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Kjell and Company: Motivating Salespeople with Incentive Compensation (B)

Malmö, Sweden: April 22, 2015. After two round-table meetings with upper management and numerous one-on-one meetings with several staff members—including the head of Sales, Joel Rönneman, and the CIO, Martin Knutson—Thomas Keifer, Kjell & Company's CEO, decided to change the compensation plan for Kjell's retail sales employees. The change would involve the frequency of quotas—specifically, at what intervals salespeople's performance (measured in average sales per hour, SPH) would be evaluated for compensation purposes. Effective May 1, 2015, the company would shift from a monthly- to a daily-quota plan. Everything else, including quota tiers and corresponding commission rates, would remain the same.

Before reaching this decision, Keifer had conferred with Anna Lindberg, an independent sales compensation consultant. Lindberg had advised Keifer to conduct a controlled experiment, assigning each of Kjell's 84 stores to one of two groups, the treatment group and the control group. The treatment group would transition to the daily-quota plan; the control group would retain the monthly-quota plan. Thus, Keifer could measure the effectiveness of the change in compensation after taking into account common temporal changes in sales (see **Exhibit 1** for an illustration of the experimental design). Lindberg also suggested the groups be approximately equal in size. To prevent the water-cooler effect,[1] she emphasized that the two groups should not be allowed to communicate with each other.

Keifer agreed that an experiment could be beneficial, but he hesitated for several reasons. First, experimentation would further complicate the already intricate implementation of a new compensation plan. Second, Keifer was worried about fairness: many members of management had risen through the ranks, starting in sales, and fairness was one the firm's foundational HR policies. Thus the prospect of putting employees on different compensation plans seemed extremely inappropriate. Keifer worried about backlash if employees were to learn that some salespeople were being treated differently than others.

After repeated internal debates, Keifer decided to roll out the change nationally but to treat five stores (with 26 salespeople in total) as a control group (with unchanged compensation). With

[1] The *water-cooler effect* referred to the exchange of information and opinions that occurred when employees gathered at office water coolers, or any comparable gathering place. Here, such a flow of information could disrupt salespeople's motivation and thus the direction and effects of the experimental treatment.

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Lindberg's help, Keifer chose control-group stores that resembled their neighboring counterparts but were not geographically adjacent. The resulting control-group stores were located in the metropolitan areas of Stockholm, Gothenburg, and Malmö, but at a distance from other stores. To further discourage the flow of information between treatment stores and control stores, Keifer made sure that no sales training programs or conferences were scheduled around the date of the plan change.

Implementation went smoothly. After a month, Knutson presented Keifer the first set of results (see **Table 1**).

Table 1 Average SPH, Control Group and Treatment Group (in SEK)

Group/Month	April	May	% Change
Control	1,491.72	1,627.48	9.10%
Treatment	1,490.64	1,639.61	9.99%

Source: Casewriter.

Notes: Control group: Salespeople with a monthly-quota plan in both April and May.

Treatment group: Salespeople with a monthly-quota plan in April and a daily-quota plan in May.

An initial analysis of the results showed that a shorter quota frequency (the daily quota) compensation plan was responsible for a small (0.9%) increase in sales productivity. Keifer recognized the value of a control group: looking solely at the treatment group's performance, he would have overestimated the gain in productivity caused by the change in compensation.

Lindberg asked Knutson to conduct an analysis to pinpoint the source of the productivity change—that is, which types of salespeople were affected by the change in quota frequency? Knutson created segments of the treatment group from a quartile split in past performance and compared their gains in productivity to that of the control group. Once again, the increase in productivity was measured by the difference from the control group.

Table 2 The Change in SPH, by Segment

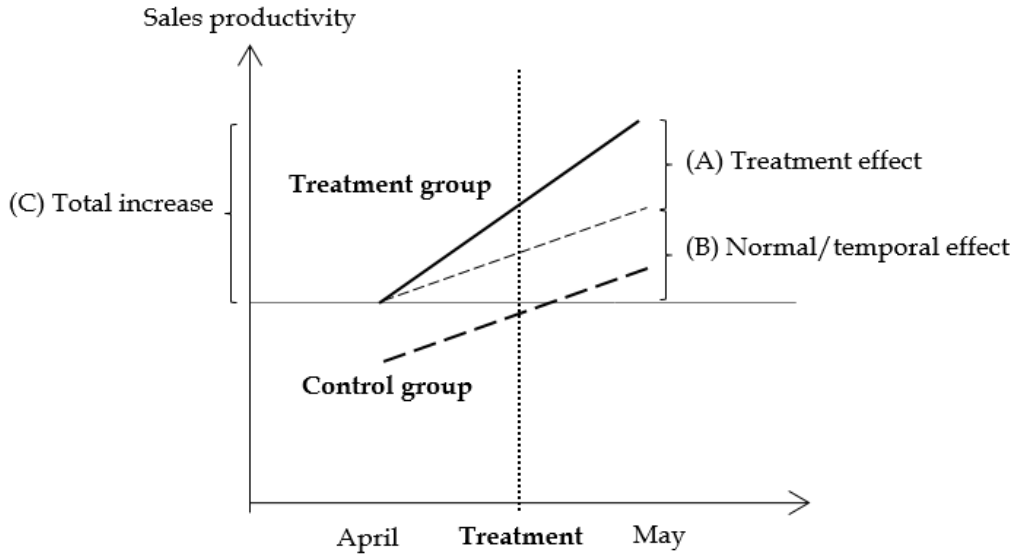
Type	% Change
Segment 1	11.80%
Segment 2	2.00%
Segment 3	-3.70%
Segment 4	-8.10%

Source: Casewriter.

Notes: Segment 1 represented the poorest past performers (bottom 25%), Segment 4 the best past performers (top 25%). The change in productivity was computed as the difference from the control group. For example, if the productivity of the treatment and control groups in segment 1 were 20.93% and 9.13%, respectively, the treatment group's pure gain in productivity as a result of the treatment (the shift to a daily-quota plan) would be 11.80%.

Although pleased that the sales productivity of the lowest-performing salespeople substantially increased (and the overall sales productivity slightly increased) as a result of the shift to a daily-quota plan, Keifer was troubled that the productivity of the highest-performing segment had actually fallen. Why? He also questioned whether the increase in productivity would persist in the long run. Correspondingly, he wondered whether he should continue the experiment with a control group. In addition, had he overlooked something? Was there anything else in the data to look for?

Exhibit 1 Experimental (Difference-in-Differences) Design



Source: Casewriter.