unusual for a research article to focus on one cultural dimension while de-emphasizing others (e.g., Hong and Chang 2015).

For example, according to Shao and colleagues’ (2013) meta-analytic review of justice, the moderating effect of power distance on supervisory-focused justice-outcomes relations generally support the theorizing according to which individuals in low power distance countries show stronger reactions to injustice than those in high power distance countries. This difference is understandable because people in high power distance countries tend to accept arbitrary authority and legitimize autocratic behaviors of higher status supervisors (e.g., Kim and Leung 2007; Lam, Schaubroeck, and Aryee 2002; Brockner et al. 2001). Unlike their counterparts in high power distance countries, people in lower power distance cultures tend to question authority and be more sensitive to fairness (Lee and Antonakis 2014; Daniels and Greguras 2014). The principle underlying this premise is that the tendency for salespeople to respond less favorably to low levels of fairness depends on the extent to which they consider fairness to be consistent with their cultural norms (Brockner et al. 2001).

In addition, we expect the reciprocity norm (Gouldner 1960) to be lessened in high power distance environments because in these environments, people feel more discomfort and stress when they might disagree with their boss (Tosi and Greckhamer 2004). This means that in high power distance countries, salespeople will not feel that much sense of obligation to reciprocate with high level of effort.

Thus, we pursue the plausible role that power distance might have in moderating our results on salespersons’ pay. We theorize that power distance moderates the relationship between a salesperson’s perceived management fairness and his or her proportion of total pay generated by pay-for-performance formulas. Specifically, we anticipate that a manager’s fairness should matter more in low power distance cultures, and we expect that the effect is less relevant, and therefore may yield a negligible result, in high power distance cultures. In summary, issues of power distance and hierarchy should manifest more in salespeople in individual performance–related compensation plans when they are operating in low power distance cultures.

H3: The level of power distance moderates the relationship between a salesperson’s perceived management fairness and his or her proportion of total pay generated by pay-for-performance formulas, such that fairness matters particularly for salespeople working in low power distance cultures and minimally for salespeople working in high power distance cultures.

Control factors

We next describe numerous factors argued and demonstrated to be important from the contexts of several economic theories. By way of an overview, we acknowledge that a wide range of environmental-, organizational-, and individual-level variables have been investigated in the economic-based sales compensation literature. For example, at the environmental level, scholars have examined the effect of risk diversification, such as measuring the number of customers per salesperson to reflect diversification across customer accounts (e.g., Krafft 1999; Krafft, Albers, and Lal 2004). At the organizational level, scholars have investigated the effect of firm size (e.g., Lo, Ghosh, and Lafontaine 2011; Misra, Coughlan, and Narasimhan 2005). At the individual level, the importance of salesperson experience and tenure has been underscored in many agency theoretic models (e.g., Coughlan and Narasimhan 1992; Krafft 1999). We include these environmental-, organizational-, and individual-level variables, as discussed next.

Risk diversification

Agency theory has been the major economic theory in the marketing literature on sales-force compensation (Krafft, Albers, and Lal 2004). Agency theory addresses the specification of an optimal contract that reconciles the interests of a sales manager and a salesperson to whom the sales manager delegates some decision-making authority. Agency relationships are generally assumed to take place in uncertain environments, and sales managers need to obtain information about salespeople’s actions and performance in order to monitor contract compliance. In addition, agency theory prescribes that firms increase fixed compensation (vs. commissions) for risk-averse salespeople working in uncertain environments (e.g., Eisenhardt 1985; Krafft 1999). A lower level of pay is warranted as uncertainty rises because risk-averse salespeople cannot cope with higher levels of uncertainty reflected in their compensation. In such cases, firms assume more of the risk, thus freeing the salespeople from this concern. Salespeople can also diversify risk by increasing their client base. If so, there should be a positive relationship between risk diversification and a salesperson’s proportion of total compensation generated by pay-for-performance formulas.
**Firm size**

Invoking agency theory, some scholars have endorsed variable pay for larger companies, arguing that risk aversion is lower and sales productivity is higher in large firms (Lo, Ghosh, and Lafontaine 2011; Rouziès et al. 2009). Therefore, firm size could have an effect on our dependent variable. While firm size holds less theoretical interest to us than other more central constructs, we will include its measure as an important covariate; obviously, models like ours would be less realistic without this control factor.

**Job experience**

The inclusion of job experience in the model of compensation enables us to account for the effect of age, job experience, and organizational tenure. Particularly given that B2B salespeople work in the field far from supervision, professionally mature salespeople are likely to be a critical asset for companies (Onyemah and Anderson 2009). Whereas less-experienced salespeople might value a higher fixed-to-variable compensation ratio, more experienced salespeople have the confidence and ability to earn larger variable percentages. Correspondingly, agency theory predicts a higher proportion of variable pay for longer tenure: as salespeople gain experience in selling, their marginal productivity increases since they acquire valuable skills and complex technical knowledge that will make them more efficient (Kraft, Albers, and Lal 2004; Misra, Coughlan, and Narasimhan 2005). As such, the split between salary and incentive pay of a salesperson’s compensation should reflect his or her maturity level.

**Perceived firm willingness to share compensation risk**

In keeping with agency theory, we argue that when salespeople perceive that their firms are sharing their compensation risk (i.e., salespeople are somewhat protected from strong variations of sales performance), they are motivated to work harder.

**Salesperson’s job performance evaluation**

As noted by Oliver and Anderson (1994), a salesperson’s job evaluation serves in part as a motivator. It is therefore important to include this variable in our model as it should have an effect on our dependent variable.

**Centralized decision making**

Since Weber’s (1946) pioneering work on organizational structures, decision-making centralization has triggered much interest in management theory. One can infer from findings on the correlates of decentralization and high-involvement work practices (Guthrie 2001) that firms characterized by highly decentralized levels of decision making are likely to favor lower levels of variable-to-total compensation. Thus, in organizations where decision making is dispersed, employees take on greater responsibility for organizational performance (Guthrie 2001), thereby promoting norms of reciprocity. Such firms are employee centered and use human resource practices and compensation to support and develop their employees, suggesting a positive relationship between variable compensation and decision-making decentralization.

In the sales context, Oliver and Anderson (1994) argue that there is a positive relationship between behavior-based sales-force management control systems and the participative nature of organizational decision making, on the grounds that salespeople are less focused on compensation in behavior-based systems. Therefore, we expect that a salesperson working in a centralized organization is more likely to be motivated to expand effort in individual performance–related compensation plans.

**Uncertainty avoidance, individualism, masculinity, long-term orientation, and power distance**

These parameters were measured using Hofstede’s (1980, 1991) country scores as they are the most widely used in empirical research (cf. Kirkman, Lowe, and Gibson 2006). Indeed, attitudes and behaviors have been linked to cultural environments (Hofstede 1980, 1991).

Our model will also control for several extraneous sources of variation. We will control for industry factors because industry specificity may explain salespeople’s behaviors (e.g., Gomez-Mejia and Balkin 1992; Rouziès et al. 2009), and we control for foreign subsidiaries because local human resource practices may result from headquarters-mandated policies (e.g., Gooderham, Nordhaug, and Ringdal 1999; Rouziès et al. 2009). Finally, we will control for gender as salespeople’s behaviors may be gender specific.

**Data collection and sample**

We collected data through a survey of salespeople working in 30 companies with operations in Africa, Asia, Europe, and North America. These companies operated in one of four sectors, namely, financial services, health care and pharmaceutical, information systems and technology, and consumer packaged goods. Top-level sales executives who attended seminars on sales-force management at two business schools in Europe and North America provided access to their respective companies.

Via email, phone, and face-to-face meetings, we solicited the participation of the various organizations after presentations of the study plans to their respective senior management. We informed them it would be a global
study of sales-force management practices and we wanted input from their salespeople and data on sales-force compensation and performance from the companies’ archives. The data on salesperson performance were sourced independently to minimize common method bias. Companies were asked to provide their single best indicator of salesperson performance, using the criteria that the indicator is not only meaningful but also accurate and timely. To ensure accurate matching of archival data with survey data, each questionnaire was unobtrusively coded. The codes were subsequently destroyed to protect the privacy of respondents. We offered a poststudy report in exchange for participation. Each company provided contact details for all its salespeople. Just before we mailed the questionnaire, a senior member of management, often the sales vice president or sales director, informed his or her salespeople and their direct reports of the survey via an internal memo (drafted by one of the researchers). The original questionnaire was developed in English. Via two-way back translations, we obtained six alternative versions of the questionnaire (French, German, Hungarian, Italian, Spanish, Turkish). As much as possible, every communication, including the in-company memo, was carried out in respondents’ native languages.

First- and second-wave mailings yielded 2,579 completed and usable questionnaires (33% female, 67% male) in seven languages (English: 68%, French: 5%, German: 1%, Hungarian: 4%, Italian: 5%, Spanish: 15%, and Turkish: 2%). A total of 11 countries were represented. The overall response rate was 75%. Nonresponse bias was examined using procedures recommended by Armstrong and Overton (1977). Responses from the first-wave mailing were compared with those from the second-wave mailing by testing for mean differences on all variables included in the study. Multivariate analysis of variance (MANOVA) was used to assess nonresponse bias. The wave of mailing was used as the independent variable, and the items of each construct were used as dependent variables. The results of a MANOVA showed no significant differences across the waves of mailing on responses to the multiple-item scales. On average, respondents were 35 years old, had 12 years of schooling after the age of 10, and had an average work experience in sales of 9 years.

**Measures**

Except for data on individual compensation and job performance evaluation (obtained directly from company archives) and cultural variables (obtained from previous studies), responses to the variables were obtained directly from salespeople. For all constructs that required multi-item measures, we borrowed or adapted the scale items from the literature. In the case of adaptation, previously validated scale items were reworded to better reflect the purpose and context of our study. Preliminary versions of the list of items constituting each measure were administered to convenience samples of salespeople, sales managers, academics, and sales-force management consultants. Their feedback was used to revise the items that formed the basis of a pilot questionnaire. Six pilot surveys were subsequently conducted on convenience samples of salespeople. Their comments guided a final revision.

**Management fairness**

In keeping with Colquitt et al. (2001), we adapted items from the scales of Hollensbe, Khazanchi, and Masterson (2008); Jones and Martens (2009); and Ramaswami and Singh (2003) to fit the purpose of our study. Rather than measuring specific facets of fairness and proposing multiple scales, we sought a salesperson’s overall perception of management’s fairness in keeping with Lind’s (2001) “global judgment of fair treatment” (p. 68–69; Aryee et al. 2015). In addition, given that perceived managerial fairness entails perceived procedural and interactional justice components (Hollensbe, Khazanchi, and Masterson 2008), we added items tapping these two dimensions. Thus, regarding interactional fairness, we measured how salespeople feel about their good work being recognized in keeping with Folger and Konovsky’s (1989) noninstrumental values. Further, we included items tapping procedural fairness, namely, the measurement of salespeople’s perception of fairness in management criteria to evaluate performance (e.g., Ramaswami and Singh 2003).

Therefore, four items were used. Two of these were on a 7-point Likert-type scale while the other two were anchored on increasing level of objectivity and impartiality, respectively. Items to all scales may be found in the Appendix.

**Salesperson’s proportion of total pay generated by pay-for-performance formulas**

Participating organizations provided the proportion of total compensation represented by variable pay for each salesperson. All administered questionnaires were unobtrusively coded to facilitate the matching of archival pay data with survey data. The codes were later destroyed to protect respondents’ confidentiality. On average, 33.44% of total compensation was variable versus fixed (Standard Deviation = 0.23).

**Job performance evaluation**

We obtained salespeople’s performance evaluations as judged and documented by their direct-report supervisors.
Again, to ensure an accurate matching of the companies’ pay data with our survey data, each questionnaire was unobtrusively coded and the codes were subsequently destroyed to protect the privacy of respondents.

Firm’s willingness to share risk
Theorizing that compensation reflects the division of risk between a firm and its employees (Basu et al. 1985), we measured perceived management willingness to share risk with a single item assessing the perceived linkage between extreme low levels of sales performance and rewards. This item (reverse) shows how much of pay is perceived to be “protected” (i.e., not at risk) and may not vary with extreme fluctuations of sales; thus, it serves as a proxy for the perceived risk burden on the employer side.

Decision-making centralization
Decision-making centralization was operationalized as the degree to which salespeople participate in decisions that define their work goals and processes. It reflects the level of autonomy and personal initiatives accorded salespeople. This was measured with a 7-point Likert-type scale using items adapted from Hage and Aiken (1967).

Risk diversification
Per Krafft (1999) and Krafft, Albers, and Lal (2004), we used the salesperson’s self-report on the number of customers he or she manages as an indicator for how well salespeople can diversify risk across customers.

Job experience
This was a composite measure consisting of three separate but highly correlated measures: age, selling experience, and organizational tenure. To form a job experience index, we computed the mean and its average score equivalent (mean = 0; standard deviation = 1) before aggregating the three measures.

Uncertainty avoidance, individualism, masculinity, and power distance
We employed Hofstede’s (1980, 1991) country scores as they are the most widely used in empirical research (Kirkman, Lowe, and Gibson 2006).

Firm size
Firm size was measured by the size of the company’s sales force.

Sector
The reference sector was health care and pharmaceutical. Three indicator variables were created to capture the effect of the remaining sectors – financial services, information systems and technology, and consumer packaged goods.

International/local firms
A dummy variable was created to reflect the potential effect of head office human resource policies on country subsidiaries of firms with sales operations in multiple countries.

Model specification and estimation procedures
Our predictions were tested on a sample of 2,579 salespeople in 30 companies, 11 countries, and four industrial sectors. Descriptive statistics are presented in Table 1 and results appear in Table 2. We estimated a hierarchical linear model (HLM, see Raudenbush and Bryk 2002) to statistically control for the nested structure of the data and to accommodate individual-level heterogeneity. The results of the HLM with salespeople comprising the microlevel, and the companies within which they worked the macrolevel, appear in Table 2. We considered adding a third level for country or culture, but the number of observations at that level (N = 11) was too small for consideration.

Results
Our results for salesperson variable-to-total compensation (Table 2) are mostly consistent with our theoretical framework. The model provides a reasonable explanation for the compensation results ($R^2 = 0.419$).

Management fairness is positively related to a salesperson’s proportion of total pay generated by pay-for-performance formulas: (H1: $\beta = 0.056$, $p < .01$). This finding supports H1.

The proportion of incentive in total compensation is enhanced in cultures with greater individualism (H2a: $\beta = 0.006$, $p < .01$), as predicted. Our main prediction involving power distance is in the interaction term, which we present shortly. Continuing, the effect of uncertainty avoidance (H2c) is not significant, and the effect of masculinity is negative, contrary to expectations (H2d: $\beta = -0.007$, $p < .05$). Long-term orientation is negatively associated with the ratio of incentive to total compensation (H2e: $\beta = -0.012$, $p < .01$), as predicted.

We had predicted a synergistic interaction between power distance and fairness as we have found the interaction of management fairness and power distance to be significantly related to compensation (H3: $\beta = -0.001$, $p < .01$) as shown in Figure 2. In keeping with our expectations, contrasts indicate that whether a manager is...
Table 1. Descriptive statistics.

|                  | Mean  | Std dev | 1   | 2   | 3   | 4   | 5   | 6   | 7   | 8   | 9   | 10  | 11  | 12  | 13  | 14  | 15  | 16  | 17  | 18  |
|------------------|-------|---------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1. Management fairness | 5.000 | 0.967   | 1.000 |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 2. Variable-to–total pay mix* | 0.334 | 0.234   | 0.011 | 1.000 |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 3. Job-performance evaluation | 0.984 | 0.872   | −0.026 | 0.227 | 1.000 |     |     |     |     |     |     |     |     |     |     |     |     |
| 4. Firm’s willingness to share risk | 4.395 | 1.930   | −0.024 | 0.310 | −0.005 | 1.000 |     |     |     |     |     |     |     |     |     |     |
| 5. Centralized decision making | 3.693 | 1.072   | −0.267 | −0.019 | −0.032 | 0.028 | 1.000 |     |     |     |     |     |     |     |     |     |
| 6. Job experience | 17.010 | 6.650   | −0.054 | 0.080 | 0.120 | 0.059 | −0.107 | 1.000 |     |     |     |     |     |     |     |     |
| 7. Gender | 0.669 | 0.471   | 0.014 | −0.032 | 0.004 | −0.08925 | −0.017 | 0.202 | 1.000 |     |     |     |     |     |     |
| 8. Firm size | 157.547 | 124.605 | −0.018 | 0.182 | 0.007 | 0.173 | −0.055 | 0.064 | −0.229 | 1.000 |     |     |     |     |     |
| 9. Risk diversification | 120.276 | 163.925 | 0.030 | 0.181 | 0.032 | 0.053 | 0.010 | 0.184 | 0.061 | −0.109 | 1.000 |     |     |     |     |
| 10. International/Local firm | 0.452 | 0.498   | 0.020 | 0.045 | 0.000 | −0.056 | 0.007 | −0.021 | 0.136 | −0.553 | −0.130 | 1.000 |     |     |     |
| 11. Financial services sector | 0.242 | 0.428   | −0.060 | −0.250 | 0.016 | −0.123 | 0.167 | −0.218 | −0.079 | 0.136 | 0.005 | −0.515 | 1.000 |     |     |
| 12. Consumer packaged goods sector | 0.161 | 0.368   | −0.138 | 0.111 | −0.004 | 0.043 | −0.074 | −0.035 | 0.098 | −0.303 | −0.241 | 0.477 | −0.248 | −0.150 | 1.000 |
| 13. Information system and technology sector | 0.161 | 0.368   | −0.138 | 0.111 | −0.004 | 0.043 | −0.074 | −0.035 | 0.098 | −0.303 | −0.241 | 0.477 | −0.248 | −0.150 | 1.000 |
| 14. Cultural individualism | 49.988 | 28.361 | −0.065 | 0.369 | −0.013 | 0.247 | −0.240 | 0.206 | −0.056 | 0.351 | −0.087 | 0.073 | −0.603 | −0.018 | 0.395 | 1.000 |
| 15. Cultural power distance | 56.078 | 21.749 | 0.108 | −0.366 | 0.009 | −0.260 | 0.236 | −0.304 | 0.006 | −0.259 | −0.058 | 0.019 | 0.493 | −0.237 | −0.343 | −0.830 | 1.000 |
| 16. Cultural uncertainty avoidance | 59.349 | 17.470 | −0.035 | −0.085 | 0.014 | −0.029 | −0.058 | 0.239 | 0.104 | −0.322 | 0.238 | 0.261 | −0.173 | 0.472 | 0.096 | −0.132 | −0.024 | 1.000 |
| 17. Cultural masculinity | 30.977 | 11.122 | −0.065 | 0.279 | −0.011 | 0.115 | −0.099 | −0.020 | −0.028 | 0.289 | −0.206 | 0.001 | −0.254 | −0.267 | 0.341 | 0.643 | −0.468 | 0.642 | 1.000 |
| 18. Cultural long-term orientation | 31.255 | 17.606 | −0.031 | 0.051 | 0.005 | −0.001 | −0.075 | 0.297 | 0.120 | −0.216 | 0.081 | 0.594 | −0.587 | 0.271 | 0.366 | 0.356 | −0.240 | 0.664 | −0.129 | 1.000 |

Note: *N = 2,579 for individual-level variables; Std dev = standard deviation.  
*Proportion of total pay generated by pay-for-performance formulas.
perceived as fair has a significant effect on salespeople’s pay in low power distance cultures ($F_{1,1345} = 130.47, p < .001$) and a nonsignificant effect on pay in high power distance cultures ($F_{1,1345} = .69, p = .407$). We chose to predict a theoretical relationship between fairness and power distance only, given its role in characterizing the distance between a salesperson and his or her supervisor. However, we tested the interaction effects of fairness with the other cultural variables. While they were not significant, we chose to investigate further the interactive effect of fairness with culture and ran complementary analyses of contrasts. Consequently, we created separate samples (e.g., all those salespeople in low uncertainty avoidance cultures and a separate sample for all the salespeople in high uncertainty avoidance cultures). Then a separate model, similar to the one whose results are presented in Table 2, was run in both samples. Thus, we ran eight models—the effect of fairness for low (or high) uncertainty avoidance, the effect of fairness for low (or high) individualism, and so on. The focal effect is whether fairness matters in one sample and not the other.

The results show that there is no interactive influence of fairness with femininity/masculinity ($\beta = .026, p > .05$ and $\beta = .038, p > .05$ for femininity and masculinity, respectively). However, the results indicate that whether a manager is perceived as fair has a marginally significant effect on salespeople’s pay in low uncertainty avoidance cultures ($\beta = .026, p = .053$) and a nonsignificant effect on pay in high uncertainty avoidance cultures ($\beta = .025, p > .05$). Given that salespeople’s efforts are more directly related to financial rewards in this type of environment, it is not surprising that fairness matters more. Likewise, the findings show a marginally significant interactive effect of fairness on pay in long-term orientation cultures ($\beta = .058, p = .087$) and no effect in short-term orientation cultures ($\beta = -.024, p > .05$). Presumably, in long-term orientation cultures, perceived fairness promotes job performance through the norm of reciprocity. For reciprocity to take place, however, longer time horizons are needed. Finally, the results show that whether a manager is perceived as fair has a significant effect on salespeople’s pay in individualistic cultures ($\beta = .135, p < .0001$) and a nonsignificant effect on pay in

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Notes: Data presented as parameter estimates (standard errors); n.s. = not supported.

*p < .10; **p < .05; ***p < .01.

Figure 2. Interactive effect.
collectivistic cultures ($\beta = -0.064, \ p > 0.05$). In essence, perceived managerial fairness enables greater performance-related pay in individualistic cultures. This is understandable given Emerson’s (1841) description of individualism in terms of self-reliance and the proximity of this definition with intrinsic motivation.\(^2\) All in all, this contrast provides evidence for the “intersection” between extrinsic (i.e., financial rewards) and intrinsic (i.e., individualism) motivation.

Beyond our hypotheses, the results regarding our baseline influences are in keeping with our expectations. Salespeople’s job experience, job performance evaluation, and pay risk perception affect salespeople’s behavior. In addition, the local/international nature of the firm as well as its size and industrial sector and level of centralization help predict salespeople’s behavior and pay. Finally, per a suggestion from a helpful reviewer, we also isolated the effect of performance evaluation. We rely on it to express a salesperson’s abilities and work efforts, so the suggestion was to remove other covariates and test the effect of the performance evaluation on its own. When doing so, its effect remains significant ($\beta = 0.073, \ SE = 0.008$, compared to its values in the article with the additional covariates, wherein $\beta = 0.069, \ SE = 0.008$).

Discussion and conclusion

Our primary contention, that management fairness is key to salespeople’s realized financial incentives, is supported by the evidence provided by the survey data. Further, our results show that management fairness seems to energize sales employees in some environments but not in others: in low power distance countries, salespeople’s pay mix reflects this concern (variable-to-total compensation is higher when perceived management fairness is high) unlike in high power distance countries. Our findings are consistent with the hypothesis that power distance weakens justice effects, as described in the recent meta-analytic review by Shao et al. (2013).

Likewise, our complementary findings are consistent with the idea that individualism (not collectivism) heightens justice effects. This offers a new perspective on the appeal of extrinsic motivation in environments characterized by a focus on intrinsic motivation.

Our results also suggest that salespeople from various national origins use effort–reward mechanisms in a way that previous theoretical models may not have captured. We proposed and demonstrated that pay schemes featuring low levels of incentive compensation are more likely to motivate salespeople operating in long-term oriented countries where immediate outcomes are less of a concern. Further, in keeping with Tosi and Greckhamer’s (2004) results, we showed that firms in individualistic environments are more likely to motivate salespeople with high levels of incentive compensation as both individualism and financial incentive compensation are characterized by similar values. The more surprising finding that masculinity is negatively associated with the ratio of variable to total compensation, contrary to our expectations, warrants explanations. Indirect support for this finding is given by Taylor and colleagues (2007), who find cultural differences in the effect of social support for combating stress. To the extent that hard work generates stress, their results indicate that in feminine cultures, people may cope better with stress thanks to implicit social support.\(^3\) It is possible that in high masculine type countries, financial incentives are not motivating because they are not viewed as instruments of achievement. Note that Tosi and Greckhamer’s (2004) study of CEO compensation did not uncover significant associations between the ratio of variable compensation and cultural masculinity either.

Our setting allows for the examination of management overall fairness that typically is not featured in sales-force compensation studies. Incorporating management fairness considerations in our compensation model is a way to address the calls of Gerhart and Rynes (2003) and Larkin, Pierce, and Gino (2012) for the integration of economic and psychological perspectives in compensation research. Thus, a unique element of this study is that we examine, in the same model, salespeople’s perceived managerial fairness and compensation risk-related variables with regard to a salesperson’s behavior in individual performance-related compensation systems across cultures.

Finally, our analysis finds that the actual compensation mix depends much more on contingencies (e.g., scope of international operation and industry sector) than on variables typically included in economics-based sales-force compensation research (e.g., risk diversification, firm size). In other words, a properly configured reward structure should consider the fact that salespeople from international firms do not respond to incentive compensation as do salespeople in national firms.

Future directions

Marketing scholars are aware of the need to consider cultural differences when they are fortunate enough to have global data. Given the worldwide scope of our data, covering salespeople in so many countries, we naturally included cultural differences in our analyses. Such large-scale data and the breadth of coverage on the cultural dimensions are still rare, such that we believe our research is offering a contribution in taking several first steps in modeling salespeople’s behaviors in multicountry samples. We do so by including all five of Hofstede’s (2001) popular cross-cultural frameworks as main effects. We then take a next step in considering the interaction of one of those cultural dimensions with fairness on salespeople’s pay. The selection of power distance was purposeful, given its role in characterizing the distance between,
in our research, a salesperson and his or her supervisor. We tentatively examined various contrasts featuring these other cultural variables and found substantive effect of individualism, uncertainty avoidance, and time orientation. Obviously, future research can pick up where the current research leaves off in considering the moderating role of the other cultural dimensions.

We engaged in a bit of exploratory analyses in this regard and found results related to satisfaction in other cultural dimensions. For example, salespeople working in individualistic cultures felt less satisfaction with their coworkers ($\beta = -0.002$, $t = -2.09$, $p = .037$, or salespeople working in collectivistic cultures expressed greater satisfaction with their coworkers). Salespeople working in masculine cultures were less imposing on the frequency with which they interacted with or requested contact with their supervisors ($\beta = -0.009$, $t = -2.78$, $p = .006$, or salespeople working in feminine cultures sought more time with their supervisors). There were also slight (borderline) effects for long-term orientation (salespeople in long-term cultures were somewhat less satisfied with their jobs overall, $\beta = -0.003$, $t = -1.64$, $p = .101$) and uncertainty avoidance (salespeople in high uncertainty avoidance cultures were less satisfied with their supervisors, $\beta = -0.002$, $t = -1.76$, $p = .079$). However, this collection of results felt somewhat exploratory, and we did not feel the theoretical framework had yet been similarly expanded; we plan to attempt to do so in future research.

Furthermore, other explanatory mechanisms than ours, based on reciprocity and obligation, could be investigated. For example, there may be instances where salespeople may increase their level of effort in response to perceived managerial unfairness to save the situation from getting worse for oneself.

In terms of the broader implications of the research, the most important point is that the motivators of salespeople in performance-related compensation systems are different in the United States and Mexico, for example. It is already widely known that the management differs between local and international sales forces, but this is the first study to shed light on the effect of management fairness in various cultural settings.

**Managerial implications**

Taken together, the results allow us to draw a number of provisional conclusions about what motivates salespeople in performance-related plans. These insights are strategic as 85% of firms change their compensation plans every year (McGinn 2015) and many firms feature international sales forces (Deloitte and Oracle 2008).

In support of our theoretical propositions, we found that the extent to which salespeople invest in their work and see realized pay results is constrained by the fairness of their boss and to some extent by the interdependence between fairness and power distance. Thus, to be effective in managing a culturally diverse sales force, sales managers need to know that fairness is not the panacea everywhere. Simply put, sales managers in low power distance countries need to show that they are fair so as not to risk demotivating their salespeople whereas such an approach has no benefit in high power distance countries. It may be counterintuitive to western sales managers trained to promote fairness, but the reality is that salespeople operating in high power distance countries are accustomed to lower levels of fairness and will not stop working in the face of it.

For all the talk of globalization and for all the extensive coverage of sales organizations around the world, multicountry studies are still rare due to the intense data collection efforts. Thus, our research begins to provide guidelines on all the major established cultural dimensions for designers of compensation schemes in international organizations. As a result of our multicountry inclusive sample, our research begins to provide guidelines on all the major established cultural dimensions for designers of compensation schemes in international organizations. Finally, given that the average age in our samples was 35, our study begins to also broaden our collective understanding of what motivates Millennial workers, an important direction as this group will make up most of tomorrow’s workforce.

**Limitations and conclusion**

This study is not without limitations. Endogeneity and establishing causality are frequent concerns for cross-sectional B2B research. Per the suggestion of a helpful reviewer, we investigated the robustness of our effects and, in doing so, established a bit more evidence regarding the directionality of our findings. For example, we tested the power distance interaction with fairness on alternative dependent variables and found the results to be consistent with the focal effect of the article (on salesperson’s pay), albeit the results were not always significant at the .05 level. For example, we tested the effect of the power distance interaction on a salesperson’s satisfaction with his or her promotion possibilities on the job, $t = 1.82$, $p = .07$. Similarly, we tested the extent to which the power distance interaction seemed to affect the salesperson’s perceptions of his or her supervisor as a nurturing sort of mentor, $t = 5.95$, $p < .0001$. In addition, we compared the fit of the model in our theorized direction, that is, fairness and power distance influencing salespeople’s pay, $R^2 = 0.419$, to the model in which we reversed that directionality, reasoning that perhaps how much a salesperson is paid, along with power distance, may influence his or her perceptions of fairness. However, the model
with reversed directionality did not fit as well, $R^2 = 0.167$.

In addition, our sample of salespeople is limited to 11 countries and four business sectors. While these countries and sectors provide a range of industries and span the cross-cultural dimensions, the generalization of our findings to other sectors and countries remains to be tested.

Finally, our theoretical arguments and empirical findings help illuminate an important mechanism underlying salespeople’s behavior, namely, that fairness is one of the most important drivers of their take-home pay. This finding could easily be incorporated into the design of sales compensation structures. Because we limited our investigation to questions related to the determinants of individual-level salesperson compensation, future researchers may want to pursue firm-level performance. This is a challenge that deserves further investigation by sales-force researchers.

**Notes**
1. We thank an anonymous reviewer for this insightful suggestion.
2. We thank an anonymous reviewer for this line of argument.
3. We thank an anonymous reviewer for suggesting this justification.

**Declaration of interest**
No potential conflict of interest was reported by the authors.

**Acknowledgments**
The first author warmly acknowledges the Desautels Faculty of Management at McGill University for the support and hospitality extended to her during her stay there as a visiting professor.

**Funding**
This work was supported by INSEAD and a public grant overseen by the French National Research Agency (ANR) as part of the Investissements d’Avenir program (ANR-11-IDEX-0003/Labex Ecodec/ANR-11-LABX-0047).

**References**


Appendix: Scale items and coefficient alphas

Scales are 1−7 (Completely Disagree − Completely Agree) unless otherwise noted.

Management fairness (α = 0.70), adapted from Hollensbe, Khazanchi, and Masterson (2008); Jones and Martens (2009); and Ramaswami and Singh (2003):

1. Management has always been fair in dealings with me.
2. Management gives me credit and praise for work well done.
3. Management criteria used in evaluating your performance (impartial).
4. Management criteria used in evaluating your performance (objective).

Anchors: 1 (completely disagree) to 7 (completely agree) for items 1 and 2. For item 3: 1 (very partial) to 7 (highly impartial). For item 4: 1 (subjective) to 7 (objective).

Job experience (α = 0.81), from Onyemah and Anderson (2009):

1. Organizational tenure: number of years in the company.
2. Selling experience: number of years of general selling experience.
3. Age: in years.

Firm’s willingness to share risk

If I have a very bad year, my gross income would go down drastically (R*).

Risk diversification

Number of accounts classified as being active in the year.

Centralized Decision-making (α = 0.71), from Hage and Aiken (1967):

1. Decision-making authority is highly centralized in our organization.
2. In almost every case, I have to obtain management’s approval before taking action.
3. Even small matters related to my job have to be referred to someone else above me.
4. I am discouraged from making my own decisions.
5. Management always tells me what I should do in my sales territory.
6. It is difficult for me to make a move without getting my management’s permission.