# CHAPTER 13

# *Evaluating Salesperson Performance*

## THE CASE FOR A FOCUS ON SALES FORCE PERFORMANCE MANAGEMENT SYSTEMS

An effective salesperson performance management system (1) informs your sales force of the way you want them to sell; (2) provides sales management with a framework from which to manage; and (3) enables measurement and continuous improvement of the sales force's performance.

Performance management has come into sharp focus as a key issue for world-class sales organizations. Over time, sales organizations have tended to remain a bit of a holdout in implementing various new-age approaches to evaluation and control. Somehow, the entire business process reengineering (BPR) and total quality management (TQM) movements of the last 25 years largely passed right through the world without leaving much of a mark on the sales force. Perhaps credit for the current interest goes to the widespread adoption of customer relationship management (CRM) and sales force automation (SFA). That is, after years of expensive, chaotic software implementations, sales executives are finally clueing in to the fact that without fundamental business processes underpinning their information systems, they have invested enormously in what are essentially large databases with input screens and output reports. By adding comprehensive performance management systems with proper milestones, workflow, business logic, and controls to the systems, sales managers can actually bring order to the chaos and begin to proactively manage their productivity as manufacturing and other areas of the firm have for decades.

Numerous executives interviewed by Chally Group Worldwide highlighted major milestones in integrating performance management systems, defined their key performance metrics, and discussed how the processes influence everything from selling, to coaching, to managing, to measuring and rewarding. World-class sales forces have come to acknowledge two key truths that now usher in a new era in sales force management. First, sales is no longer the domain of individualist mavericks who succeed through inherent personal ability and brute force of will. Professional selling is a highly complex affair that involves the participation of many team contributors. Long, extended sales cycles now commonly involve roles such as inside salespeople, major account managers, technical specialists, business partners, customer service, and other internal resources. Explicitly defining the responsibilities of each and coordinating customer touchpoints is impossible to accomplish without a structured process to assign ownership, timing, and performance accountability to the people and associated tasks.

A second truth is that senior executives are now demanding accountability from *all of the functional areas* inside their companies—and sales is certainly not excluded. Sales can no longer remain the black box that it has been to many CEOs, most of whom have no front-line sales experience. Research by State Farm in 2006 identified only 15 of the Fortune

500 CEOs as having had front-line sales experience. Consequently, the pressure for sales forces to perform is increasing, and average tenure of Chief Sales Officers (CSOs) is falling. According to Jim Dickie of CSO Insights, in 2004 the average tenure of a CSO had fallen to just over 23 months. Given these conditions, sales executives are no longer satisfied to wait and see how their sales force is performing—they must aggressively engage in performance management. This desire to manage, coupled with enhanced information technology capability to collect and report data in an accurate and timely manner, has driven sales management to take control of their sales forces. But you can't manage what you can't measure, and you can't measure without formal performance management processes.

The bottom line is that world-class sales forces are focusing on comprehensive performance management systems and processes for the first time in earnest. They have the motive, they have the capability, and they are making it happen. Looking forward, you can bet that such processes will continue to rise in stature as the performance gap widens between firms who have them and firms who don't.

**Source:** Chally Group Worldwide (2012).

## LEARNING OBJECTIVES

Performance evaluations should be a process that provides a forum for dialogue between a salesperson and the sales manager, focused on gaining the impetus for future professional development and performance success. In order to successfully execute a performance review, sales managers must have a strong working knowledge of different measures of performance that are appropriate to a particular selling situation. Then they must conduct the appraisal in a manner that allows the salesperson to build on current strengths and proficiencies and make performance improvements where warranted.

After reading this chapter, you should be able to

- Explain the difference between performance and effectiveness.
- Identify objective measures of salesperson performance, both output and input.
- Utilize ratio analysis as an objective approach to salesperson performance measurement.
- Discuss key issues related to subjective measurement of salesperson performance and the forms that might be used to administer such an evaluation.
- Understand how a sales manager can make the performance review process more productive and valuable for the salesperson.

## PERFORMANCE VERSUS EFFECTIVENESS

A key issue in evaluating the performance of salespeople is the distinction among the concepts of behavior, performance, and effectiveness.[1] Although role perceptions, aptitude, skill level, and motivation level were discussed in Chapter 6 as being directly linked to performance, it is also important to understand that they are directly linked to behavior as well.

**Behavior** refers to what salespeople do—that is, the tasks on which they expend effort while working. These tasks might include calling on customers, writing orders, preparing sales presentations, sending follow-up communication, and the like. These are the sales activities discussed in Chapter 2.

Think of **performance** as behavior evaluated in terms of its contribution to the goals of the organization. In other words, performance has a normative element reflecting whether a salesperson's behavior is good or bad, appropriate or inappropriate, in light of the organization's goals and objectives. Note that behavior and performance are both influenced by relevant sales activities. Of course, these activities in turn depend on the types of sales jobs in question.

Before we discuss salesperson evaluation further, let's also distinguish between performance and effectiveness. By definition, **effectiveness** refers to some summary index of organizational outcomes for which an individual is at least partly responsible. Examples include sales volume, market share, profitability of sales, and customer retention rate. The crucial distinction between performance and effectiveness is that the latter does not refer to behavior directly; rather, it is a function of additional factors not under the individual salesperson's control. These include such things as top management policies, sales potential or difficulty of a territory, and actions of competitors.

It is generally agreed that salespeople should be evaluated solely on those phases of sales performance over which they exercise control and should not be held responsible for factors beyond their control. If a company's method of measuring salesperson performance is to result in valid comparisons, serious consideration must be given to distinguishing between factors within a salesperson's control versus those outside his or her control in developing yardsticks for objective or subjective evaluation. The Leadership box presents a classic theory of motivation, **attribution theory**, that is quite relevant to this managerial dilemma.

One could argue that a sales manager's careful specification of performance standards by territory should eliminate inequities across territories. For example, percentage of quota attained should be an acceptable measure of performance because quotas supposedly consider variations in environmental factors across territories. Admittedly, a comparison of salespeople with respect to percentage of quota attained is a better measure of their performance than is a comparison that simply looks at each representative's level of absolute sales or market share, assuming the quotas were done well. However, assuming that quotas are done well is a big "if"—sometimes quotas are not so well developed. In some instances, they are arbitrary and are not necessarily based on an objective assessment of all the factors that facilitate or constrain a salesperson's ability to make a sale. This is especially true if quota development relies too heavily on historical trends and not enough on emerging trends in a given sales territory.

Even when quotas are done well, the measure "percentage of quota attained" still omits much with respect to a salesperson's performance. For one thing, it ignores the profitability of sales. Sales reps can be compared with respect to profitability, or the return they produce on the assets under their control. Establishing quotas that accurately consider the many factors affecting the level of sales a representative should be able to produce in a territory is difficult, but determining the appropriate standards of profitability for each territory is even more difficult.

**LEADERSHIP Attributions and Salesperson Performance Evaluation**

Evaluating the performance of a salesperson is all about the sales manager attributing causes of that performance. That is, managers seek out why a salesperson's effectiveness is diminished or enhanced so that appropriate reinforcing or remedial actions may be taken. This process of attributing causes of outcomes has been studied extensively under the rubric of attribution theory, an approach quite relevant to sales management practice.

Psychologist Fritz Heider developed the cornerstone concept that evaluators tend to operate as "naïve psychologists" when they observe and analyze the behavior of others. He classified variables used by evaluators to interpret the actions of others into three categories: (1) a performance variable (i.e., task success, or effectiveness); (2) environmental variables (task difficulty and luck); and (3) person, or dispositional, variables (ability and effort). Heider proposed that evaluators assess performance based on the following relationships among these factors:

1. Ability = Task difficulty/Effort
2. Performance = (Ability × Effort) ± Task difficulty

According to equation 1, if two salespeople put forth the same amount of effort, the one who performs the more difficult task is expected to have the greater ability. Also, if two salespeople accomplish the same task with equal levels of performance, the one who expends the least effort is expected by the rater to have the higher ability. According to equation 2, a sales manager's perception of a salesperson's performance is a function of ability times effort, plus or minus the effects of differing task difficulty.

In the context of salesperson evaluation, Heider's concept of task difficulty may be easily translated to territory difficulty. Territory difficulty is important because rarely, if ever, in professional selling does one find any two territories that are equal in all respects. Therefore, sales managers must adjust performance ratings by taking into account the differences in territory difficulty among the salespeople they supervise. Unfortunately, this if often neglected when sales managers complete performance evaluations. A phenomenon known as the fundamental attribution error predicts that contextual or background information (such as differences in territories among salespeople in a sales manager's unit) will be systematically ignored by evaluators, and instead their ratings will be based on "person" factors such as perceived ability and effort. Heider proposed that background situational (contextual) information is less salient to evaluators than is person (appraisee) information, which is analogous to the Gestalt concept of figure against ground. In the context of salesperson evaluations, such thinking suggests that an evaluation bias may arise in which sales managers focus on dispositional factors, such as the salesperson's ability and effort (the "figure") and ignore contextual factors (the "ground"), such as territory difficulty and luck.

Sales organizations must work hard to guard against this form of evaluation bias. Assuming equal performance, over time a salesperson who is evaluated equally or lower than a peer whose territory is less difficult may become dissatisfied and feel unfairly treated, resulting in a very effective salesperson leaving the company. Firms must train their sales managers to fully consider all contextual and person factors when making their evaluations. By doing so, sales managers can avoid succumbing to the fundamental attribution error.

Even if good sales and profit standards could be developed, the problem of evaluating salespeople would not be solved because neither measure incorporates activities that may have no short-term payout but still have substantial consequences to the firm in the long run. These include the time devoted to laying the groundwork for a long-term client relationship, particularly when developing a potentially large account. Other activities that often go unmeasured are building long-term goodwill for the company and developing a detailed understanding of the capabilities of the products being sold. Thus, other measures beyond sales and profits are needed to more directly reflect salesperson performance.

The other measures firms use to evaluate salespeople fall into two broad categories: (1) objective measures and (2) subjective measures.[2] *Objective measures* reflect statistics the sales manager can gather from the firm's internal data. These measures are best used when they reflect elements of the sales process. *Subjective measures* typically rely on personal evaluations by someone inside the organization, usually the salesperson's immediate supervisor, of how individual salespeople are doing. Subjective measures are generally gathered via direct observation of the salesperson by the manager but may involve input from customers or other sources.

## OBJECTIVE MEASURES

**Objective measures** fall into three major categories: (1) output measures, (2) input measures, and (3) ratios of output or input measures. Exhibit 13.1 lists some of the more common output and input measures, and Exhibit 13.2 (later in the chapter) provides some of the more commonly used ratios.

The use of outputs, inputs, and ratios to measure salesperson performance is a recognition of the nature of the relationship selling process. As we have learned, some sales processes, especially those experienced by salespeople seeking to secure, build, and maintain long-term relationships with profitable customers, can take months or years. Within the relationship selling process, salespeople engage in

**EXHIBIT 13.1**
Common output and input measures used to evaluate salespeople

| Output Measures | Input Measures |
|---|---|
| Orders | Calls |
| Number of orders | Total number of calls |
| Average size of orders | Number of planned calls |
| Number of canceled orders | Number of unplanned calls |
| Accounts | Time and time utilization |
| Number of active accounts | Days worked |
| Number of new accounts | Calls per day (call rate) |
| Number of lost accounts | Selling time versus nonselling time |
| Number of overdue accounts | Expenses |
| Number of prospective accounts | Total |
| | By type |
| | As a percentage of sales |
| | As a percentage of quota |
| | Nonselling activities |
| | E-mails to prospects |
| | Phone calls to prospects |
| | Number of formal proposals developed |
| | Advertising displays set up |
| | Number of meetings held with distributors/dealers |
| | Number of training sessions held with distributor/dealer personnel |
| | Number of calls on distributor/dealer customers |
| | Number of service calls made |
| | Number of overdue accounts collected |

activities with (or in pursuit of) the prospect or buyer. The manager can measure those activities and compare the activities with results for each stage. By examining this performance evidence, managers can pinpoint potential areas for improvement by each salesperson, or identify changes that should be made in the sales strategy so that it is aligned with how buyers want to buy.

### Output Measures

**Output measures** represent the results of the efforts expended by the salesperson.

#### *Orders*

The number of orders each salesperson secures is often used to assess the rep's ability to ultimately close sales. Although the number of orders a salesperson secures is important, the average size of those orders is equally so. Having many orders may mean the orders are small and may indicate the person is spending too much time calling on small, low-potential customers and not enough time calling on large, high-potential customers.

Still another related measure is the number of canceled orders. A salesperson who loses a large proportion of total orders to subsequent cancellation may be using high-pressure tactics in sales presentations rather than engaging in relationship selling.

#### *Accounts*

The various account measures provide a perspective on the equity of territory assignments and also on how the salesperson is handling the territory. Attention to these measures can help the sales manager overcome the tendency to discount territory difficulty information as discussed in the Leadership box on p. 450. One popular measure focuses on the number of active accounts in the salesperson's customer portfolio. Various definitions of an active account are used. For example, it may be any customer that has placed an order in the past six months or in the past year. A salesperson's performance in one year may be compared with performance in past years by contrasting the number of active accounts. Closely related to this yardstick is a measure that tracks the number of new accounts a salesperson develops in a given time. Some companies even establish new-prospect quotas for salespeople that allow a ready comparison of performance to standards in this area of evaluation.

As with the number of new accounts, the number of lost accounts can be a revealing statistic, since it indicates how successfully the salesperson is satisfying the ongoing needs of the established accounts in the territory. Still other account measures by which salespeople can be compared are the number of overdue accounts, which might indicate the level to which the salesperson is following company procedures in screening accounts for their creditworthiness, and the number of prospective accounts, which assesses the salesperson's ability to identify potential target customers.

### Input Measures

Many objective measures of performance evaluation focus on the efforts sales representatives expend rather than the results of those efforts. These efforts are **input measures** of performance. Input measures are important for two key reasons. First, efforts or desirable behaviors are much more directly controllable than results in the short term. If a rep's sales fall short of quota, the problem may lie with the person, the quota, or a change in the environment. On the other hand, if the number of calls a salesperson makes falls short of the target, it is much clearer that the problem lies more directly with the individual.[3] Second, in relationship selling a time lag frequently exists between inputs and outputs. A particularly large sale may be the result of several years of effort. Thus, a focus on the efforts (behaviors) themselves affords the sales manager the opportunity to evaluate and coach the salesperson during the relationship selling process into making changes that can positively affect the output (results).

#### *Calls*

The number of current customer or prospect calls is often used to decide whether a salesperson is covering the territory properly. The number of calls on each account is an important factor in the design of territories and also should be used to evaluate the salesperson assigned to the territory. After all, sales calls are a resource with finite supply—they represent a resource that is time-sensitive in that the time available to make them evaporates if it is not used.

CRM software systems integrate customer contacts by salespeople into their information collection, analysis, and reporting capabilities. Also, contact and customer management software, such as GoldMine by FrontRange and Act! by Sage, automates the call report process. In a record established for each account, the salesperson can input information about each call. This information can be summarized by the software for a report made available to the sales manager either by e-mail or Web access. Of course, if the CRM software resides on a shared network, the sales manager can access the information directly. Such technological advances minimize the time spent preparing paperwork and help salespeople maximize their time in front of buyers; they also serve as a great aid to sales managers in performance evaluation.

#### *Time and Time Utilization*

The number of days worked and the calls per day (or call rate) are routinely used by many companies to assess salespeople's efforts since the product of the two quantities provides a direct measure of the extent of customer contact. If the amount of customer contact by a salesperson is low, one can look separately at the components to see where the problem lies. Perhaps the salesperson has not been working enough because of extenuating circumstances, a situation that would show up in the number of days worked. Alternatively, perhaps the salesperson's total time input was satisfactory, but the salesperson was not using that time wisely and, consequently, had a low call rate.

Comparing salespeople's division of time between sales calls, traveling, office work, and other job aspects offers a useful perspective. For the most part, the firm would want salespeople to maximize the time in face-to-face customer contact at the expense of the other two factors. Sales organizations want salespeople to minimize unproductive time. Of course, *telecommuting*, or working from a home office, is not new in the field of professional selling. Through necessity (e.g., no company facility from which to work in the salesperson's headquarter's city) or convenience, many salespeople maintain their primary office space in their home.

Analysis of time utilization requires detailed input on how each salesperson is spending time, and collecting and analyzing this data can be expensive and can itself be time-consuming. Some companies, however, routinely conduct such analysis because the benefits are deemed to outweigh the costs.

### *Expenses*

The objective inputs discussed so far for evaluating salespeople (calls; time and time utilization) focus mainly on the extent of a salesperson's efforts. Another key emphasis when evaluating salespeople is the cost of those efforts. Many firms keep records detailing the total expenses incurred by each salesperson. Some break these expenses down by type, such as automobile expenses, lodging expenses, entertainment expenses, and so forth. Sales managers might look at these expenses in total or as a percentage of sales or quota by salesperson and then use these expense ratios as part of the salesperson's performance evaluation.

### *Nonselling Activities*

In addition to assessing the direct contact of salespeople with customers, some firms monitor indirect contact. They use indexes such as the number of letters written, number of telephone calls made, and number of formal proposals developed.

As we have learned, in relationship selling a salesperson's activities go beyond what might be considered a pure selling emphasis. For example, companies that sell to retailers may ask salespeople to help monitor and stock shelves, create displays, help retailers advertise, and engage in a number of other nonselling activities as part of an ongoing client relationship. In such instances, firms often try to monitor the extent of these duties, using such indexes as the number of promotional or advertising displays set up, the number of dealer meetings, the number of training sessions for distributor personnel held, the number of calls the salesperson made on dealer customers, the number of service calls made, the number of customer complaints received, and the number of overdue accounts collected. Some of this information can be gathered from the salesperson's reporting system, but it is becoming increasingly commonplace to gain feedback on elements of salesperson performance directly from customers. This trend is discussed in a later section of this chapter on 360-degree performance feedback.

## Ratio Measures

As we have learned, a focus on outputs other than straight sales volume and profit can provide useful information on how salespeople are performing. So can analysis of input factors. Additional insights may also be gathered by combining the various outputs or inputs in selected ways, typically in the form of various **ratio measures**. As mentioned earlier, Exhibit 13.2 lists some of the ratios commonly used to evaluate salespeople. These are grouped by expense ratios, account development and servicing ratios, and call activity or productivity ratios.

### *Expense Ratios*

The sales expense ratio combines both salespeople's inputs and the results produced by those inputs in a single number. Salespeople can affect this ratio either by making sales or by controlling expenses. The ratio can also be used to analyze salesperson expenses by type. Thus, a sales/transportation expense ratio that is much higher for one salesperson than others might indicate the salesperson is covering his or her territory inefficiently. However, it is important that the sales manager recognize territory difficulty differences when comparing these ratios, as the salesperson who has an out-of-line ratio may simply have a larger, more geographically dispersed sales territory to cover.

The cost per call ratio expresses the costs of supporting each salesperson in the field as a function of the number of calls the salesperson makes. The ratio can be evaluated using total costs, or the costs can be broken down by elements so that ratios such as expenses per call and travel costs per call can be computed. Not only are these ratios useful for comparing salespeople from the same firm, but they can also be compared with those of other companies in the same industry to assess the efficiency of the firm's selling effort. Such comparative data may be available from trade or professional associations.

### *Account Development and Servicing Ratios*

A number of ratios concern accounts and orders that reflect on how well salespeople are capturing the potential business that exists in their territories. The account penetration ratio, for example, measures the percentage of accounts in the territory from which the salesperson secures orders. It provides a direct measure of whether the salesperson is simply skimming the cream of the business or is working the territory systematically and hard. It can also aid management in identifying both underperforming accounts and accounts that have low lifetime value to the sales organization.

The new-account conversion ratio similarly measures the salesperson's ability to convert prospects to customers. The lost account ratio measures how well the

**EXHIBIT 13.2**
Common ratios used to evaluate salespeople

**Expense Ratios**

- Sales expense ratio = $\dfrac{\text{Expenses}}{\text{Sales}}$
- Cost per call ratio = $\dfrac{\text{Total costs}}{\text{Number of calls}}$

**Account Development and Servicing Ratios**

- Account penetration ratio = $\dfrac{\text{Accounts sold}}{\text{Total accounts available}}$
- New-account conversion ratio = $\dfrac{\text{Number of new accounts}}{\text{Total number of accounts}}$
- Lost account ratio = $\dfrac{\text{Prior accounts not sold}}{\text{Total number of accounts}}$
- Sales per account ratio = $\dfrac{\text{Sales dollar volume}}{\text{Total number of accounts}}$
- Average order size ratio = $\dfrac{\text{Sales dollar volume}}{\text{Total number of orders}}$
- Order cancellation ratio = $\dfrac{\text{Number of calcelled orders}}{\text{Total number of orders}}$
- Account share = $\dfrac{\text{Salesperson's business from account}}{\text{Account's total business}}$

**Call Activity or Productivity**

- Calls per day ratio = $\dfrac{\text{Number of calls}}{\text{Number of days worked}}$
- Calls per account ratio = $\dfrac{\text{Number of calls}}{\text{Number of accounts}}$
- Planned call ratio = $\dfrac{\text{Number of planned calls}}{\text{Total number of calls}}$
- Orders per call (hit) ratio = $\dfrac{\text{Number of orders}}{\text{Total number of calls}}$

salesperson maintains active customers, reflecting how well the rep is serving the established accounts in the territory.

The sales per account ratio indicates the salesperson's success per account on average. A low ratio could indicate the salesperson is spending too much time calling on small, less profitable accounts and not enough time calling on larger ones. One could also look at the sales per account ratios by class of account, which can reveal the strengths and weaknesses of each salesperson. For example, a salesperson who has a low sales per account ratio for large, high-potential accounts might need help in learning how to sell to a buying center.

The average order size ratio can also reveal the salesperson's patterns of calling on customers. A very low average order size might suggest that calls are too frequent and the salesperson's productivity could be improved by spacing them more. The order cancellation ratio reflects on the salesperson's method of selling. A very high ratio could mean the salesperson is using high-pressure tactics to secure orders rather than pursuing relationship selling approaches and handling customers in a consultative manner.

A key measurement in some types of businesses, particularly those that provide supplies and raw materials, is account share. Account share is the percentage of the account's business that the salesperson gets. Many buyers will split their business among a number of vendors, believing (often erroneously) that they get better service and lower prices when sellers have to compete for the business. In industries where such buying practices are prevalent, the number of accounts is less important to salespeople than the share of each account. As account share increases, economies of scale increase, which raises the profit of the account. Similarly, the measure is an indication of the strength of the relationship with the account.

### *Call Activity or Productivity Ratios*

Call activity ratios measure the effort and planning salespeople put into their customer call activities and the successes they derive from it. The measures might be used to compare salesperson activities in total—such as when using calls per day or when using calls per total number of accounts, or by type of account. The planned call ratio could be used to assess if the salesperson is systematically planning territory coverage or whether the representative is working the territory without an overall game plan. The orders per call ratio bears directly on the question of whether the salesperson's calls on average are productive. This ratio is sometimes called the hit ratio or batting average, since it captures the number of successes (hits or orders) in relation to the number of at-bats (calls).

## SUMMARY OF OBJECTIVE MEASURES

As Exhibits 13.1, 13.2, and the preceding discussion indicate, many objective output measures, input measures, and ratio measures are available by which salespeople may be evaluated and compared. As you probably sense, many of the measures are somewhat redundant in that they provide overlapping information on salesperson effectiveness. A number of other ratios could be developed by combining the various outputs, inputs, or ratios in different ways. For example, one combination that is often used to evaluate salespeople is the following equation:

$$\text{Sales} = \text{Days worked} \quad \frac{\text{Calls}}{\text{Days worked}} \quad \frac{\text{Orders}}{\text{Calls}} \quad \frac{\text{Sales}}{\text{Orders}}$$

or

$$\text{Sales} = \begin{matrix}\text{Days}\\\text{worked}\end{matrix} \quad \begin{matrix}\text{Call}\\\text{rate}\end{matrix} \quad \begin{matrix}\text{Batting}\\\text{average}\end{matrix} \quad \begin{matrix}\text{Average}\\\text{order size}\end{matrix}$$

The equation highlights nicely what a salesperson can do to increase sales. The representative can increase the (1) number of days worked, (2) calls made per day, (3) level of success in securing an order on a given call, and (4) size of those orders. Thus, the equation can be used to isolate how an individual salesperson's performance could be improved. Such an equation, though, focuses on the results of the salesperson's efforts and ignores the cost of those efforts. Similarly, many of the other measures that have been reviewed could be combined via similar equations, but these too would probably ignore one or more elements of salesperson success. Bottom line: No single measure exists that can fully capture the scope of salesperson effectiveness.

In concluding this discussion of objective measures of salesperson performance, two essential points deserve mention. First, just as measuring straight sales volume and profit have advantages and disadvantages for use in evaluating salespeople, so do all of these other objective measures of performance. Rather than relying on only one or two of the measures to assess performance, the methods are more productively used in combination. Second, and also very important, all of the indexes are an aid to judgment, not a substitute for it. For example, the United States Army Recruiting Command (the part of the Army that sells young people on joining) once overrelied on conversion ratios (the percentage of prospects who actually ended up joining the army) to evaluate recruiters' performance. Orders were issued that calls of certain types had to be increased by a high percentage. The problem was that while the calls could be increased, quality could not be maintained. Recruiting effectiveness not only did not increase but actually went down as recruiter morale declined. The comparisons allowed by the various indexes should be the beginning, not the conclusion, of any analysis aimed at assessing how well individual salespeople or the entire sales force are doing.

## SUBJECTIVE MEASURES

A useful conceptual distinction exists between the quantitative nature of objective measures of performance discussed in the preceding section and the qualitative nature of the **subjective measures** discussed here. Quantitative measures of performance focus on the outputs and inputs of what salespeople do, whereas qualitative measures reflect behavioral or process aspects of what they do and how well they do it. This difference in what is being measured creates some marked differences in the way objective and subjective measurements are taken and how they are used.

In many ways, it is more difficult to assess the quality rather than the quantity of a salesperson's performance. Quantity measures can require a detailed analysis of a salesperson's call report, an extensive time utilization analysis, or an analysis of the type and number of nonselling activities employed. However, once the measurement procedure is set up, it typically can be conducted with less bias and inconsistency than can quality measurement. On the other hand, when assessing qualitative performance factors, even a well-designed measurement process that is firmly in place leaves much more room for bias in the evaluation. **Bias** refers to performance evaluations that differ from objective reality, usually based on errors by the evaluator. Even well-designed systems must invariably rely on the personal judgment of the individual or individuals charged with evaluation, in our case, the sales manager. Typically, these judgments are secured by having the manager rate the salesperson on a performance appraisal form on each of a number of attributes using some type of rating scale. The attributes most commonly evaluated using performance evaluation forms include,

1. *Sales results*. Volume performance, sales to new accounts, and selling the full product line.
2. *Job knowledge*. Knowledge of company policies, prices, and products.
3. *Management of territory*. Planning of activities and calls, controlling expenses, and handling reports and records.
4. *Customer and company relations*. The salesperson's standing with customers, associates, and company.
5. *Personal characteristics*. Initiative, personal appearance, personality, resourcefulness, etc.

Note that these include a mix of objective and subjective performance measures. In fact, it is true that most formal performance evaluations of salespeople involve a combination of these two types of evaluative criteria.

### Forms Used for Subjective Measurement

Exhibit 13.3 shows a typical salesperson evaluation form for various subjective performance criteria. The specific evaluative criteria should match those identified as key success factors for the position (see Chapter 2 for a discussion of the identification of key success factors for sales positions). Such evaluations may be completed annually, semiannually, or quarterly, depending on the firm's human resource management policies. These evaluations supplement the objective performance data generated for the same time frame to provide an overall evaluation of salesperson performance. The form in Exhibit 13.3 is better than many of those in use because it contains anchors or verbal descriptors for the various points on the scale. Another favorable feature of this example form is the space provided for comments, which can enhance understanding of the ratings supplied. The form contains a section where needed improvements and corrective actions may be detailed. All in all, the form should facilitate a constructive dialogue between the salesperson and sales manager and help the salesperson understand his or her strengths and weaknesses and develop approaches to improve performance.

The worst type of rating forms simply list the attributes of interest along one side of the form and the evaluation adjectives along the other. Little description is provided, thus the potential for much ambiguity exists in the evaluation. Exhibit 13.4 illustrates such a poor form. Of course, this type of form can be completed very easily since the evaluator simply checks the box for the adjective that most clearly describes his or her perceptions of the salesperson's performance on each attribute. Unfortunately, such forms are quite common in sales organizations, and they work very poorly in practice and do little to stimulate a constructive dialogue between the salesperson and sales manager. Salespeople typically receive little useful information on improving performance when forms such as Exhibit 13.4 are used.

### *Problems with Subjective Performance Measurement*

Some common problems with performance appraisal systems that rely on subjective rating forms, particularly those using the simple checklist type, include the following:[4]

1. *Lack of an outcome focus*. The most useful type of performance appraisal highlights areas of improvement and the actions that must be taken to implement such improvements. For this to occur, the key behaviors in accomplishing the tasks assigned must be identified. Unfortunately, many companies have not taken this step. Rather, they have simply identified attributes thought to be related to performance, but they have not attempted to systematically assess whether the attributes are key. One type of performance appraisal called BARS (behavioral anchored rating scale) helps overcome this weakness. A BARS system attempts to identify behaviors that are more or less effective with respect to the goals established for the person. BARS will be discussed in more detail shortly.
2. *Ill-defined personality traits*. Many performance evaluation forms contain personality factors as attributes. In the case of salespeople, these attributes might include such things as initiative and resourcefulness. Although these attributes are intuitively appealing, their actual relationship to performance is open to question.[5]
3. *Halo effect*. A halo effect is a common phenomenon in the use of any performance evaluation form. It refers to the fact that the rating assigned to one characteristic may significantly influence the ratings assigned to all other characteristics, as well as the overall rating. The halo effect holds that a sales manager's overall evaluations can be predicted quite well from their rating of the salesperson on the single performance dimension they believe is the most important. Different branch or regional managers might have different beliefs about what is most important, compounding the problem.
4. *Leniency or harshness*. Some sales managers rate at the extremes. Some are very lenient and rate every salesperson as good or outstanding on every attribute, whereas others do just the opposite. This behavior is often a function of their own personalities and their perceptions of what comprises outstanding

**EXHIBIT 13.3**
Sample subjective performance evaluation form

SALES PERSONNEL
INVENTORY

Employee's Name ______________________ Territory ______________________

Position Title ______________________ Date ______________________

INSTRUCTIONS (Read Carefully)

1. Base your judgment on the previous six-month period and not on isolated incidents alone.
2. Place a check in the block that most nearly expresses your judgment on each factor.
3. For those employees who are rated at either extreme of the scale on any factor—for example, outstanding, deficient, limited—please enter a brief explanation for the rating in the appropriate space below the factor.
4. Make your rating an accurate description of the person rated.

FACTORS TO BE CONSIDERED AND RATED:

| | ☐ | ☐ | ☐ | ☐ | ☐ |
|---|---|---|---|---|---|
| 1. **Knowledge of work** (includes knowledge of product, knowledge of customers' business) | Does not have sufficient knowledge of products and application to represent the company effectively. | Has mastered minimum knowledge. Needs further training | Has average amount of knowledge needed to handle job satisfactorily. | Is above average in knowledge needed to handle job satisfactorily. | Is thoroughly acquainted with our products and technical problems involved in this application. |

Comments ______________________________________________

______________________________________________

| | ☐ | ☐ | ☐ | ☐ | ☐ |
|---|---|---|---|---|---|
| 2. **Degree of acceptance by customers** | Not acceptable to most customers. Cannot gain entry to their offices. | Manages to see customers but not generally liked. | Has satisfactory relationship with most customers. | Is on very good terms and is accepted by virtually all customers. | Enjoys excellent personal relationship with virtually all customers. |

Comments ______________________________________________

______________________________________________

| | ☐ | ☐ | ☐ | ☐ | ☐ |
|---|---|---|---|---|---|
| 3. **Amount of effort devoted to acquiring business** | Exceptional in the amount of time and effort put forth in selling. | Devotes constant effort in developing business. | Devotes intermittent effort in acquiring moderate amount of business. | Exerts only minimum amount of time and effort. | Unsatisfactory. Does not put forth sufficient effort to produce business. |

Comments ______________________________________________

______________________________________________

(continued)

**EXHIBIT 13.3** Sample subjective performance evaluation form (continued)

| | ☐ | ☐ | ☐ | ☐ | ☐ |
|---|---|---|---|---|---|
| **4. Ability to acquire business** | Is able to acquire business under the most difficult situations. | Does a good job acquiring business under most circumstances. | Manages to acquire good percentage of customer's business if initial resistance is not too strong. | Able to acquire enough business to maintain only a minimum sales average. | Rarely able to acquire business except in a seller's market. |
| | Comments ______ | | | | |
| **5. Amount of service given to customers** | Rarely services accounts once a sale is made. | Gives only minimum service at all times. | Services accounts with regularity but does not do any more than called on to do. | Gives very good service to all customers. | Goes out of the way to give outstanding service within scope of company policy. |
| | Comments ______ | | | | |
| **6. Dependability—amount of supervision needed** | Always thoroughly abreast of problems in the territory, even under most difficult conditions. Rises to emergencies and assumes leadership without being requested to do so. | Consistently reliable under normal conditions. Does special as well as regular assignments promptly. Little or no supervision required. | Performs with reasonable promptness under normal supervision. | Effort occasionally lags. Requires more than normal supervision. | Requires close supervision in all phases of job. |
| | Comments ______ | | | | |
| **7. Attitude toward company—support given to company policy** | Does not support company policy— | Gives only passive support to company policy—does | Goes along with company policy on most | Adopts and supports company policy in | Gives unwavering support to the |

(continued)

**EXHIBIT 13.3**
Sample subjective performance evaluation form (continued)

| | | | | | |
|---|---|---|---|---|---|
| | blames the company for factors that affect customers unfavorably. | not act as member of a team. | occasions. | all transactions. | company and company policy to customers even though he/she personally may not agree with the policy. |
| | Comments ________________________________________ | | | | |
| **8. Judgment** | ☐ Analyses and conclusions subject to frequent error and are often based on bias. Decisions require careful review by supervisor. | ☐ Judgments usually sound on routine, simple matters but cannot be relied on when any degree of complexity is involved. | ☐ Capable of careful analyzing of day-to-day problems involving some complexity and rendering sound decisions. Decision rarely influenced by prejudice or personal bias. | ☐ Decisions can be accepted without question except when problems or extreme complexity are involved. Little or no personal bias enters into judgment. | ☐ Possesses unusual comprehension and analytical ability. Complete reliance may be placed on all judgments irrespective of degree of complexity. Decisions and judgments are completely free of personal bias or prejudice. |
| | Comments ________________________________________ | | | | |
| **9. Resourcefulness** | ☐ Work is consistently characterized by marked originality, alertness, initiative, and imagination. Can be relied on to develop new ideas and techniques in solving the most difficult problems. | ☐ Frequently develops new ideas of merit. Handling of emergencies is generally characterized by sound decisive action. | ☐ Meets new situations in satisfactory manner. Occasionally develops original ideas, methods, and techniques. | ☐ Follows closely previously learned methods and procedures. Slow to adapt to changes. Tends to become confused in new situations. | ☐ Requires frequent reinstruction. Has failed to demonstrate initiative or imagination in solving problems. |

(continued)

**EXHIBIT 13.3**
Sample subjective performance evaluation form (continued)

Comments ______________________________
______________________________

**10. Based on the above evaluation, this employee should:**

1. Be given additional instruction on ______________________________
______________________________
2. Be given additional experience such as ______________________________
3. Study such subjects as ______________________________
4. Change attitude as follows ______________________________
5. There is nothing more that I can do for this employee because ______________________________
6. Remarks______________________________
______________________________
______________________________

**EXHIBIT 13.4**
Sample of a poorly constructed subjective performance evaluation form

| | Poor | Fair | Satisfactory | Good | Outstanding |
|---|---|---|---|---|---|
| Knowledge of work | ☐ | ☐ | ☐ | ☐ | ☐ |
| Degree of acceptance | ☐ | ☐ | ☐ | ☐ | ☐ |
| by customers | ☐ | ☐ | ☐ | ☐ | ☐ |
| Amount of effort devoted to | ☐ | ☐ | ☐ | ☐ | ☐ |
| acquiring business | ☐ | ☐ | ☐ | ☐ | ☐ |
| Ability to acquire business | ☐ | ☐ | ☐ | ☐ | ☐ |
| Amount of service given to | ☐ | ☐ | ☐ | ☐ | ☐ |
| customers | ☐ | ☐ | ☐ | ☐ | ☐ |
| Dependability, amount of | ☐ | ☐ | ☐ | ☐ | ☐ |
| supervision needed | ☐ | ☐ | ☐ | ☐ | ☐ |
| Attitude toward company, | ☐ | ☐ | ☐ | ☐ | ☐ |
| support for company policies | ☐ | ☐ | ☐ | ☐ | ☐ |
| Judgment | ☐ | ☐ | ☐ | ☐ | ☐ |
| Resourcefulness | ☐ | ☐ | ☐ | ☐ | ☐ |

performance, and no fundamental differences may exist in the way the salespeople under each of the managers are actually performing. The use of different definitions of performance depending on the manager can seriously undermine the whole performance appraisal system.

5. *Central tendency*. Some managers err in the opposite direction in that they never, or very rarely, rate people at the ends of the scale. Rather, they use middle-of-the road or play-it-safe ratings. One learns very little from such ratings about true differences in performance, and such ratings can be particularly troublesome when a company attempts to use a history of poor performance as the basis of a termination decision.

6. *Interpersonal bias*. Interpersonal bias refers to the fact that our perceptions of others and the social acceptability of their behaviors are influenced by how much

we like or dislike them personally. Many sales managers' evaluations of sales reps are similarly affected. Furthermore, research suggests a salesperson can use personal influence or impression management strategies on the manager to bias evaluations upward.

7. *Organizational uses influence*. Performance ratings are often affected by the use to which they will be put within the organization. If promotions and monetary payments hinge on the ratings, a tendency may exist toward leniency on the part of the manager who values the friendship and support of subordinates who press for higher ratings. It is not difficult to imagine the dilemma of a district sales manager if other district sales teams received consistently higher compensation increments and more promotions than his or her sales group. On the other hand, when appraisals are used primarily for the development of subordinates, managers tend to more freely pinpoint weaknesses and focus on what is wrong and how it can be improved.[6]

By now, it should be clear that performance evaluation may be fraught with opportunities for biases and inaccuracies to creep into the process. The Leadership box describes one form of potential evaluator bias in more detail, the **outcome bias**. An outcome bias occurs when a sales manager allows the outcome of a decision or a series of decisions made by a salesperson to overly influence the performance ratings made by the manager.

## Avoiding Errors in Performance Evaluation

To guard against the distortions introduced in the performance appraisal system by problems such as those listed earlier, many firms provide extensive training and guidelines to sales managers on completing the forms and conducting the appraisal process. Some common instructions issued with such forms include,

1. Read the definitions of each trait thoroughly and carefully before rating.
2. Guard against the common tendency to overrate.
3. Do not let personal likes or dislikes influence your ratings. Be as objective as possible.
4. Do not permit your evaluation of one factor to influence your evaluation of another.
5. Base your rating on the observed performance of the salesperson, not on potential abilities.
6. Never rate an employee on several instances of good or poor work, but rather on general success or failure over the whole period.
7. Have sound reasons for your ratings.[7]

**LEADERSHIP** **Outcome Bias in Salesperson Performance Evaluations**

By nature, professional selling is focused on bottom-line results. Persons who are successful in sales tend to like meeting tough goals and thrive on the immediacy, regularity, and visibility of feedback on their results. Thus, it is common for results (or outcomes) in sales to be viewed by management as a surrogate for the behavioral side of salesperson performance. In short: Make your quota, you must be doing things right; but miss your quota and, boy, are you ever doing the wrong things.

These "things" we are talking about are all the process steps that go into the job of selling. On a very basic level, they are all the decisions made by the salesperson over the course of a day, week, month, quarter, and year that add up to that person's performance (remember, earlier in this chapter we defined performance in terms of behavior evaluated in the context of its contributions to the goals of the organization).

Sometimes the outcomes and the process leading to those outcomes match: for example, a salesperson has a great sales quarter and also was great at doing all the things that are part of the sales job (presentations, customer care, administration, etc.). Clearly, the sales manager should recognize and reward this achievement. And in the opposite case, where a salesperson has a lousy sales quarter and also is struggling with the process elements of the job, clearly the sales manager needs to document the poor performance and a developmental plan needs to be put in place.

But what about the mixed cases? Consider the salesperson who has a great sales quarter but is not cutting the mustard in the day-to-day elements of the job. Maybe the favorable outcome was due to an unexpected windfall from a client, an easy territory, or some other event not directly attributable to much of anything the salesperson actually did to earn the business. Evaluating this salesperson favorably overall, based strictly on his or her performance outcome, can open a huge can of worms in a sales unit, as peer salespeople will see this person as a slacker who got lucky. And finally, perhaps the worst case of all, consider the salesperson who has a lousy sales quarter but has done absolutely everything right. If this salesperson is evaluated as a poor performer, based strictly on the outcome, chances are the organization will lose him or her.

The outcome bias is that evaluators tend to overlook process and rate performers based on outcomes. As illustrated in the mixed-case examples here, this tendency of outcome to overwhelm process can lead to poor morale, ill will, and turnover within the sales force.

It should be mentioned, however, that one school of thought in sales is that a bias toward outcomes isn't really a bias at all. That is, salespeople know when they get into the profession that bottom-line sales volume is the key to success. This perspective may be somewhat valid in straight commission selling situations. But in most of today's relationship-driven professional sales jobs, it is folly to utilize performance evaluation systems that ignore good, or bad, behavioral aspects of performance in favor of just the short-run bottom line. As we have learned, much of what constitutes success in relationship-driven sales organizations involves a complex set of actions inside and outside the selling firm, and the true outcome of these activities may not be realized for a long time. Fortunately, most modern sales organizations understand the threat of the outcome bias and work to integrate multiple aspects of performance into the evaluation process. One approach that addresses this is the BARS system, which is discussed in this chapter.

These admonitions can help, particularly when the evaluator must supply the reasons for ratings. However, they do not resolve problems related to the selection of attributes for evaluation and how the resulting items are presented on the form. A trend in performance appraisal directed at resolving this issue is the **BARS (behaviorally anchored rating scale)**.

### Using a BARS System

A BARS system attempts to concentrate on the behaviors and other performance criteria that can be controlled by the individual. The system focuses on the fact that a number of factors affect any employee's performance. However, some of these factors are more critical to job success than are others, and the key to evaluating people is to focus on these *critical success factors* (CSFs).[8] Implementing a BARS system for evaluating salespeople requires identifying the behaviors that are key to their performance. Also, the subsequent evaluation of a salesperson's performance must be conducted by rating these key behaviors using the appropriate descriptions.[9]

The process of developing a BARS system goes as follows. First, the key behaviors with respect to performance are identified using critical incidents. *Critical incidents* are occurrences that are vital (critical) to performance. To use the critical incident technique, those involved could be asked to identify some particularly outstanding examples of good or bad performance and to detail the reasons why.[10] The performances identified are then reduced to a smaller number of performance dimensions.

Next, the group of critical incidents is presented to a group of sales personnel who are asked to assign each critical incident to an appropriate performance dimension. An incident is typically kept in if 60 percent or more of the group assigns it to the same dimension as did the instrument development group. The sales personnel group is also asked to rate the behavior described in the critical incident on a 7- or 10-point scale with respect to how effectively or ineffectively it represents performance on the dimension. Incidents that generate good agreement in ratings, typically indicated by a low standard deviation, are considered for the final scale. The particular incidents chosen are determined by their location along the scale, as measured by the mean scores. Typically, the final scale has six to eight anchors. An example of a BARS scale that resulted from such a process for the attribute "promptness in meeting deadlines" is shown in Exhibit 13.5.

A key advantage of a BARS system is that it requires sales managers to consider in detail a wide range of components of a salesperson's job performance. It must also include clearly defined anchors for those performance criteria in specific behavioral terms, leading to thoughtful consideration by managers of just what comprises performance. Of course, by nature a BARS emphasizes behavior and performance rather than effectiveness. When used in tandem with appropriate objective measures (sales and profit analyses and output, input, and ratio measures), a BARS approach provides an attractive means of handling subjective evaluation criteria and thus providing as complete a picture as possible of a salesperson's overall performance and effectiveness.

BARS systems are not without their limitations, though. For one thing, the job-specific nature of the scales they utilize suggests they are most effective in evaluating salespeople performing very similar functions. They might be effective in comparing one key account rep to another key account rep or two territory representatives against each other, but they could suffer major shortcomings if used to compare a key account rep against a territory salesperson because of differences in responsibilities in these positions. BARS systems also can be relatively costly to develop since they require a good deal of up-front time from multiple people.[11]

**EXHIBIT 13.5**
A BARS scale with behavioral anchors for the attribute "promptness in meeting deadlines"

**Very high**
This indicates the more-often-than-not practice of submitting accurate and needed sales reports.

**Moderate**
This indicates regularity in promptly submitting accurate and needed field sales reports.

**Very low**
This indicates irregular and unacceptable promptness and accuracy of field sales reports.

10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0

Could be expected to promptly submit all necessary field reports even in the most difficult of situations.

Could be expected to promptly meet deadlines comfortably in most report completion situations.

Is usually on time and can be expected to submit most routine field sales reports in proper format.

Could be expected to regularly be tardy in submitting required field sales reports.

Could be expected to be tardy and submit inaccurate field sales reports.

Could be expected to completely disregard due dates for filing almost all reports.

Could be expected to never file field sales reports on time and resist any managerial guidance to improve this tendency.

## 360-DEGREE FEEDBACK IN PERFORMANCE EVALUATION

As we learned in Chapter 3, one important attraction of CRM systems to firms is the inherent capability of such systems to provide feedback from a wide range of constituents and stakeholders. Although the usage focus of much of this information is on product development and formulation of the overall marketing message, CRM systems typically also facilitate the gathering, analysis, and dissemination of a great deal of information directly relevant to the performance of the sales force.

In order for a sales organization to take full advantage of the available information generated by enterprise software such as CRM, the firm as a whole must embrace the philosophy that the customer is a customer of the *company*, not just of the individual salesperson. We have seen that the complex and often lengthy process of developing and managing customer relationships almost always involves more than just a salesperson and purchasing agent. An effective CRM system should be gathering data at all the important touchpoints where members of a selling organization interact with members of a buying organization, or members of a selling organization interact internally in order to forward a business relationship with a customer.

Such a comprehensive information management process allows for a rethinking of the nature of input data for use in salesperson performance evaluation. Rather than relying on purely objective measures or on subjective measures generated by one person (the sales manager), information for performance evaluation may come from multiple sources simultaneously. This concept of **360-degree performance feedback** opens the door to a new era in using the performance appraisal process as an effective tool for salesperson development and improvement. Among the sources of feedback that would be useful to salespeople are external customers, internal organization members who serve as resources in serving external customers (this group is often referred to as **internal customers**), other members of the salesperson's selling team, any direct reports the sales manager may have (such as sales assistants), and of course the sales manager.[12] Integrating feedback from these and other relevant sources of performance information into the formal evaluation process (and thus onto the evaluation form) can provide the impetus for a more productive dialogue between the sales manager and salesperson when performance review time comes around.

One other issue deserves mention related to 360-degree feedback—**self-evaluation**. Sales organizations should encourage salespeople to prepare an honest assessment of their own performance against the established objective and subjective performance criteria, and this should be prepared *prior* to the formal performance review session with the sales manager.[13] The best sales organizations use this process to begin the dialogue of sales unit goal-setting for the next period, and especially to establish a professional development program to help move the salesperson toward the fulfillment of his or her personal goals on the job. We learned in Chapter 11 that intrinsic rewards are among the most powerful motivators—things such as feelings of accomplishment, personal growth, and self-worth. Allowing the salesperson to have direct input in establishing personal growth goals on the job, and then institutionalizing the achievement of those goals via the formal performance evaluation process, goes a long way toward providing a workplace atmosphere in which intrinsic rewards may be realized by salespeople.

It is particularly important to involve salespeople directly in all phases of the performance appraisal process. When appraisals provide clear criteria, the criteria meet with the salesperson's approval, and the appraisals are perceived as fair and used in determining rewards, salesperson job satisfaction increases. Thus, the critical determinants of appraisal effectiveness are not purely criteria-driven but rather are largely determined by appraisal process factors that managers can influence, such as buy-in by those being appraised and fairness with which the appraisal process is administered.[14]

An old adage in human resource management holds that if an employee is surprised by anything he or she is told during a formal performance review, the manager providing the evaluation is not doing a very good job. Performance evaluation should not be simply one cathartic event that happens periodically. Such a view can cause great trepidation on the part of both employees and managers, and it often results in managers procrastinating in conducting the review and minimizing the time spent with the employee during the review. In contrast, great sales organizations use the performance evaluation process to facilitate *ongoing* dialogue between salespeople and their managers. The key goal of the process should be facilitating professional and personal development—providing the salesperson the feedback and tools necessary to achieve his or her goals in the job. To make this happen, sales managers must be prepared to carry on the dialogue beyond just the periodic formal appraisal event and into day-to-day communication with the salesperson. Importantly, this developmental perspective on performance evaluation requires that sales managers not just *give* feedback but also listen and respond to feedback and questions from the salesperson. The Innovation box provides insight on how sales managers can best use the performance appraisal process to the benefit of both the salesperson and manager.

Ultimately, sales organizations need to work toward developing a **performance management system** along the lines of the discussion in the chapter opener. To do so requires a commitment to integrating all the elements of feedback on the process of serving customers so that performance information is timely, accurate, and relevant to the customer management aspects of the firm.[15] The pieces of the performance puzzle are integrated in such a way that the salesperson does not have to wait on the manager for a formal validation of performance. Instead, under a performance management approach, salespeople take the lead in goal setting, performance measurement, and adjustment of their own performance.[16] The concept of performance management is analogous to TQM approaches that advocate the empowerment of employees to take ownership of their own jobs and conduct their own analyses of performance against goals, creating a culture of self-management. To successfully implement a performance management system, sales managers must shift their leadership style to that of a partner in a mutually shared process.

**INNOVATION Making Appraisals More Effective**

Appraisals can be a powerful tool if used correctly. Many managers dread the prospect of giving their staff honest feedback in the formal setting of the performance appraisal. The following are three steps to follow that should make the appraisal process more productive for both manager and employee:

1. Preparation—Have the reps rate themselves in the same areas that will be addressed in the appraisal. Focus on questions such as, Why is our organization a better place because you work here? In what areas do you need more support? What are your goals for the upcoming period?
2. Appraisal Interview—Make it clear that salary will not be discussed; use a separate meeting for this. The preparation work in step 1 will ensure that there is plenty to talk about. Focus on the areas where there may be differences in the answers to the preparation questions.
3. Post-appraisal—Hold a follow-up meeting and share the formal review documents. If salary is discussed be sure to provide a clear connection between decisions in this area and the issues that arose in the appraisal.

While pointing out flaws or areas that could be improved, do not neglect the power of acknowledgment for a job well done. While appraisals are an opportunity for a manager to improve the sales staff, the chance to build morale through positive reinforcement should not be missed.

## SUMMARY

Performance and effectiveness are different concepts. Performance may be thought of as a salesperson's behavior evaluated in terms of its contribution to the goals of the organization. On the other hand, effectiveness is an organizational outcome for which a salesperson is at least partly responsible, usually examined across a variety of indices.

Salespeople may be evaluated on the basis of objective and subjective criteria. Objective measures reflect statistics a sales manager can gather from a firm's internal data and other means and may be categorized as output measures (the results of the efforts expended by the salesperson) and input measures (the efforts they expend in achieving the results). Objective measures also may take the form of ratios that combine various outputs or inputs. On the other hand, subjective measures typically rely on personal evaluations of how the salesperson is doing, usually as viewed by the sales manager. In most cases, sales managers should pay attention to both objective and subjective measures in evaluating salespeople.

A variety of potential pitfalls exist in performance measurement, particularly utilizing subjective measures. These problems frequently take the form of various errors or biases in the evaluation, which result in an inaccurate performance appraisal that is perceived (rightly so) as unfair by the salesperson. Sales organizations and their managers must take great care to ensure that the performance evaluation process is conducted in as fair and accurate a manner as possible. Utilizing 360-degree feedback in the performance review, including a strong component of self-evaluation by the salesperson, can be very helpful in improving the usefulness of the performance evaluation process.

## KEY TERMS

behavior
performance
effectiveness
attribution theory
objective measures
*output measures*
*input measures*
*ratio measures*
subjective measures
bias
outcome bias
BARS (behaviorally anchored rating scale)
360-degree performance feedback
internal customers
self-evaluation
performance management system

## BREAKOUT QUESTIONS

1. Kevin Harrison, sales rep for Allied Steel Distributors, had an appointment with his sales manager to discuss his first-year sales performance. Kevin knew that the meeting would not go well. One of Allied's major accounts had changed suppliers due to problems with Kevin. The purchasing agent claimed that "personality differences" were so serious that future business with Allied was not possible. Kevin knew that these so-called personality differences involved his unwillingness to entertain in the same style as the previous sales rep. The previous sales rep frequently took the purchasing agent and others to a local topless bar for lunch. The rep told Kevin that this was expected and that if he wanted to keep the business, it was necessary. Besides, tickets to the professional basketball games didn't count anymore. What are the short- and long-range implications of this type of customer entertaining? What would you do in a similar situation? How should Kevin's sales manager react?

2. A large corporation notices an irregular decrease in the sales of a particular representative. The sales rep, normally in very high standing among other salespeople and quotas, has of late failed to achieve her own quota. What can be done by the sales manager to determine whether the slump in the sales curve is the responsibility of the representative or due to things beyond her control?
3. Given the following information from evaluations of the performance of different sales representatives, what possible conclusions can be made about why the sales reps are not achieving quota (assume each is not making quota)?

    a. Representative 1: Achieved goals for sales calls, telephone calls, and new accounts; customer relations good; no noticeable deficiencies in any areas.
    b. Representative 2: Completed substantially fewer sales calls than goal. Telephone calls high in number, but primarily with one firm. Time management analysis shows the sales rep to be spending a disproportionately large amount of time with one firm. New accounts are low; all other areas good to outstanding.
    c. Representative 3: Number of sales calls low, below goal. Telephone calls, letters, proposals all very low and below goal. Evaluation shows poor time utilization. Very high amount of service-related activities in sales representative's log; customer relations extremely positive; recently has received a great deal of feedback from customers on product function.

4. Is sales "just a numbers game," as one sales manager states? She believes that all you have to do is make the right number of calls of the right type, and the odds will work in your favor. Make 10 calls, get one sale. So to get two sales, make 20 calls. Is this the right approach? Why or why not?
5. Jackie Hitchcock, recently promoted to district sales manager, faced a new problem she wasn't sure how to resolve. The district's top sales rep is also the district's number-one problem. Brad Coombs traditionally leads the company in sales but also leads the company in problems. He has broken every rule, bent every policy, deviated from guidelines, and been less than truthful. Jackie knew Brad had never done anything illegal, but she was worried that something serious could happen. Other problems with Brad include not preparing call reports on time, failing to show up at trade shows, and not attending sales training programs. How should Jackie handle this problem? How does a sales manager manage a maverick sales rep? Specifically, how can the performance evaluation process help Jackie deal with Brad?

## LEADERSHIP CHALLENGE: UNDERSTANDING SALESPERSON PERFORMANCE

Mike Hunt had been in sales for 20 years, and, as sales manager for Market First Distributors, he was confident of his ability to evaluate salespeople. Market First was a regional distributor of food products to restaurants. It competed with large distributors such as Sysco and had developed a very good reputation for great service and reasonable prices. The company had a sales force of 70 in six districts across five midwestern states. A formal evaluation process had been implemented nine years ago. The process focused onsalespeople meeting specific targets on account development (sales per account and average order size) and call activity (calls per account). However, while the process had been successful in the past and everyone understood the expectations under the current system, Mike felt that something was missing.

Market First had begun to notice an increase in complaints with customers across all the sales districts. While the specific nature of the complaints varied, some themes showed up consistently. Customers were complaining that salespeople did not spend as much with them as they used to and were not as interested in the relationship.

Mike as well as senior management believed that it was time to broaden the performance evaluation process. They felt that by setting standards for territory management and customer satisfaction, the company could assess how well the sales force was doing in these critical areas. At this point, however, he was unsure how to set up such a system. As he sat in his office considering the options, he wondered if this would do more harm than good in the long run.

### Questions

1. You are Mike Hunt. How would you measure a salesperson's territory management skills and his or her relationship with the customer?
2. Mike has asked you to come in and explain the strengths and weaknesses of objective versus subjective measures for territory management and relationships with customers. What would you say?

## ROLE-PLAY: HARVEY INSURANCE AGENCY

### Situation

Harvey Insurance Agency sells an extensive line of policies, representing several major insurance companies. Principal agent Bill Harvey started the business in 1993 with one office assistant, and since then the company has grown to become one of the largest independent insurance agencies in the Los Angeles area. Besides the original office, Bill now has two satellite offices around the metro area, each with a managing agent. Across the three locations he also employs 14 other agents and 27 staff people who primarily assist with clerical duties and follow-up.

Bill has always treated his people well, and as the agency has grown he has continued to pride himself on the family feeling of the business. Yet recently he has begun to question whether his performance evaluation system is appropriate. Yes, sales have continuously grown and he has had very little turnover, but success in the industry (which has always been oriented toward relationship selling) is becoming more and more about securing, building, and maintaining long-term relationships with profitable customers. Relationship selling necessitates many activities on the part of the agents to support sales.

Until now, Bill's annual performance review of his agents has focused almost exclusively on a few objectives: principally, sales volume, number of new customers, number of calls per week, and number of policies sold by line versus goals. The agents make commission and bonuses, plus a base salary. Bill likes this compensation plan because it allows him to financially reward agents for volume and for selling specific items, and it still affords him the opportunity, through the salary component, to have influence on their nonselling activities.

Bill sees his present challenge as follows: The focus on relationship selling necessitates maintaining the current compensation plan with the salary component. But his performance evaluation system doesn't match up well with the realities of his business, because it focuses only on a few objective performance measures. He sees the opportunity to incorporate some appropriate subjective measures of performance into the evaluation process and perhaps even add or change some of the objective measures. Bill calls a meeting with Chip Landers and Connie Perez, the managing agents of his satellite offices, to brainstorm ideas for changing the performance evaluation system for the agents.

### Characters in the Role-Play

Bill Harvey, principal agent for Harvey Insurance Agency
Chip Landers, managing agent for the San Fernando Valley office
Connie Perez, managing agent for the Orange County office

### Assignment

Break into groups of three, with one student playing each character. It doesn't matter what the actual gender mix of your group is. Before you stage the meeting, work separately using the material in your chapter to come up with your own recommendation for a new set of objective and subjective measures of agent performance. You will need to be prepared to justify your recommendations in the meeting. Then get together and role-play the meeting among Bill, Chip, and Connie. In the end, you want to come out of the meeting with a unified plan for changing the performance evaluation system for agents at Harvey Insurance Agency.

## MINICASE: WEST MIDLANDS RESTAURANT APPLIANCES

West Midlands Restaurant Appliances (WMRA), headquartered in Birmingham, UK, sells large, industrial appliances such as refrigerators, freezers, and dishwashers to restaurants all over Great Britain. For several years, the company has been second in UK market share to industry leader Thames Restaurant Services, but it has been gaining share in recent years.

WMRA is especially optimistic about catching Thames this year because of the rise of its star sales manager, David Epstein, an energetic 31-year-old, who has been with the company since he was 22. Epstein is popular with the sales staff, but he also is aggressive and demands high performance. One of his initiatives is to make all salespeople accountable by strictly evaluating performance using ratios as well as purely objective measures. In particular, he has collected performance data for each of his seven sales representatives as follows:

| Sales rep | Previous Sales | Current Sales | Current Quota | Number of Accounts | Number of Orders | Expenses | Number of Calls | Number of Days Worked |
|---|---|---|---|---|---|---|---|---|
| Derek Francona | £480,000 | £481,000 | £575,000 | 1,100 | 780 | £9,300 | 1,300 | 235 |
| Johnny Schilling | 750,000 | 883,000 | 835,000 | 1,600 | 1,970 | 12,300 | 1,800 | 223 |
| Daphne Gellar | 576,000 | 613,000 | 657,000 | 1,150 | 1,020 | 7,500 | 1,650 | 228 |
| Robert Smythe | 745,000 | 852,000 | 850,000 | 1,350 | 1,650 | 11,000 | 1,700 | 230 |
| Jennifer McCarver | 765,000 | 860,000 | 850,000 | 1,300 | 1,730 | 11,300 | 1,750 | 232 |
| Manuel Lopez | 735,000 | 835,000 | 825,000 | 1,400 | 1,790 | 11,500 | 1,750 | 220 |
| Samantha Kerrey | 665,000 | 670,000 | 720,000 | 1,600 | 960 | 10,800 | 1,550 | 200 |
| Erin McCloud | 775,000 | 925,000 | 875,000 | 1,700 | 1,910 | 12,800 | 1,850 | 225 |

Epstein would like to see an analysis of salesperson performance using the following ratios: sales growth, sales to quota, sales per account, average order, sales expense, calls per day, orders per call.

Most of the salespeople are happy to be evaluated, but a few are dubious and fearful of the consequences. Robert Smythe, for one, feels that his territory, which includes the some of the more rural areas in Western England is more difficult to sell in because there are fewer restaurants and he has only been a salesperson for about a year. In addition, one of Derek Francona's largest customers recently went out of business, and he feels that his numbers slipped as a result. Both are close to quitting because they feel they are being evaluated unfairly.

Epstein wants to beat Thames very badly this year and feels that improving salesperson performance is the key. Therefore, his performance evaluation system is of the utmost importance.

### Questions

1. Using the data given, calculate the performance ratios requested by Epstein and rank the salespeople accordingly.
2. What advice or guidance should Epstein give to each of the salespeople to improve performance?
3. What are the limitations of this evaluation system? What adjustments or additions could Epstein make to more accurately evaluate salesperson performance?

## SUGGESTED READINGS


Bracken, David W. and Dale S. Rose. "When Does 360-Degree Feedback Create Behavior Change? And How Would We Know It When It Does?" *Journal of Business and Psychology* 26 (June 2011), pp. 183–192.

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Stewart, Susan M., Melissa L.Gruys, and Maria Storm." Forced Distribution Performance Evaluation Systems: Advantages, Disadvantages and Keys to Implementation." *Journal of Management and Organization* 16 (March 2010), pp. 168–179.

Üstüner, Tuba and Dawn Iacobucci. "Does Intraorganizational Network Embeddedness Improve Salespeople's Effectiveness? A Task Contingency Perspective."*Journal of Personal Selling & Sales Management* 32 (Spring 2012), pp. 187–206.