THE IMPACT OF CULTURAL DIMENSIONS ON SALES FORCE COMPENSATION

Dominique Rouziès*,
Michael Segalla,
Madeleine Besson**

Cahier de Recherche du Groupe HEC CR670/1999

*Corresponding author. Groupe HEC, 1 avenue de la libération, 78351 Jouy-en-Josas, France. Tel: 33-1-39-67-72-07. Fax: 33-1-39-67-70-87. Email: rouzies@hec.fr
** Dominique Rouziès is Associate Professor of Marketing and Michael Segalla is Associate Professor of Human Resource Management, Groupe HEC. Madeleine Besson is Associate Professor, Negocia.
The authors gratefully acknowledge the many helpful comments of Erin Anderson, Alain Jolibert, Gilles Laurent, Murali Mantrala and Michel Tenenhaus, as well as the contributions of Tahir Hussain, Guillaume Lemonnier, and Marco Sormani. The authors are also thankful for the financial support of the HEC Foundation and the FNEGE, the administrative support of the EFMA, and the research environment provided by the University of Florida where the first two authors were visiting professors in 1998-1999.

THE IMPACT OF CULTURAL DIMENSIONS ON SALES FORCE COMPENSATION

Financial compensation has long been held as the primary motivator of salespeople. Motivation however may be achieved differently in various countries, as the large disparities in pay schemes across countries seem to indicate. In this paper, the authors explore the impact of cultural dimensions on sales force compensation structures. Using data collected from financial companies of three European countries, they (1) assess transnational cultural profiles of managers (i.e., *market-*, *group-centric* and *hybrid*), (2) confirm discrepancies in terms of managerial preferences for compensation structures and (3) uncover associated rationales such as rejection of incentive compensation due to its perceived immorality. The results indicate that cultural dimensions explain managers choice for (1) the use of incentive pay in the compensation package (i.e., fixed versus variable compensation) as well as (2) the basis for its allocation (i.e., individual versus group). The authors conclude by discussing the implications of their research for designing compensation plans in the global market place.

As the European unification deepens, a growing number of companies are considering expanding or restructuring their marketing and sales effort in the European Union to take full advantage of the single currency market. As a result, sales forces of companies operating in Europe will probably be reorganized and their management deeply modified (*The Wall Street Journal Europe* 1998). Clearly, new compensation plans are likely to be designed for salespeople of various countries, who are, according to noted surveys, paid differently depending on their country of origin (*L'Express* 1994). For instance, only 11% of U.S. firms (*Sales Personnel Report* 1988), 17% of British firms (Donaldson 1990), compared to 40% of French firms (*Action Commerciale* 1994) use salary, commission and bonus to compensate their salespeople. In Germany the ratio of fixed to total compensation appears to be far above the 60% average reported for American firms (Albers et al. 1998; Dartnell 1999). These differences are also evident at the sales management level where Spanish, French and Italian sales managers seem to earn far less than their German or British counterparts according to a recent survey (*Hewitt Associates-Maesina International Search* 1998).

In spite of the evidence on compensation discrepancies across countries, cross-national sales force compensation receives little attention in the academic marketing literature. One rare exception is Hill et al. (1990) who include sales force compensation in their study of the level of influence head offices of multinational corporations exert on sales policies of subsidiaries operating in 45 countries. Yet, as their study does not focus on sales force compensation per se, the questions pertaining to country-specific sales compensation preferences were not answered. Such an issue seems important as developing effective international compensation provides an opportunity to gain a competitive advantage (Milkovich and Bloom 1998).

American managers do not have much systematically developed knowledge to help guide their compensation development efforts for sales forces, which are currently compensated under widely different plans. This paper focuses on sales forces operating in Europe, as this market (1) is one of the world's wealthiest and largest, and (2) poses challenging problems regarding sales force compensation across the variety of national cultures. More specifically, this article directly addresses the issue of sales force compensation plan in a cross national setting and focuses on the role, if any, that culture plays in preferences toward sales force compensation.

This topic is important for several reasons. First, research has shown that the strongest motivators for salespeople are monetary rewards (Ford et al. 1981). Needless to say, ill-defined sales force compensation plans can prove disastrous for organizations (e.g., *Financial Times* 1998; *The Wall Street Journal* 1990). Second, Europe presents unique challenges in terms of international marketing strategy so more research is needed (Szymanski et al. 1993). Third, if preferences for certain types of sales force compensation structures are culturally based phenomena, this study could help generalize the principles guiding the design and management of sales force compensation. Furthermore, as empirical research on sales force compensation has focused on determinants of pay structures other than national culture, this new factor will allow further hypothesis testing.

The objective of this study is to establish the existence of culturally bound preferences pertaining to sales force compensation. Toward this end, Hofstede's framework (1980) is used to examine the link between sales force compensation preferences and cultural dimensions. The paper is organized as follows. First, its research question is positioned within the sales force compensation literature. Second, tentative research propositions about the link between culture and sales force compensation plans are developed. Third, the research methodology, which involved sampling European managers from financial institutions across three countries, is explained. Then, the results and implications are discussed. Finally, directions for further research are proposed.

THEORETICAL DEVELOPMENTS

For several decades, the traditional description of compensation practices has been enriched with psychological, organizational, institutional and economic theories. Walker et al. (1977) use of a psychological framework to model salesperson's performance prompted considerable subsequent research. In their model, they developed several propositions about the characteristics of salespeople and their work environment that explain performance. Several issues are scrutinized in this paradigm, but the related issue of the motivational aspects of financial sales compensation received less attention. Hence, most of those studies were centered on pay valences, satisfaction with pay or pay instrumentality (e.g., Apasu 1987; Churchill et al. 1979; Churchill and Pecotich 1982; Fry et al. 1987; Ingram and Bellenger 1983) but not on factors determining compensation structures.

Empirical studies based on organizational, institutional or economic theories, focus on factors such as: work environment and selling task characteristics, and evaluation issues to explain the ratio of incentive compensation (e.g., Anderson 1985; Oliver and Anderson 1994; Coughlan and Narasimhan 1992; Eisenhardt 1985; John and Weitz 1989). None, however, mentions culture as a possible determinant of compensation schemes.

Finally, another branch of the economic stream of research focuses on optimal sales force compensation using a microeconomic analytical approach (e.g., Farley 1964; Darmon 1974; Davis and Farley 1971;

Srinivasan 1981; Tapiero and Farley 1975; Weinberg 1975; 1978). This approach, later based on agency theory, currently represents the dominant literature. (See Basu et al. 1985; Dearden and Lilien 1990; Joseph and Thevaranjan 1998; Joseph and Kalwani 1995; Lal 1986; Lal, Outland and Staelin 1990; Lal and Srinivasan 1993; Mantrala and Raman 1990; Mantrala, Raman and Desiraju 1997; Mantrala, Sinha and Zoltners 1994; Raju and Srinivasan 1996; Rao 1990; Zhang and Mahajan 1995) For detailed reviews of this literature, see also Albers (1996), Coughlan (1993), and Coughlan and Sen (1989). Most of these studies examined the effects of various factors such as environmental uncertainty, marginal cost, sales effort effectiveness, and salesperson risk aversion on the optimal levels of incentive compensation, commission rates, sales effort, or profit. Again, culture is not part of the comparative-static effects investigated.

Despite the intense research effort briefly overviewed above, investigations of cultural characteristics as factors related to specific types of sales force compensation plans are rare. In fact, there is a paucity of research on cross-national compensation in general (Harvey 1993). Comparative empirical research of compensation focusing on groups of employees other than salespeople seems to have opened the ground for such investigation. Indeed, research has examined comparative compensation of (1) executives (e.g., Pennings 1993; Roth and O'Donnell 1996), (2) manufacturing industry workers (e.g., Townsend et al. 1990), (3) managers (e.g., Vance et al. 1992) and (4) business employees (e.g., Chen 1995), and all of the above (e.g., Schuler and Rogovsky 1998). As the results of those studies suggest national culture influences compensation practice, the investigation of such a relationship in sales management may be useful.

In this article, some of Hofstede's cultural dimensions (1980) are used to examine the link between culture and sales force compensation since their validity have been supported in numerous empirical studies (Nakata and Sirakumar 1996). Furthermore, two dimensions of compensation structures are examined. The use of variable or fixed compensation is the first one. It has been the center of most research on empirical (e.g., Coughlan and Narasimhan 1992; Eisenhardt 1985; 1988; John and Weitz 1989), theoretical (e.g., Basu et al. 1985; Dearden and Lilien 1990; Lal and Srinivasan 1993; Rao 1990), and managerial fronts (e.g., *Sales & Marketing Management* 1997). The second one examines the basis for incentive allocation following either the equity or the equality principle. This is important since team selling is increasingly being used for winning and servicing customers (Churchill et al. 1997). Consequently, the basis for rewarding individual versus group effort is an issue of substantial importance. The remainder of this chapter is organized around the potential links existing between national culture dimensions and those two dimensions of compensation structure.

RESEARCH PROPOSITIONS

Uncertainty avoidance and risk aversion

Much of the previous salesforce compensation research based on agency theory examined optimal compensation structures in uncertain environments. In their seminal article, Basu et al. (1985) show that agents, who are assumed to be risk averse, require premiums to compensate the risk. Hofstede's research (1991, p. 116) identified a closely related concept that is linked, but not identical, to the notion of attitude toward risk. This concept is uncertainty avoidance. According to this author, uncertainty avoidance is a diffuse sense of unease about a situation. For salesforce compensation, uncertainty avoidance can be tied to risk aversion as it may arise in both the effort-reward and effort-sales relationships (Oliver and Weitz, 1991). First, salespeople do not know exactly what their compensation will be for specific level of efforts. This may occur because of subjective evaluations, because they do not understand their compensation package or cannot compute the financial rewards corresponding to given levels of effort (their plan may be too complex or may rely on future results). Second, salespeople are confronted to stochastic sales response functions. In other words, they are never certain about the level of sales resulting from given levels of effort. The combinations of these factors create ambiguity about the achievability of financial rewards. Consequently, managers belonging to cultures where uncertainty avoidance is high are likely to prefer compensation plans that reduce ambiguity, and therefore choose fixed plans. Such an argument is consistent with the theoretical proposition that risk should be transferred from the salesperson to the company through fixed salary if environmental uncertainty becomes more prevalent (Basu et al., 1985). The hypothesis implied by this discussion follows:

H1: High (low) degrees of uncertainty avoidance positively (negatively) affect managers' preferences for fixed compensation of salespeople.

Masculinity vs. femininity

Assertiveness versus nurturance seems to be the opposing values describing Hofstede’s cultural dimension of masculinity – feminity[i]. In masculine societies, people are supposed to be tougher and focused on material success whereas people in feminine societies are supposed to be more tender and concerned with the quality of life (Hofstede 1991, p. 82). The greater emphasis masculine societies place on wealth, material things and achievement is expressed by the external motivation provided by financial incentives. Salespeople operating in those cultural environments are more likely to be concerned with their results and look for opportunities to gain high levels of remuneration. In line with this reasoning, individual financial rewards should be positively valued in masculine societies since individual performance evaluation provides the tools conducive to competition. In contrast, salespeople operating in feminine societies are believed to prefer nurturing environments and the opportunity to develop relationships and work in teams. The prototypical salesperson of those cultural environments is likely to be evaluated as a member of a team and remunerated with shared financial rewards. Indirect support is provided by Oliver and Anderson (1994) who show that the behavior-based sales control system perceived by the salesperson is related to a lack of extrinsic motivation, teamwork and fixed pay packages. Therefore:

H2a: High (low) degrees of masculinity positively (negatively) affect managers' preferences for incentive compensation of salespeople.

H2b: High (low) degrees of masculinity negatively (positively) affect managers' preferences for group allocation of incentive compensation of salespeople.

Individualism vs. collectivism

Individualism captures the cultural pattern of seeking personal interest, freedom and challenge (Hofstede 1991). This cultural dimension has been widely researched and it has been established that individualists prefer to allocate rewards proportionally to individual contributions. Collectivists however, prefer to allocate rewards equally among group members (Bond, Leung and Wan 1982; Chen, Chen and Meindl 1998; Hofstede 1991; Hui, Triandis and Yee 1991; Leung and Bond 1984). From those principles of equity vs. equality, the following proposition can be derived for salespeople:

H3: High (low) degrees of individualism negatively (positively) affect managers' preferences for group allocation of incentive compensation of salespeople.

National Culture

The business press reports that sales management practices differ widely across Europe. A recent survey found large gaps among European sales managers earnings: Spanish, Italian or French sales managers evidently earn significantly less than their German or British colleagues (*Hewitt Associates-Maesina International Search* 1998). In another survey, French, German and Italian salespeople behavioral strategies were depicted as widely divergent (*L'Express* 1996). The French salesperson appears to use a more technical selling approach, while German and Italian counterparts were respectively described as more rigorous and better negotiators. Other discrepancies are likely to exist in salespeople pay packages. Various sources confirm the existence of those differences at the compensation level (*Action Commerciale* 1994; Albers et al. 1998; *Dartnell* 1999; Donaldson 1990). In keeping with the previously formulated H1 and H2a, and Hofstede's (1980) assessment of uncertainty avoidance and masculinity levels for France (scores: 86 and 43 respectively), Germany (scores: 65 and 66 respectively) and Italy (scores: 75 and 70 respectively), we hypothesize the following:

H4a: Managers' preferences for fixed compensation of salespeople will be higher in France than in Italy and Germany.

Similarly, H2b, H3 and Hofstede's (1980) evaluation of masculinity and individualism scores for France (scores: 43 and 71 respectively), Germany (scores: 66 and 67 respectively) and Italy (scores: 70 and 76 respectively) suggest the following hypothesis:

H4b: Managers' preferences for group allocation of incentive compensation of salespeople will be lower in Italy than in France or Germany.

Personal Characteristics of Managers

As noted earlier, cultural dimensions have not been investigated as possible antecedents of salesforce pay packages. Furthermore, research in sales compensation is almost entirely devoted to the salesperson (Bellenger et al. 1984). For instance, salespeople selling tasks, environment and personal characteristics (e.g., Anderson 1985; Basu et al. 1985; Coughlan and Narasimhan 1992; Eisenhardt 1985, 1988; John and Weitz 1989) have been suggested as explanatory variables for the use of incentive compensation. But two managerial characteristics appear to be particularly relevant to the choice of compensation plans, namely: hierarchical position and expatriation experience.

First, high level managers are likely to be more concerned with organizational performance. It follows then that they should favor incentive-based compensation plans distributed individually since (1) incentive pay is tied directly to the achievement of organizational goals and (2) individual rewards reinforce the link between effort and results. Therefore:

H5a: Managers' preferences for incentive compensation of salespeople will be greater for managers higher in the hierarchy.

H5b: Managers' preferences for individual allocation of incentive compensation of salespeople will be greater for managers higher in the hierarchy.

Second, as discussed in Brewster (1991, p. 77), foreign salary packages of expatriate managers generally include base salary and incentives. Consequently, managers who worked abroad are more familiar with them. In addition, managerial-level people with an expatriate experience are likely to be less averse to uncertainty and more ambitious since expatriation represents both diffuse uncertainty and known risks. Indirect support is provided by Hutton (1988) who finds successful expatriate managers are characterized by higher ambiguity tolerance. Brewster (1991, p. 101) also shows that the quest for a higher income is among the 5 most important reasons mentioned by managers for accepting foreign posting. Consequently:

H6a: Managers' preferences for incentive compensation of salespeople will be higher for managers with expatriation experience than for managers without it.

H6b: Managers' preferences for individual allocation of incentive compensation of salespeople will be higher for managers with expatriation experience than for managers without it.

RESEARCH DESIGN AND MEASURES

A scenario approach was used in order (1) to increase the contextual similarity of the decision setting across respondents and (2) to insure respondents would make decisions on the basis of deeply held values, such as cultural ones. Hence, as the goal of this study is to evaluate the impact of cultural dimensions on salesforce compensation, it is important that the research instrument evokes these strongly held values. Therefore, the compensation scenario was developed through interviews of about 100 European business managers using semi-structured questionnaires and eliciting critical incidents concerning the human resource management problems faced by organizations in the European Union. The resulting critical incidents, accompanied by theoretical and practical information were used to develop the prototypical compensation decision. This procedure is likely to better evoke deeply held cultural values for several reasons. First Schein (1986) argues that values lie at the lower levels of human consciousness and are difficult to evoke. Second, Nisbett and Ross (1980) believe that human values are stored in memories of events or situations (i.e., scripts) which must be triggered to be recovered. The presentation of vivid information (i.e., very concrete, case-based, detailed situational information) as opposed to pallid information (i.e., abstract, summarized, not detailed and emotionally poor) helps respondents get in touch with deeply held values. Therefore scenarios (1) describing typical organizational situations, (2) based on real events, and (3) accompanied with emotional arguments favoring one plan or another, should better uncover cultural values than typical survey methods. This conjecture is supported by experiments conducted by Nisbett and Cohen (1996). They found that using typical questionnaires to measure the appropriateness of violent responses returned similar scores on regionally distributed samples. However using situational research instruments with specific rather than abstract information returned more divergent views about the use of violence.

In the current study, a one-page scenario accompanied by a choice question and an open-ended question devoted to the justification of the choice, was used. Additionally, demographic data about the respondent were collected. The scenario describes a meeting between a director and four managers, where the director outlined the organizational and choice situation concerning a new compensation scheme for a salesforce consisting of 450 salespeople. Each of the four participating managers took different positions defending one or the other of the compensation plans using various arguments based on original stories, actual industry practices or relevant theoretical propositions. A table summarizing their four choices was provided. In the scenario, the meeting is adjourned before a decision can be made. Then the respondents are asked to choose one of the four compensation plans and to justify it. This scenario, first written in English, was then translated in German, French and Italian[ii]. In the pretest, local managers from each country reviewed the story and choices to insure that the problem was clearly presented and not far removed from actual choices available in their local industry.

To uncover national values the sample needed to be drawn from an environment relatively uncontaminated by foreign ideas and practices, that is, one isolated from international influences. The European banking sector, especially branch banking networks, was selected because it remains a local business in many European countries. The number of foreign banks in the three countries studied, France, Germany and Italy, does not exceed 5% (*European Financial and Marketing Association*

1993). The international exchange of personnel and use of expatriates remains limited in the banking sector. As argued by Hofstede (1991, p. 251) cross-national samples do not need to be representative but should be functionally equivalent so that they are well matched.

Banks from each country were contacted by a local researcher and invited to participate in the study. The banks were asked to randomly distribute, across functions and hierarchical grades, the research instrument to managers within their branch-banking network. The responses were returned directly to the researchers by mail. The response rate varied between 60% in France, 90% in Italy, and 98% in Germany, for a total number of 201 returned questionnaires. An analysis of the descriptive variables (age, gender, seniority in financial sector, hierarchical level) revealed that the respondents were mostly males (more than 90%), in their forties (about 43 years old on average), with an average seniority of 20 years in the financial sector, and a medium high hierarchical position. Furthermore 95% of the sample had never worked abroad.

Choice justifications were offered by 95% of the respondents providing 1 to 18 sentences per respondent (with a 5-sentence average per respondent). Tests performed to look for possible sources of variations in the justification length found only a respondent age significant. Younger managers explained their motivations more extensively than did older ones. Other tests performed to look for the possible impact of organizational factors on salesforce schemes confirmed that the bank unit did not influence compensation choices.

In summary, the data collection method (1) provided standardized information to the respondents, therefore reducing the impact of specific firm contexts and (2) generated culturally rich quantitative and qualitative data necessary to compare European managers' rationales for compensation system preference.

Cultural Dimensions Measurement

Three new cultural dimension scores were assessed using the qualitative data provided by the respondents. This was necessary for two basic reasons. First Hofstede's (1980) cultural dimension measurements were made almost 30 years ago, making them less reliable because of changes in the economic, political and cultural arenas (Schwartz, 1994). Second, Hofstede's measures apply to countries as a whole making them inappropriate to use for a collection of individuals (Hofstede 1991, p. 253). To account for the impact of cultural dimensions on salesforce compensation preferences, a coding based on Hofstede’s theoretical framework (1980) of the explanations[iii] provided by the respondents was performed. Consequently, two researchers coded each questionnaire in terms of presence or absence of individualism, masculinity and uncertainty avoidance arguments. Inter-rater reliability was initially above 80% (80% for risk aversion and 95% for collectivism). All conflicts were resolved after discussion.

To check the independence of the three cultural values expressed by the respondents, a loglinear analysis was performed and all possible hierarchical models were examined (Bishop et al. 1975). Loglinear analysis is particularly suitable for examining qualitative data to sort out dependence relationships. As shown on Table 1, the three cultural values expressed by the respondents are linked. The initial model featured only main effects, and other models including interaction effects were tested further unless the likelihood ratio Chi-square improved significantly (p=.05). The goodness of fit measure used is the likelihood ratio Chi-square statistic that compares the fit of the observed to the expected data (i.e., cell frequencies). For the log linear procedure, large Chi-square values and small p values indicate a poor fit. The data fit best the model including all first order interaction effects (p>.05).

(Include Table 1 about here)

Multiple Correspondence Analysis was then used as a complement to loglinear analysis as suggested by Van Der Heijden and De Leeuw (1985) to uncover the respondent's cultural value structures. Multiple correspondence analysis performs dimensional reduction and is similar to factor analysis but is designed for nominal data (Hair et al. 1992). The first two dimensions are plotted in Figure 1. The singular values are .65 and .40, and they explain about 42 percent and 16 percent of the total inertia respectively (see Table 2). As shown on Figure 1 and Table 3, this first dimension is roughly divided into two sets of values. The first set includes individualism, masculinity and low risk aversion (contributions of .18, .13 and .08 respectively) and the other collectivism, feminism and high risk aversion (contributions of .09, .09 and .08 respectively). The second dimension is dominated by feminine values (contribution is .41), whereas the third one is representative of risk attitudes (contributions of .47 and .16 for low and high-risk aversion respectively). Furthermore, a Guttman effect (Tenenhaus and Young 1985; Weller and Romney 1990) -represented by a W-shaped curve drawn on the two-dimensional space- was detected (see Figure 1) providing evidence for a hierarchy of values in the correspondence space. Therefore, depending on their position on this W-shaped curve, the respondents' cultural values fall into two distinctly ordered value structures. Hence, respondents using feminine justifications are likely to refer to high risk aversion and collectivism (see the left-hand side of Figure 1), which can be interpreted as a sort of *group-centric* philosophy. An opposite value structure, which is labeled *market-centric* philosophy, was also uncovered when respondents referring to low risk aversion also express individualistic and masculine values.

(Include Figure 1, Tables 2, 3 and 4 about here)

Combining those results with the data (see Table 5), a typology of cultural profiles emerges. A first group of respondents who are *market-centric* include respondents who adopt the market-like philosophy described above, namely, respondents using masculine, individualistic and low risk aversion types of arguments. A further examination of their comments confirms that this type of respondents recommend pay for performance, individual performance evaluations, objective settings, and motivation through commissions. As shown on Table 6, they represent about 29% of the total sample, the most common German profile, and the least common French profile (54% and 18% of the German and French respondents respectively). Their younger age (42 versus 44 for the respondents who are not *market-centric*) appears to be the only significant demographic characteristic differentiating them from the other respondents. A second group of respondents, who are *group-centric*, prefer the group philosophy described above. They are not only using feminine arguments but also collectivist and high-risk aversion types of justifications. Interestingly, some mention immoral aspects of incentive compensation, because they perceive commission-based pay packages as perverse, designed to break established group norms, and compromising the achievement of group objectives. In essence, they believe that incentive-based systems turn individuals against each other. They represent the most common cultural profile in France and Italy (56% and 40% of the French and Italian respondents respectively). Their older age (45 versus 43 for the respondents who are not *group-centric*) and longer experience in the financial sector (21 versus 18 years for the respondents who are not *group-centric*) appear to be the only demographic characteristics that significantly differ with the rest of the sample. A third group is also recognizable from its simultaneous focus on masculinity, collectivism and high-risk aversion. This group, which we label the *hybrid* group, counts a fourth of French and Italian respondents but only 10% of the German respondents.

ANALYSIS PROCEDURE AND RESULTS

The respondents' preferences for variable versus fixed compensation on one hand and for individual (equity) versus group (equal) distribution of at risk remuneration on the other hand, was modeled via 2 logistic regressions. Positive coefficients imply a tendency to prefer variable compensation or group distribution of rewards. The independent variables include the following 4 categorical variables: cultural profile (*group-centric, market-centric* and *hybrid*); national culture (France, Germany and Italy); expatriate work experience (yes or no); hierarchical position (3 levels). Because age and financial sector seniority appeared to characterize cultural profiles, as mentioned earlier, their impact on both dependent variables was checked. As the models including them did not significantly improve the Chi^2 statistics and they did not appear significant in any of the models, they were not included in the logistic regression models. The estimation results of the resulting logistic models are shown in Tables 7 and 8.

Determinants of Variable versus Fixed Compensation Preferences

As is evident in Table 7, the type of compensation model (variable vs. fixed compensation) is highly significant ($Chi^2 = 52.44$, $p<.01$), and correctly classifies 83% of the observations. Furthermore, the key predictions are supported. The manager cultural profile significantly influences the likelihood to choose variable vs. fixed compensation ($Wald = 16.72$, $p<.01$). Using *hybrid* managers as the reference profile, *market-centric* managers choose variable compensation significantly more often (B=2.32, $p<.05$) and *group-centric* managers significantly less often (B=-1.28, $p<.05$). These results support the hypotheses that masculine and risk-seeking cultures (*market-centric*) are more likely to choose variable compensation than feminine and risk averse cultures (*group-centric*). Therefore H1 and H2a are accepted.

As expected, French managers choose incentive compensation significantly less than the reference profile of Italian managers (B=-1.29, $p<.01$). Therefore H4a is supported. Finally, the hierarchical level and expatriation experiences of managers do not significantly impact their compensation structure preferences. Consequently H5a and H6a are rejected.

Determinants of Distribution Basis of Rewards Preferences

Table 8 displays results that are also generally consistent with the hypotheses. First, the estimated logistic model is highly significant (Chi^2 = 167.78, $p<.01$), fits the data well (-2 Log Likelihood = 59.24, Goodness of fit = 99.92), explains 84% of the variance (Nagelkerke R^2), and correctly classifies 95% of the observations. As expected, manager cultural profiles significantly affect the distribution basis for rewards (Wald = 31.01, $p<.01$). *Market-centric* managers are less likely than the reference profile of *hybrid* managers to choose a group allocation of financial rewards (B=-4.87, $p<.01$). These findings are consistent with the hypotheses that collectivist and feminine cultures are more likely to choose group distribution of financial rewards than individualistic and masculine cultures. Therefore H2b and H3 are accepted. Furthermore neither national culture nor hierarchical level or expatriation experience significantly influence the preferred reward distribution basis of the managers. Consequently, H4b, H5b and H6b are rejected.

[Tables 7 and 8 about here]

DISCUSSION

In this article, the impact of managers' cultural dimensions and personal characteristics on salesforce compensation preferences are explored. Drawing on insights from salesforce compensation literature and Hofstede's cultural dimensions (1980), a framework is proposed within which both cultural dimensions and personal characteristics influence managers' preference for (1) the level of salespeople incentive compensation and (2) the basis for salespeople reward distribution. Specific hypotheses underlying this framework were tested with a French, German and Italian sample of managers of financial institutions.

The results support the thrust of our study that both nationality and transnational cultural profiles influence managers' preferences for salesforce compensation systems. Individualistic, masculine and less risk averse managers prefer (1) higher levels of variable remuneration and (2) more equitable distribution of rewards for salespeople than collectivist, feminine and risk averse managers. But the widely held opinion that national culture can explain managers' preferences for a compensation plan receives mixed support. While French managers do prefer more fixed compensation than German or Italian managers, nationality was not found to significantly influence managers' preferences for the equity vs. equality principle of reward allocation. In the first case, transnational as well as national specificity explains the respondents' preferences but in the second case only transnational manager cultural profiles are significant.

One possible explanation includes the fact that the principles of group vs. individual sharing of rewards are more "universal" than the equity vs. equality principles. Such a difference may come from the increasingly strong focus firms put on teamwork. Consequently, in accordance with the cultural convergence proposition, national specificity related to incentives sharing bases tend to vanish.

These results provide theoretical, methodological and managerial contributions. First, even though our results are exploratory, they shed some light on the compensation issue in the international arena. Hence, the immoral dimension of incentive-based pay packages presented by *group-centric* managers, seems to be a new issue to the study of incentive compensation. They not only raise an ethical issue (i.e., individually-based rewards are perverse since they break the group norms), but also an economic issue (i.e., to favor élites demotivates the rest of the group resulting in an overall performance reduction). Perhaps the essentially North American setting of research on this topic explains this oversight. However, if this finding is confirmed, thorough theoretical work should be undertaken to uncover optimal structures with this new variable. More to the point, the vast sales management literature should be scrutinized with a cultural framework since the majority of research studies are exclusively North American. Furthermore, our findings offer partial support to Milkovich and Bloom (1998) who argue that strategic flexibility (i.e., customizing multiple pay packages and managing the resulting diversity to achieve strategic priorities and create global mind-sets), rather than national culture, should serve as a basis for managing international compensation and reward systems. Hence, if transnational cultural profiles do exist, then compensation strategy should indeed rely on new measures.

Second, our study uses a different methodological approach for assessing cultural dimensions traditionally measured with Hofstede's indexes (1980) (e.g., Roth 1995; Steenkamp et al. 1999). This was done for three reasons. First, those indexes were initially developed from survey data of primarily mid-level managers and operational employees of IBM, a large multinational corporation. It is unclear that they apply to a more educated, less cosmopolitan sample of managers across a wide range of hierarchical positions working in the finance sector. Second, it is important to check if the cultural dimensions measured are independent; Finally, the exploratory nature of the study dictated a qualitative approach which enabled us to uncover motives (e.g., immorality) not previously mentioned in the literature.

A third contribution is that the study provides a starting point for assisting managers responsible for designing international compensation systems. Several hints such as the observed discrepancies across countries already suggest the need for more systematic investigations of cultural effects in sales management. However little guidance is available for the growing practice of international sales management.

Our research has some limitations that indicate several avenues for further research. Given that only financial institutions are sampled, it would be interesting to see if these findings generalize to other industries. Likewise, as only managers from France, Germany and Italy participated; it is important to verify that the results hold across other national boundaries. Finally, an extension of this investigation to the United States would provide answers to questions related to European specificity. Will the European sales management model be different from the North American one? The American banking industry lost customers to competing non-financial institutions during the 1980s. To win back some of this business, bankers essentially became salespeople even to the extent of learning sales techniques and receiving incentive compensation (*Sales & Marketing Management* 1995). European banking is deregulating and will soon face more and more competition. Consequently it may be tempting to import the *market-*

centric model championed in North America. Failure to take into account existing national and, more importantly, hidden transnational managerial values will certainly cause havoc.

NOTES

[i] We agree with Steenkamp et al. (1999) that Hofstede's labels (1980) should be replaced by descriptions not related to gender-role stereotypes.

[ii] Back translations confirmed the quality of the original translations and the invariance of the research instrument.

[iii] All translated in French by two bilingual researchers in order to provide a uniform text for the coders.