AN ECLECTIC PARADIGM OF SALESPERSON COMPENSATION: TOWARD A COMPREHENSIVE FRAMEWORK OF THE DETERMINANTS OF SALES COMPENSATION MODES

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The optimal mix of salary and commissions is an important consideration in salespersons' compensation structures. A number of different approaches -- both analytical and behavioral -- shed light on different aspects of the related problems. However, these approaches often have disparate recommendations. This research introduces the eclectic paradigm of sales compensation (EPSC) as a potential decision framework for integrating elements of the analytical and behavioral approaches. Hypotheses extending from the framework are tested on a sample of real estate agents. The results suggest that the eclectic paradigm approach is more useful than single-theory approaches in predicting firms' choice of sales compensation modes.

INTRODUCTION

The relative advantages of salary-based and commission-based compensation plans for salespeople have been important concerns in the literature. While past research has provided many insights, there still remains some uncertainty about the circumstances under which one compensation mode is preferable to the other.

Much of our current theoretical knowledge of sales compensation strategy is derived from other social scientific perspectives, most notably psychology and economics. While behavioral theories (i.e., those that are based on psychology) and economics-based (or analytical) investigations offer important recommendations regarding sales compensation issues, these two genres of inquiries are generally associated with different motivations. Behavioral perspectives have been used frequently to investigate issues related to maximizing salesperson utility (including intrinsic and extrinsic rewards, reducing job stress and turnover, and improving employee morale). In contrast, analytical approaches have predominately emphasized maximization of the firm's accomplishment of performance objectives (such as sales, market share, and return on investment). Consequently, under some circumstances, behavioral viewpoints and analytical approaches offer disparate recommendations.

In their treatise of sales compensation issues, John and Weitz (1989) indicate that sales management prescriptions have evolved from an assortment of sources and, prior to their examination, these normative rules had not been integrated into any kind of an overarching framework. Essentially, research in sales compensation issues -- like other areas in management and marketing -- is characterized by a certain amount of disaggregation of subordinate theories and normative principles.

In the following sections, we review some of the influential streams of research related to salary and commission orientation in sales force compensation and propose the eclectic paradigm perspective as a potential framework for integrating elements of the behavioral and analytical approaches. Based on this framework, a number of hypotheses are proposed and

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an empirical test of the hypotheses is described. Finally, we discuss the managerial implications of the findings and some of the limitations of the study, and outline possible directions for future research.

THEORETICAL FOUNDATIONS

The two most popular psychology-based theoretical frameworks used in the analysis of sales compensation issues are (1) behavior modification theory and (2) expectancy theory. The economics-based theories which are most frequently used in the investigation of sales compensation issues are (1) traditional economic theory, (2) agency theory, and (3) transaction cost theory.

Psychology-Based Theories

Behavior modification theorists view human behavior as being controlled predominantly by the environmental influences rather than by internal psychological processes (Peter and Nord 1982). Skinner's (1969) principle of operant conditioning provides the foundation for viewing the salesperson as a subject whose behavior may be shaped (or conditioned) by a judicious administration of reinforcements.

Operant conditioning theory implies that the optimal compensation mode is very likely to be a salary-based compensation system in which salespeople are paid a basic salary, along with bonuses for performing certain sale-enhancing behaviors, such as cold calling, setting appointments, or making presentations. Casey (1989) reviews 18 studies that attempt, with varying degrees of success, to improve sales performance through the application of operant conditioning. His meta-analysis reports that sales compensation systems which reward both sales-related behaviors and increased sales volume tend to work better than approaches which try to influence either sales-related behavior or sales volume alone.

In the inquiry of behavioral issues related to sales force compensation, expectancy theory (Vroom 1964) has enjoyed substantial popularity. Expectancy theory suggests that both the desirability of the reward or compensation (referred to as *valence*) and an individual's estimate of the likelihood of attaining that reward (referred to as *expectancy*) are important determinants of a salesperson's behavior (Walker *et al.* 1977). Expectancy theory constructs such as valences, instrumentalities, and expectancies are difficult to operationalize and measure. Thus, attempts to verify theory often get caught up in a net of circular reasoning, in which the existence of high perceived value of reward is assumed from effort expended, or vice versa.

In the context of sales compensation issues, expectancy theory suggests that any method of compensation should (1) tie reward to performance, and (2) strengthen the salesperson's perceived connection between performance and the reward received. Another important implication of expectancy theory is that motivation and performance are positively correlated. An increase in the level of motivation should correspond to an increase in the amount of effort expended in selling tasks, which in turn should improve performance.

Economics-Based Theories

In contrast with psychology-based theories, nearly all economics-based theories approach research questions from the standpoint of the firm rather than the individual (Coughlin 1991). Early normative research compares different types of commission-based schemes, rather than examining the circumstances under which there might be viable alternatives to commission-based structures. For example, Farley (1964) proposes that an optimal system should base commissions on the gross margins of products sold, rather than on gross sales.

Ross (1973) suggests that many economic associations can be characterized by a principal/agent relationship, and that there could be inherent conflicts between the principal and agents in such arrangements. In particular, agency theory "models the relationship between a principal who delegates work to an agent who performs that work" and "attempts to describe that relationship using the metaphor of a contract" (Eisenhardt 1988, p. 489). According to this perspective, agency relationships between a firm and its salespersons are preferred

unless there exist moral hazards between the principal (i.e., the firm) and the agent (i.e., salespersons). Moral hazard refers to the possibility of violation of contract, particularly the failure on the part of the agent to produce the agreed upon level of effort or the agent's engagement in activities designed to evade responsibility (Holmstrom 1979). Such situations are likely when the goals and risk preferences of the two parties are incompatible and when the principal has little or no access to information regarding the agent's behavior. As moral hazards increase, the principal will become more likely to abandon agency in favor of a mode which provides greater control and information. Since commission compensation more closely approximates the principal/agent relationship between the firm and the salesperson, variables contributing to moral hazards are generally postulated to promote a salary-oriented compensation scheme.

Agency theoretic perspectives are important in the consideration of sales compensation issues because they incorporate several key firm-specific factors generally overlooked by psychology-based and traditional microeconomic approaches (such as market uncertainty, firm control, and the quality of information). However, agency theoretic approaches do not consider factors related to motivation of salespeople and offer little toward resolving the possible incompatibilities between organizational and individual goals.

The value of information is also central to a third economic theory known as transaction cost theory. Williamson (1981) suggests that agency relationships are preferable to employee relationships (i.e., commission is preferable to salary) unless the market for contracted services is imperfect. As the cost of contracted services increases, so does the need for the firm to control resources, including the sales force. Thus, the premise of transaction cost theory is that the firm must exercise greater control when markets, the competitive environment, the firm's resources, or other transaction-related factors contribute to an imperfect market. Since lower control is associated with incentive-based compensation, high transaction costs contribute to a firm's salary orientation.

As in the case of agency theoretic approaches, the limitations of the transaction cost approach include no considerations of sales force motivation and their consequent impact on sales performance. The relevant highlights of the different theoretical perspectives are summarized in Table 1.

A Taxonomy of Relationships

A review of the research literature reveals the following correlates of firms' adoption of an incentive-based compensation scheme: *availability of replacement salespeople*, *results-based performance assessment*, *high salesperson experience*, and *high impact of selling activity*. In contrast, the following factors have been found to be negatively correlated with firms' adoption of a commission-based compensation system: *high salesperson replacement cost*, *large firm size*, *high intensity of competition*, *high difficulty of assessing salesperson performance*, *team selling orientation*, *a long term firm orientation*, *salespersons engaging in nonselling activity*, *salesperson risk aversion*, *extended time between prospecting and sale*, and *high customer loyalty to the firm*.

Given the assortment of variables in the above taxonomy, there appears to be a need to integrate them into a broader framework. Citing the relatively low amount of explained variance in all previous models that attempted to predict a firm's compensation system, John and Weitz (1989) conclude that there is a need for the development of a more comprehensive model.

THE ECLECTIC PARADIGM

The trade-off between the advantages of utilizing independent agents and the resultant loss of intrafirm control is a familiar concern in many business decisions. The transaction cost approach has been used in the investigation of related issues in production management involving "make-or-buy" decisions (see Monteverde and Teece 1982; Walker and Weber 1984) and in decisions involving a choice between salaried employees and independent agents to perform the selling function (see Anderson 1985; Anderson and Weitz 1986).

TABLE 1
Overview of Different Theoretical Perspectives

Approach	*Theoretical Focus*	*Principal Objectives*	*Weaknesses*
BEHAVIORAL			
Behavior Modification	Operant Conditioning	Shaping and reinforcing individual behavior	Limited applicability in complex task situations and disregard of cognitive and motivational processes
Expectancy Theory	Subjective Expected Utility	Enhancement of motivation	No consideration of organizational goals and environmental (market) factors
ANALYTICAL			
Traditional microeconomic theory	Production orientation	Organizational profit maximization	No consideration of salespersons' perspectives
Transaction cost analysis	Social contract	Minimizing market costs	No consideration of salespersons' perspectives
Agency theory	Role expectations (Principals and agents)	Optimizing control and costs	Limited consideration of individual perspectives

In the context of international marketing, similar concerns manifest themselves in the decisions of firms choosing between entry modes in overseas markets. Analogous to sales compensation research, studies in international marketing incorporate both behavioral and analytical approaches in developing decision frameworks used in determining whether to export, to engage in foreign direct investment, or to enter into joint ventures. These alternatives are characterized by different proportions of ownership and agency. Foreign direct investment corresponds to the highest level of control, lowest potential transaction and agency costs, and the highest level of assumed risks. In contrast, exporting corresponds to the choice of lowest control, highest potential agency and transaction costs, and the lowest level of assumed risks. From a control perspective, these two choices are comparable to the decisions between a salary and commission orientation, respectively. In the context of foreign market entry modes, a joint venture occupies an intermediate position between the two extremes of the continuum and is analogous to a sales compensation scheme that incorporates a combination of salary and commission. Frequently, researchers have incorporated transaction cost theory and agency theory in the analyses of such issues (Anderson and Coughlan 1987; Klein *et al.* 1990).

The eclectic paradigm of international expansion (Dunning 1980; Hill *et al.* 1990) integrates many prior recommendations from the research stream on entry mode choices into a consolidated decision framework. It also identifies a key consideration related to internalizing (inhousing) and outsourcing of operations that is rarely addressed in the sales force compensation context: the risk of dissemination of intangible firm-specific assets (see Hill *et al.* 1990). Sales organizations often operate in environments in

which it is imperative for them to entrust salespeople with significant amounts of proprietary information. In such scenarios, commission-based systems are likely to be associated with higher levels of dissemination risk to the firm than salary-based systems. This is especially true because commission-based systems are more likely than salary-based systems to cause customer loyalty to be directed toward the salesperson rather than the employing firm. While transaction cost theory already suggests that customer loyalty to the firm should be associated with a salary-based system, the eclectic paradigm is unique in so far as it recommends that customer loyalty to the firm should be related to the firm's possession of a high level of firm-specific assets rather than a transaction-specific circumstance. In effect, the eclectic paradigm indicates several new dimensions for integration into the compensation decision framework, including all factors related to intangible firm-specific assets, such as product quality, customer service, location, image, and so forth. Each of these factors ought to be positively related to salary orientation.

In an adaption and extension of the eclectic paradigm decision framework (Hill *et al.* 1990) to the sales compensation setting, the following factors are proposed as critical determinants in a firm's decision regarding salary orientation: (1) the amount of control the firm is likely to be able to maintain, (2) the amount of resource commitment, (3) the amount of dissemination risk, and (4) salesperson motivation. We contend that these factors constitute an important set of considerations from a sales management perspective. Management's decision to incorporate a specific level of salary orientation may be based, to a certain degree, on the organization's actual or desired positions in each of these preceding measures. The *eclectic paradigm of sales compensation* (EPSC) is a decision framework that depicts how these factors actually respond to changes in salary orientation.

The issue of salary- versus commission-based compensation, however, is rarely viewed as a dichotomous choice; salary-orientation is generally regarded as a continuum ranging from 0% for straight commission and 100% for straight salary. In general, a straight commission system is associated with low control, low resource commitment, high dissemination risk, and high salesperson motivation (Table 2). A combination salary/commission system is associated with intermediate levels of control, resource commitment, dissemination risk, and salesperson motivation. A straight salary system is associated with high control, high resource commitment, low dissemination risk, and low salesperson motivation.

Based on the EPSC framework, firms may choose either a salary-based or commission-based system depending on organizational priorities. According to this framework, dissemination risks decrease sharply and salesperson motivation increases with increases in salary orientation. In situations where the level of sales is contingent upon the selling effort to greater extent than other marketing efforts (such as media advertising and promotions), a salary orientation would be indicated. If, however, the effect of selling effort on sales is less critical (such as when media advertising, promotional campaigns, and so forth are more instrumental), a commission orientation may be beneficial. Additionally, salary orientation is more conducive to firms with high firm-internal intangible assets than firms with low levels of such assets.

While most of these observations corroborate earlier research recommendations, the EPSC decision framework goes further in implying that firms which have high levels of firm-specific intangible assets should attempt to implement a strategic program which will enable them to lower the effect of selling effort on sales. For instance, dependence on mass media advertising and automated or semi-automated order processing and delivery programs are likely to be conducive to the dual goals of defending against dissemination risks and avoiding the effects of diminishing selling effort on sales due to lowered sales force motivation. In contrast, firms with low firm-internal intangible assets should choose to minimize resource commitment (i.e., shift away from fixed costs in favor of variable costs), by adopting a commission-based system. In this situation, the negative aspects of low control and high dissemination risk are offset by lower resource commitment and increased motivation. Such

TABLE 2
Characteristics of Different Compensation Modes

	Constructs			
Compensation Mode	*Control*	*Resource Commitment*	*Dissemination Risk*	*Salesperson Performance*
Straight commission	Low	Low	High	High
Combination	Medium	Medium	Medium	Medium
Straight salary	High	High	Low	Low

organizations would benefit from the adoption of programs (and types of products and services) that are best sold by high levels of salespersons' involvement in the selling process.

In sum, the EPSC may be used as a framework for aligning aspects of the sales function so that either salary- or commission-orientation may work toward advantageous outcomes with regard to each of the elements of the EPSC.

THEORETICAL PROPOSITIONS

One of the ways in which the usefulness of a normative model may be assessed is by testing its descriptive power (John and Weitz 1989). In the following section, a number of propositions relating some key variables to salary-orientation based on the EPSC framework are described.

Eclectic Determinants

The first four hypotheses of this study deal with the four decision criteria: firm control, resource commitment, dissemination risk, and performance. Assuming that any three of these are equalized between firms, the fourth should predict the sales compensation posture of any given firm. For example, if two firms were to have equal exposure in terms of resource commitment and dissemination risk, and both firms exercised an equal amount of control, then the firm with the better-performing salespersons would be expected to have a higher commission orientation than the firm with lower-performing salespersons.

H_1: The greater the degree of control exercised over salespersons by a firm, the lower will be the firm's commission orientation.

H_2: The greater the amount of firm resource commitment perceived by salespersons, the lower will be the firm's commission orientation.

H_3: The greater the salesperson's perceived dissemination risk of firm competencies, the lower will be the firm's commission orientation.

H_4: The greater the performance of salespersons, the higher will be the firm's commission orientation.

Market Determinants

The market-related, or strategic, determinants of commission orientation are market growth, the number of firms in the market, agent replacement cost, market volatility, market share, and market size. There should be an inverse relationship between the growth rate of a market and a firm's commission orientation since high growth markets are likely to require greater resource commitment, and firms are likely to desire greater amounts of control in high opportunity markets. Furthermore, since high growth markets are likely to attract a large number of competitors, firms will attempt to offset the increased dissemination risk by decreasing commission orientation.

H_5: Salespersons operating in high growth markets are more likely to be compensated using a low commission oriented compensation plan than salespersons operating in low growth markets.

H_6: Salespersons operating in an environment in which there are many firms relative to the number of sales are less likely to be compensated by a commission oriented compensation plan than salespersons operating in an environment in which there are few firms relative to the number of sales.

H_7: There will be an inverse relationship between salesperson replacement cost in a market and the commission orientation of salespersons operating within that market.

Consistent with both agency theory and transaction cost theory (Basu *et al.* 1985; Coughlan and Sen 1989; John and Weitz 1989), firms in volatile market situations will opt for higher control and lower dissemination risk.

H_8: A low commission orientation is indicated for salespersons operating in relatively volatile markets.

Firms with high market shares have more to lose from dissemination of marketing competencies to competitors. Furthermore, firms with high market shares should be more likely to commit resources to maintaining or increasing market share, and building brand equity, which necessitates higher levels of control.

H_9: Salespersons working for firms with high market shares are less likely to be compensated by high commission oriented plans than salespersons working for firms with low market shares.

Because of higher advertising and other marketing costs, the amount of resource commitment required to operate in large markets is expected to be higher than the level of resource commitment required to operate in small markets. Large markets are also expected to have higher dissemination risk because of the greater exposure in large markets. Hence:

H_{10}: There will be an inverse relationship between the size of the market and the salesperson's commission orientation.

Organizational Determinants

Firm-internal determinants are defined as those variables under the control of the firm. Team selling necessitates greater firm control over the activities of salespersons and should therefore be inversely associated with commission orientation. Similarly, sales training is a form of resource commitment on the part of the firm and is an attempt to improve the amount of control the firm has over the activities of the sales force.

H_{11}: Salespeople who engage in team selling are less likely to be compensated by high commission-oriented plans than salespeople who do not engage in team selling.

H_{12}: Salespersons with firms that invest heavily in sales training are less likely to be compensated by sales compensation plans that are high in commission orientation.

Firms with high brand equity will have higher dissemination risk than firms with low brand equity. Such firms will likely attempt to solidify their market position by emphasizing the firm, rather than the salesperson, in promotions. Also, dissemination risk can be expected to be higher for large firms than for small firms. Large firms, presumably because they have more to lose, can be expected to place a higher premium on control than small firms. Such firms may also have more resources committed to their businesses.

H_{13}: Salespersons employed by firms that emphasize the firm rather than the agents in their advertising programs are less likely to be compensated by sales compensation plans that are high in commission orientation.

H_{14}: Salespersons employed by large firms will be less likely to be compensated by plans that are high in commission orientation than those in small firms.

Firms that take a long term view of their business are more likely to adopt a protectionist posture, since there is a higher likelihood that the firm has well-established internal competencies. Therefore, there should be a premium on control and the offsetting of dissemination risk.

H_{15}: Salespersons employed by firms that take a long-term view are less likely to be compensated by plans that are high in commission orientation.

Transaction Determinants

Transaction-related determinants are defined as those variables associated with the selling task. A time lag between prospecting activity and securing the order detracts from the motivational effect of incentive compensation. Consequently, firms that depend on long-term prospecting techniques, in which potential customers are nurtured for a long time prior to the firm's obtaining a listing, are less likely to implement a compensation scheme with high commission orientation. Companies that depend on short-term prospecting methods which emphasize immediate appointments and in which customers are closed quickly for listings would be more likely to implement a compensation scheme with high commission orientation.

H_{16}: There will be an inverse relationship between the variable *time between prospecting and order* and commission orientation.

When there is high customer loyalty to the firm, there will be increased dissemination risk, necessitating higher control. Hence:

H_{17}: In circumstances characterized by high customer loyalty to the firm (as opposed to high customer loyalty to the salesperson), firms will be less likely to use a high-commission compensation plan.

When there is a high impact of selling effort upon the possibility of a sale, the need to maximize motivation is more critical than it would be in circumstances when selling effort has a low impact on the likelihood that a sale will be realized. Companies that depend on promotional efforts beyond the personal selling component may reduce the impact of selling effort by improving customer attitudes toward the firm, or by increasing brand retention.

H_{18}: There will be a positive relationship between the impact of a salesperson's selling effort and the firm's commission orientation.

Salesperson Determinants

Salesperson variables are defined as those factors related to the salesperson as an individual, or to the interaction between the salesperson and his or her employer. When salespersons devote time to nonselling activity, there arises an increased dissemination risk and a need for greater control of salesperson activity on the part of the firm.

H_{19}: Salespeople who devote greater proportions of their time to nonselling activities are less likely to be employed by firms that utilize compensation plans that are high in commission orientation.

Abelson *et al.* (1988) demonstrate that there is a high correlation between experience and performance. It stands to reason that salespersons high in experience are more likely to prefer a compensation plan that is high in commission orientation. Hence:

H_{20}: Highly experienced salespersons are more likely to be compensated under a high commission oriented compensation plan than salespersons with low experience.

METHODOLOGY

The Research Setting

This research investigates the eclectic paradigm of salesperson compensation in the context of the residential real estate brokerage industry. In the real estate industry in the USA, a traditional system of compensation continues to be widely-used (Hines 1976; Irwin 1984). Typically, a residential real estate brokerage establishes a fee based on a fixed

percentage of the sales price, commonly 6% or 7%, of each home sold. The fee is subsequently divided between the salesperson and the employing brokerage. The exact proportion that the agents receive is often contingent upon the salesperson's performance.

In recent years many, brokers have adopted a system in which market risks are transferred to individual salespersons. The system, known as the 100% commission system, allows each agent within the firm to retain all of the commissions earned from sales. In exchange, the agent pays his or her broker a fixed fee each month for the use of phones, support material, advertising, office space, and so forth. Consequently, the salary-orientation continuum in the real estate industry is somewhat different from that in other industries. Traditionally, a firm's compensation posture is measured as a level of salary orientation, with straight salary (100% salary) at one end of the continuum and straight commission (0% salary) at the other end of the continuum. A real estate brokerage firm's compensation posture, however, may be measured as the level of commission orientation, with a standard commission plan at on end of the continuum, and the 100% plan (agent keeps 100% of commissions, pays broker a desk fee) at the other end of the continuum.

We propose that the dynamics of commission orientation are the same as the dynamic of salary orientation. The same forces (i.e., control, motivation, resource commitment, and dissemination risk) that drive an organization to determine its place on the traditional continuum between straight salary and straight commission also cause a real estate brokerage firm to choose between a straight commission plan and the 100% plan. Thus, the eclectic paradigm of salesperson compensation remains a viable framework for examining the question; only the dependent variable requires to be operationalized differently (i.e., as commission orientation rather than salary orientation).

Scale Development

The scale items corresponding to the several measures (after purification) are listed in the questionnaire shown in the Appendix. Table 3 lists each construct, the relevant hypothesis, the name of the corresponding variable used in statistical tests, a brief explanation of each construct, and the research sources used for the compilation of the scales. The dependent variable employed in the study, commission orientation, is dichotomous. Salespersons were asked to indicate whether they were compensated by straight commission (value = 0) or by 100% commission (value = 1).

Following Churchill's (1979) scale purification guidelines, a small sample of real estate agents (n = 48) was used to test the questionnaire. Data from this pilot survey was analyzed and a careful consideration of the reliabilities and factor scores (from the items in the instrument) was used in order to improve the reliabilities, convergent validity, and discriminant validity of the instruments in final questionnaire employed in the actual study.

The Survey

A total of 1156 survey packages, each consisting of the revised survey instrument, a cover letter, and a business reply envelope, were distributed to real estate agents throughout the Dallas/Fort Worth metroplex. A total of 850 packages were hand delivered by the researchers to branch managers for distribution to agents at sales meetings. The remainder were placed in agents' message boxes. Altogether, 311 surveys were returned, representing a return rate of 26.9%. A total of 25 firms were represented in the sample. Of the returned surveys, 275 surveys contained valid information about the firm.

Market shares were determined by dividing the number of each firm's closed sales by the market size as determined through the multiple listing service (MLS) within the market served by that firm. A firm was regarded to have "served" a market if it had a branch within, or closely proximate to, the county in question, and accounted for at least 5 sales out of the total sales for the county. The median number of agents within branch offices reported by respondents was 45.

TABLE 3
Variables Used in The Scale Development

Construct (Hypothesis)	*Variable*	*Explanation*	*Source(s), if any*
Control (H1)	CONTROL	Perceived control of firm on salespeople.	Phillips (1982)
Resource Commitment (H2)	RESCOMM	Salesperson's perception of firm's resource commitment.	Anderson (1985)
Dissemination Risk (H3)	DISRISK	Risk of competitor reaction to product pre-announcements.	Eliashberg and Robertson (1988); Shimp and Bearden (1982)
Salesperson Performance (H4)	PERFORM	Salesperson's reported income earned from real estate sales during the previous year.	-
Growth of Market (H5)	MKTGROW	The average per annum percentage increase (decrease) in sales for the past 12 years.	-
Competitive Environment (H6)	COMPENV	A function of the number of firms relative to the size of the market, this is operationalized as the total number of firms belonging to the multiple listing service, divided by the total number of sales for the previous year.	-
Agent Replacement Cost (H7)	RPLCCOST	The total number of agents belonging to the firm's multiple listing service divided by the total number of sales reported by that service.	-
Market Volatility (H8)	MKTVOLA	Variance in the 5-year sales growth pattern.	-
Market Share of Firm (H9)	MKTSHARE	The total of the previous year's sales of the firm, divided by the total number of previous year's sales (of all firms) reported to the multiple listing service.	-
Size of Market (H10)	MKTSIZE	The total number of previous year's sales reported by the multiple listing service to which the firm belongs.	-
Team Selling (H11)	TEAMSELL	The extent of team selling effort in the firm.	Abelson *et al.* (1988)
Sales Training (H12)	TRAIN	The degree to which a firm engages in sales training.	Moncrief (1986)
Advertising Emphasis (H13)	ADEMPH	The extent to which the firm relies on advertising as a means of promotional communication.	John and Reve (1982); Klein (1989)
Size of Firm (H14)	FIRMSIZE	Measured by the number of agents employed by the brokerage firm, as reported to the local multiple listing service.	-
Long/Short Term Orientation (H15)	LTERM	Assumed to be proportional to the amount of time the firm has been in business.	-
Time Between Order and Sale (H16)	TIME	Time pressure is used as a construct to measure pressure within the channel of distribution.	Kohli (1989)
Customer Loyalty (H17)	CUSTLOY	The extent of customer loyalty toward the firm (as opposed to toward the salesperson).	Beatty and Kahle (1988); Butaney and Wortzel (1988)
Impact of Selling Effort (H18)	IMPACT	The level of effort a salesperson perceives he or she must exert in order to consummate sales.	John and Weitz (1989); Hart *et al.* (1989); Kohli (1989)
Nonselling Activities (H19)	NONSELL	The extent to which the salesperson engages in nonselling activities.	Busch (1980); Dubinsky *et al.* (1986)
Salesperson Experience (H20)	EXPERNCE	The extent of the salesperson's experience was assessed from the number of years and months he or she has been employed in the real estate brokerage industry.	-

All of the 311 respondents reported their commission orientation. A total of 224 agents reported being compensated under a straight commission plan, and 86 agents reported being compensated under a 100% commission plan. Of the respondents, 65.6% were females, 33.8% were males, and 69.5% were married. The average respondent had been a real estate agent for 8.18 years, and affiliated with their present firm for 3.91 years. These figures are consistent with the findings of Abelson *et al.* (1988).

Reliability, Convergent and Discriminant Validity

The reliabilities of the instruments, analyzed with coefficient Alpha (Cronbach 1951), were acceptable (equal to or above .70) for all of the constructs except salesperson assessment, risk-taking propensity, team selling, impact of selling effort, and long-term orientation. While the .70 or higher threshold is a commonly-used standard, the acceptable amount of reliability is a matter of interpretation (Wheaton *et al.* 1977). Reliabilities for salesperson assessment, risk-taking propensity,

impact of selling effort, and long-term orientation were improved by selectively removing one or more scale items. It was not possible to substantially improve the reliability for team selling. However, the team selling items did demonstrate relatively good convergent and discriminant validity.

One method of assessing the convergent and discriminant validity of scale items is to determine whether or not they can be condensed into distinct dimensions using common factor analysis (Stewart 1981). The varimax rotated matrix revealed fourteen factors with eigenvalues of more than one, corresponding perfectly with the fourteen constructs the analysis was intended to measure. The factor loadings indicated only one item (CONTROL4) loaded below .50 on its factor (.30495). Consequently, this particular item was removed from the CONTROL construct. No other adjustments were considered necessary. Table 4 lists the constructs, their constituent items, reliabilities, factors, and loadings for all of the scale-item variables used in the subsequent analyses. The variables derived from each factor (or construct) were arrived at by standardizing the summed scales for each construct (as recommended by Hair *et al.* 1992).

Data Analysis and Results

Because many variables relating to the firm and the market violate the assumption of normality, and because there is multicollinearity between many of the predictor variables, a logistic regression analysis is indicated (Hosmer and Lemeshow 1989). Two functions of logistic regression are to (1) predict group membership and (2) assess the significance of the model.

For the purpose of testing the model's predictive capability, all missing values within the sample were replaced with mean values. Subsequently, every predictor variable was standardized. Next, the entire sample was divided into two subsamples: (1) a test sample (consisting of 60% of the observations chosen at random) and (2) a holdout sample (consisting of the remaining 40% of the observations), retained to validate the logistic function generated by analysis of the test sample.

The prior probability for the dependent variable is 72.3% (224 of the 311 total sample) straight commission (value = 0), and 27.6% 100% commission (value = 1). The test sample was made up of 191 observations; 141 (73.9%) of the test sample observations were straight commission, 50 (26.1%) of the test sample observations were 100% commission. The holdout sample contained 119 observations; 83 (69.7%) were straight commission, 36 (30.3%) were 100% commission.

For the test sample, the analysis correctly placed 132 of the 141 straight salary observations, for a hit rate of 93.62%. A total of 43 of the 50 100%-commission observations were placed correctly, for a hit rate of 86%. The overall hit rate for the test sample was 91.62%. In the holdout sample, the logistic function correctly placed 82 of the 83 straight salary observations (a hit rate of 98.8%), and 31 of the 36 100%-commission observations (a hit rate of 86.11%). The overall hit rate for the holdout sample was 94.96%, which is better than the original test sample. The Chi square value for the -2 log linear function was 57.539 ($p = 1.000$, suggesting that the observed likelihood does not significantly differ from a model that fits perfectly), with 168 degrees of freedom. The model Chi square was 162.076 ($p < .0001$) with 22 degrees of freedom, demonstrating that the predictive capability of the model is significantly greater than would be expected by chance.

Once the predictive capability was assessed, a logistic analysis was conducted again, this time using the entire sample as the test sample. Table 5 lists the variables left in the equation using backward elimination employing the Wald Statistic criterion. The procedure eliminated all but six variables from the original model.

Because logistic regression does not generate a statistic which measures explained variance for the model, the data was tested using simple regression, yielding an adjusted R-squared of .756. On account of the problems with normality and independence

TABLE 4
Survey Constructs, Reliabilities, and Factor Analysis Results

Construct	*Items*	*Alpha*	*Loadings*
Customer Loyalty	CUSTLOY1	.833	.76120
	CUSTLOY2		.90660
	CUSTLOY3		.85276
Control	CONTROL1	.720	.79910
	CONTROL2		.81791
	CONTROL3		.68088
Resource Commitment	RESCOMM1	.789	.79531
	RESCOMM2		.79963
	RESCOMM3		.73523
Nonselling Activities	NONSELL1	.797	.77848
	NONSELL2		.84054
	NONSELL3		.74392
Dissemination Risk	DISRISK1	.700	.68092
	DISRISK2		.73637
	DISRISK3		.81598
Salesperson Assessment	ASSESS1	.859	.82259
	ASSESS2		.83097
Team Selling	TEAMSEL1	.566	.80182
	TEAMSEL2		.52212
	TEAMSEL3		.78592
Advertising Emphasis	ADEMPH1	.756	.80806
	ADEMPH2		.73020
	ADEMPH3		.74345
	ADEMPH4		.81892
Sales Training	TRAIN1	.896	.88451
	TRAIN2		.85775
	TRAIN3		.80058
	TRAIN4		.86072
Time Between Order and Sale	TIME1	.780	.67888
	TIME2		.81699
	TIME3		.83713
	TIME4		.65559
Impact of Selling Effort	IMPACT3	.680	.77486
	IMPACT4		.82979

TABLE 5
Logistic Regression Model (Total Sample)

Variable	*Beta*	*Wald*	*R*	*Sig*
NONSELL	-.7284	5.379	-.1009	.0204
LTERM	-2.0380	4.542	-.0875	.0331
COMPENV	.9939	2.624	.0434	.1053
FIRMSIZE	-1.7140	5.435	-.1017	.0197
TRAIN	-.9769	5.959	-.1092	.0146
PERFORM	.9831	6.944	.1220	.0084
CONSTANT	-4.1800	15.412		.0001

described before, the adjusted R-squared may be somewhat imprecise. However, taken together with the predictive efficiency of the logistic regression model, it suggests that a large amount of the variance in the criterion variable has been captured by these predictors.

Hauck and Donner (1977) suggest that the Wald statistic in logistic regression should not be used for testing individual hypotheses because high coefficient values tend to suppress the value of the Wald statistic. This, in turn, causes highly relevant variables to be interpreted as insignificant. They recommend that Chi square values be used in place of the Wald statistic for testing individual hypotheses, suggesting that a nonparametric procedure might be most appropriate.

Because there is a great deal of nonnormality in many of the predictor variables, and because there are unequal cell sizes in the dependent variable, the median test was considered the most appropriate test for determining whether individual predictor variables significantly affect the compensation mode of real estate agents. The median test is strictly a test of central tendency; it is unaffected by unequal cell sizes and by nonnormality (Iman and Conover 1983). The test merely compares the number of observations above and below the median within and between each category, then uses a Chi square score to test the null hypothesis that they are equal.

In addition to the median test, the data were analyzed using multiple analysis of variance (MANOVA). Although the assumptions of normality and equal cell sizes are violated in the sample, MANOVA is considered a fairly robust procedure (Rao 1978). Its advantage lies in that it affords the opportunity to compare the mean value between each category. This enables us to assess whether the hypothesized directions are confirmed or violated. Hypotheses were considered to be "supported" if the null hypotheses of equal between-groups medians (median test) and equal between-groups means (MANOVA) were both rejected at the .05 level of significance, and if the direction was as hypothesized. Hypotheses were considered to be "partially supported" if either the null hypothesis of equal medians or the null hypothesis of equal means was rejected at the .05 level of significance, and the direction was as hypothesized. All other cases are labeled "not supported."

Table 6 summarizes the test results for all 20 hypotheses tests. The letters in the column at the far right denote whether the hypothesis was supported (S), partially supported (PS), or not supported (NS). Of the 20 original hypotheses, 10 were supported, 4 were partially supported, and 6 were not supported. The direction of the between-group mean was as hypothesized for every variable tested.

TABLE 6
Hypotheses Test Results

Hypothesis	*Variable*	*Chi Square*	*p*	*Y=0*	*Y=1*	*F*	*p*	*Support*[a]
H1	CONTROL	29.60	.00	.236	-.608	9.97	.00	S
H2	RESCOMM	.03	.86	.013	-.010	.00	.98	NS
H3	DISRISK	3.26	.07	.063	-.161	.59	.44	NS
H4	PERFORM	62.20	.00	-.253	.658	12.15	.00	S
H5	MKTGROW	.43	.51	-.227	.590	10.85	.00	PS
H6	COMPENV	.43	.51	-.241	.627	9.42	.00	PS
H7	RPLCCOST	.43	.51	-.220	.572	8.77	.00	PS
H8	MKTVOLA	2.65	.10	.196	-.509	6.75	.01	PS
H9	MKTSHARE	33.90	.00	.343	-.893	26.90	.00	S
H10	MKTSIZE	2.65	.10	.137	-.357	3.15	.07	NS
H11	TEAMSELL	3.01	.08	.103	-.263	1.63	.20	NS
H12	TRAIN	95.60	.00	.437	-1.130	57.60	.00	S
H13	ADEMPH	15.80	.00	.160	-.414	4.27	.04	S
H14	FIRMSIZE	94.30	.00	.418	-1.080	48.60	.00	S
H15	LTERM	14.60	.00	.378	-.973	34.62	.00	S
H16	TIME	.40	.52	.006	-.029	.03	.85	NS
H17	CUSTLOY	8.90	.00	-.101	.251	7.87	.01	S
H18	IMPACT	9.20	.00	.094	-.237	6.93	.01	S
H19	NONSELL	34.00	.00	.225	-.590	47.40	.00	S
H20	EXPERNCE	.11	.75	-.025	.081	.69	.40	NS

[a] S indicates "support" of hypothesis; PS indicates "partial support"; and NS indicates "not supported."

DISCUSSION

This research demonstrates the usefulness of the eclectic paradigm of salesperson compensation (EPSC) as a first step in developing a comprehensive paradigm for understanding salesperson compensation. No previous study has used the eclectic approach or attempted to test its predictive capability in the context of salespersons' compensation. The high level of explained variance found in the empirical test of the model suggests that integrating theories from economics and psychology and exploring variables related to markets, salespeople, the firm itself, and the nature of transactions yield superior results compared to research based on a single theoretical approach.

The EPSC is a good first step in developing a more comprehensive normative framework for use in developing future intervariable relationships. Additionally, it may be used by practitioners in building compensation plans to maximize a firm's

particular objectives. Of the four key dimensions of the EPSC, commission orientation was found to be negatively associated with control, and positively related to performance. While the other two relationships were not found to be significant, dissemination risk was directionally consistent with the EPSC and was marginally significant. Resource commitment was directionally consistent with the EPSC, though not significant.

In hindsight, it appears that the insignificance of results related to resource commitment is most likely caused by an ambiguity in the survey instrument. In our survey, resource commitment was measured in terms of the salespersons' perceptions. However, variables related to resource commitment that were derived from hard data (firm size, for instance) performed satisfactorily. Firm size and commission orientation were found to be inversely related, as predicted. A few of the derived indicators of resource commission that are perceptually based, such as advertising emphasis and training support, performed adequately. It is very likely that in cases in which the salespersons have clear indications (i.e., demonstrated evidence) of the firm's commitment to resources, the derived variables performed adequately. In contrast, salespersons' global estimates of the overall level of resource commitment were not quite as robust.

The findings related to the relationship between commission orientation and nonselling activities, the impact of selling effort, and customer loyalty to the firm, and advertising emphasis, and training suggests that the EPSC framework has substantial predictive value. This, in turn, augments its significance and credibility as a normative decision framework for choosing between alternative compensation modes.

Limitations

The return rate of the survey instrument was 26.9%. Beyond comparing the results of this study to those of another study (Abelson *et al.* 1988), there is no way of knowing whether the surveys that were returned would have differed from the surveys that were not returned. Additionally, there was a certain amount of inconsistency between firms with regard to the level of cooperation accorded to the researchers. Some managers handed out surveys during sales meetings and urged the sales force to participate; other managers merely assented to placing the surveys in agents' mail slots. Since there were variations in the return rates between firms, the differential levels of cooperation by managers may be a concern in the context of internal validity.

As indicated earlier, the initial reliabilities for ASSESS, RISK, TEAMSELL, and IMPACT were unacceptably low. In order to boost reliability, items were removed from the initial constructs. One operationalization, IMPACT, contained only two items. The construct validity for this variable may be limited. Acceptable levels of convergent and discriminant validity were indicated for all constructs after the reliability concerns were resolved.

The generalizability of the study is limited to real estate salespersons from the firms sampled in the north Texas region. Salespersons from other industries, firms or regions may differ in their attributes and responses. The EPSC presents theoretical justifications for the generalizability of the results of this study across other industries, firms, and regions. However, researchers and practitioners reviewing this study should be alert to the possibility of other contextual factors contributing to altered findings.

Directions for Future Research

Four important areas for future research are: (1) the identification of new relevant dimensions of the eclectic paradigm of salesperson compensation; (2) the development of explanatory models with higher explanatory power; (3) the identification of additional relevant variables; and (4) improved understanding of intervariable relationships.

The authors speculate that in addition to the four dimensions of resource commitment, control, dissemination risk, and motivation/performance, there is likely to be a fifth dimension pertinent to the EPSC: customer satisfaction. In particular, there may exist a positive association between customer satisfaction and salary-orientation. Very little

research to date has attempted to link salesperson compensation with the marketing concept, and further investigation in this area would be of vast interest to practitioners. Managers in various industries have recently begun making sales compensation partly contingent upon customer satisfaction (Cohen 1994). Research studies are needed to document this emerging trend and to understand the organizational and marketing ramifications of satisfaction-based compensation.

There are many relationships indicated by the EPSC which were not investigated in this study. A study of sales compensation in an international context, comparing salary orientation across various entry modes, would constitute interesting research. The EPSC suggests there should be a positive association between salary orientation and high control modes. Similarly, there should be a positive association between salary orientation and the level of control in management's approach to organizational discipline. Other possible relationships worthy of investigation include associations between salary orientation and brand equity, salary orientation in services as opposed to tangible products, salary orientation and sales effort, salary orientation and individual motivation, equity perception, instrumentality and attribution, and salary orientation and turnover. Finally, given the high number of related independent variables that were found to be relevant in this study, it is likely that there will be many moderating and interactive effects worthy of further investigation.

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APPENDIX
Questionnaire Items

Please answer each question to the best of your ability. All responses will be kept confidential.

1. How long have you been a real estate agent? _____Years _____Months

2. How long have you been with your present broker? _____Years _____Months

3. How long has the brokerage firm or franchisee you work for been in business? _____Years

4. Which of the following best describes your commission arrangement?

_____ Straight Commission ____ 100% - Desk Fee

4A: If you are paid on 100% basis, how much is your monthly desk fee? $ _____

5. How many agents are currently with your office? _____ Agents

SCALE ITEMS (All questions were 7-point semantic differential scales, 1 for strongly disagree, 7 for strongly agree)

Customer Loyalty
Most of my customers do business with me rather than my brokerage firm.

If I left my brokerage firm to work at another firm, most of my clients would come with me.

If I left my brokerage firm, it would make little difference to my clients, they'd continue to do business with me anyway.

Customers insist on doing business with my brokerage firm; who their agent is makes little difference to them.

Firm Control
At my brokerage firm, salespersons must refer even small matters to someone higher up.

Most of the decisions made by salespersons at my firm must have a superior's approval.

Salespeople at my firm make their own decisions, management stays out of the way.

Resource Commitment
Compared to other firms, my brokerage firm has made a large investment in office space, equipment, and facilities.

My brokerage firm has the best offices and most updated equipment in the industry.

In order to keep up with competitors, my brokerage firm needs to invest more in office space, equipment, and facilities.

Nonselling Activities
Some things my brokerage firm requires me to do should be part of someone else's job.

I spend a lot of time on the job doing activities that aren't related to selling real estate.

My brokerage firm requires that I do a lot of work for which I receive no commissions.

Dissemination Risk
Knowing the way we do business at my brokerage firm would be valuable to my firm's competitors.

Other firms often try to copy the way we do things at my brokerage firm.

Brokerage firms that compete with my firm are NOT very interested in the way we do things.

Salesperson Assessment
My office manager evaluates my performance strictly by the number of listings and sales I get.

Selling is the name of the game; my brokerage firm is concerned only about my listing and sales record.

Advertising Emphasis
My firm's advertising tends to feature the agents rather than the firm.

My company's advertising is designed more to get their name out in the community than to promote me.

My brokerage firm discourages promoting individual agents in their ads; they like to feature the listings and the firm.

The focus of my firm's advertising is the firm.

Team Selling
I usually collaborate with other agents when I prospect for new business.

I prefer to work on my own when it comes to my real estate practice.

I often share my listings with other agents.

Training
My brokerage firm spends a lot of time, effort and money on training.

My brokerage firm employs a full-time sales trainer.

My brokerage firm encourages me to attend periodic training seminars.

Compared to other firms, my brokerage firm does not spend much on training.

Time Between Prospecting and Sale
I aggressively try to close listings on the first call.

I prefer to give my clients time to consider their various options carefully.

I like to give my clients plenty of time to think about their decisions.

To be successful in real estate, you must be an aggressive, first-call closer.

Impact of Selling Effort
Most of my sales can be attributed to my efforts rather than to the efforts of my brokerage firm.

My brokerage firm plays a bigger role than I do in determining whether I make sales.

Please complete the following agent profile.

The Name of Your Brokerage Firm: _____

Your Gender: _____ Male
(check one) _____ Female

Your Age: _____

Education Completed:
____ Less than High School
____ High School
____ Some College
____ College Degree
____ Graduate Degree

Marital Status (check one) _____ Married _____ Unmarried

Your income from real estate last year? (1994) $ _____

Your household income last year? (1994) $ _____

How much income do you EXPECT to earn from real estate this year? (1995) $ _____