Encourage passion, not commission

Monetary rewards to sales staff only drives short-term results: Stanford professor

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TO MAINTAIN high service quality, businesses should get rid of the commission-based system when it comes to rewarding their sales staff.

So believes Professor Jeffrey Pfeffer, who was with his wife when she had an unpleasant experience at a major department store in the United States recently while looking for a pair of shoes.

“She has narrow feet, so she sometimes has trouble finding shoes that fit. The sales guy, seeing that it would take a long time to find something she might like, just went away and never came back,” said Prof Pfeffer.

“The mall pays them on a commission basis, and he probably thought he would be better off pushing more shoes with other customers.”

His frustrated wife decided to take her business elsewhere, said the 59-year-old American, who is a professor of Organisational Behaviour at Stanford University’s Graduate School of Business.

The couple ended up in another shop nearby, where he recalled how the sales attendant patiently worked with his wife before he found that perfect fit. Prof Pfeffer’s contented wife wasted no time in shelling out “thousands of dollars” on several pairs of that design, he said.

“I don’t know for sure if he (the sales attendant) was given commission. Maybe he wasn’t, but I believe a commission-based system only drives short-term behaviour. If you pay people to push shoes quicker, your staff are driven by the dollars and are not going to place emphasis on customer service and building customer relationships,” he said.

This was one of the points driven home by Prof Pfeffer, who was the keynote speaker at an inaugural Leadership Summit organised by the Singapore Management University last month.

Addressing nearly 200 corporate big wigs, he also explained why the practice of dishing out financial incentives is not the way for business leaders to solve problems.

“It’s a common misconception. A manager would think: ‘If I’ve got a problem in customer service or productivity, I’ll just pay for it.’ Yes, there are benefits, but they don’t outweigh the negatives,” he said.

A downside to the incentive system, according to Prof Pfeffer, is that companies might attract people who are in the job only for the money, and not interested in the job itself.

Monetary rewards such as a pay increase “are expensive and lose their effectiveness quickly”. “Don’t forget, a raise is only a raise for 30 days. After that, it’s your salary,” he said.

But, as with all companies, having a strong and committed team of staff is more likely to be achieved if one is a manager who leads by example, said Prof Pfeffer.

“If a worker asks a question and the chief executive officer doesn’t know the answer, he should put up his hand and admit it rather than make stuff up. That’s one behaviour I admire and strongly advocate.”

And no, admitting to a mistake does not make a leader lose his credibility, he said.

“If they don’t know, they should tell the truth because that encourages people around them to learn. Because if you never admit you don’t know something, you won’t be able to learn anything new to improve yourself.”