Effective Salesforce Management Practices: A Real Option Approach

*Pankaj M Madhani**

Salesforce are strategic assets to the sales organization, but their returns may not remain stable over time due to changes in business conditions. Salesforce investments are similar to investments in other types of real assets and thus carry uncertainties. The study identifies the uncertainties of return, volume and costs associated with salesforce and discusses various salesforce 'options' which are capabilities generated by some Salesforce Management (SFM) practices and their combinations. The 'real options' approach enables organizations to evaluate investment opportunities of salesforce in uncertain environments and underscores how these investments create value through future choices. The study also develops various frameworks for managing different types of salesforce uncertainties through better management practices.

Introduction

For sales organization, salesforce are an asset that can provide value and competitive advantage; however, such assets have associated uncertainties and risks. Salesforce represents the single largest marketing investment for most Business-to-Business (B2B) companies. In aggregate, the US companies alone spend more than $800 bn on it each year—three times more than they spend on advertising (Steenburgh and Ahearne, 2012). Salesforce are valuable assets to the sales organization, but their returns may not remain stable over time due to changes in business conditions. The 'real options' approach enables organizations to evaluate investment opportunities of salesforce in uncertain environments and highlights how these investments create value through future choices. Researchers apply this logic to analyze the uncertainties associated with human assets in sales organizations (i.e., salesforce) and discuss how sales organizations manage these uncertainties through salesforce 'options' which are capabilities generated by some Salesforce Management (SFM) practices and their combinations. The paper discusses these practices and develops an options model for managing different types of uncertainties.

The issue of managing the uncertainties related to salesforce has been unexplored in the area of SFM, leaving a gap in existing research. The paper addresses this gap in the literature and provides an alternative theoretical rationale on how SFM practices may create or maintain the value of salesforce. The study presents the 'real options' view currently popular in the field of strategic management. Real options theory, explicitly addresses the issue of investment choices for future resources and capabilities. It assumes that organization develops a level of

* Associate Dean and Professor, ICFAI Business School (IBS), IBS House, Opp. AUDA Lake, Science City Road, Off. S.G. Road, Ahmedabad 380 060, Gujarat, India. E-mail: pmadhani@iit.edu

foresight sufficient to invest in resources and processes with 'options' characteristics that provide implicit or explicit claims on future opportunities and generate flexibilities for future investments (Leiblein, 2003). In other words, it analyzes how sales organizations can lay claim to future rent-generating capabilities through investment in salesforce options. The paper offers a theoretical framework that investigates the link between uncertainty, salesforce and sales organizations' capabilities to manage uncertainty.

In the following sections, the paper provides a brief overview of the real options concept and develops real options framework focusing on the uncertainties that it seeks to address, apply this framework to identify the types of uncertainties associated with salesforce and examine the implications of this framework for making decisions regarding salesforce investments in organizations through SFM practices.

Real Options and Salesforce Management Practices

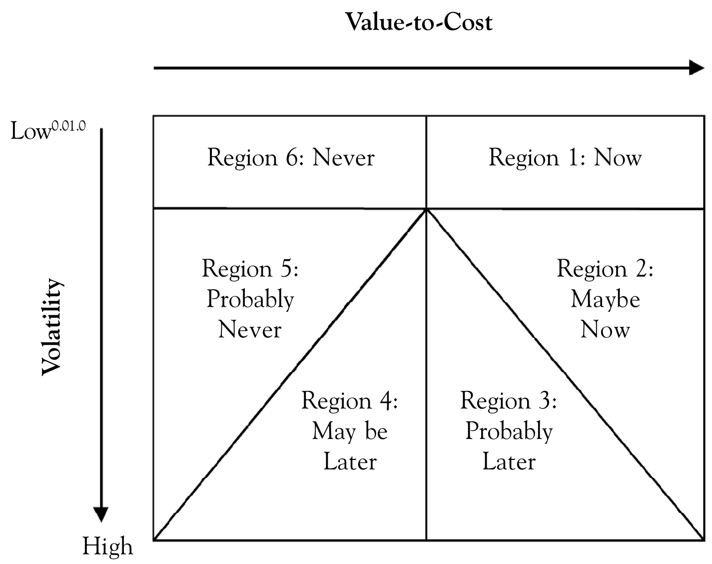
Real Options Approach

Real options investments refer to those investments that are in the form of physical and human assets, as opposed to financial instruments (Kogut and Kulatilaka, 1994). These investments are associated with higher value when there is a concurrent ability to adapt and revise investment-related decisions in response to unexpected market conditions (Lee *et al.*, 2008). An organization's flexibility to adapt its future actions in response to altered future market conditions expands the value of an investment by improving its upside potential while limiting downside losses relative to its initial expectations under passive management (Trigeorgis, 1993). This adaptability gives the organization additional "options" for action under differing scenarios.

These different scenarios are shown in option space (Figure 1), in a two-dimensional graph—with expected profitability on the x-axis and the volatility on the y-axis. As shown in Figure 1, it is possible to split the graph of option space into a number of regions. When the volatility of an investment is low an investment decision can be made whether the value-to-cost ratio is greater than one (invest now, Region 1 in Figure 1) or less than one (do not invest, Region 6 in Figure 1). The value-to-cost ratio defines whether the option is expected to make a profit by dividing the expected cash inflow by the expected cash outflow, adjusting for the risk-free interest rate. The volatility of an investment will decrease over time as more information is known about the investment (Luehrman, 1998).

Real options, subsequently, are investments that are discretionary in that they provide firms with the right, but not the obligation, to undertake some future action. Real options framework views strategy as creation of strategic options and consider an organization's resources—its capabilities and assets as bundles of options for future strategic choices (Bowman and Hurry, 1993). The valuation of human capital such as salesforce can be done by the risk analysis technique of real options. Real options look at strategic decisions in terms of the options they create and value these options. It implies that there are ways to hedge against risk and to reduce uncertainty.

Figure 1: Investments in Real Options – Different Scenarios



Source: Luehrman (1998)

A fundamental assumption of real options approach is that business risk and the future uncertainty about an organization's returns will influence its investment decisions in strategic assets. Greater uncertainty will induce organizations to create 'real options', which are flexible decision or time-deferred investment choices to manage the risk and uncertainty associated with strategic investment decisions. These investments create higher value when there is ability to adapt as well as revise investment-related decisions in response to unexpected market conditions. Based on capabilities provided by 'real options', the organization may choose to adjust, reduce, increase or abandon the investment in the future, thereby stabilizing returns from such assets (Madhani, 2009a). Thus, real options help organizations adjust to future shocks or business risks.

Enhancing Salesforce Flexibility With Real Options Approach

As sales organizations now operate in environments with unpredictable events such environment uncertainty put extra pressure on their performance. Environment uncertainty is caused by unexpected events that put the sales organization in an unstable state. Such environment uncertainty is difficult to accurately predict and hence put the sales organization in a position where it must rapidly adjust to a changing environment or else perish. Such heightened demands on sales organizations have subsequently called for corresponding salesforce of flexible, versatile and capable individuals. These circumstances have forced sales organizations to make paradigm shifts in managing salesforce of the organizations. In the context of SFM practices, salesforce attributes such as enhanced skill levels, greater work related flexibility and productivity, and increased capacity to respond to the dynamics of a fast-changing business, etc. provides competitive advantages to sales organizations.

Directly or indirectly environment uncertainty has an adverse impact on an organization's ability to meet financial performance indicators (Engle *et al.*, 2008). During this period, sales revenue and volume remains stagnant or turns down, profitability also declines. This predictably will mean that there will be upward pressure on revenue growth and a downward squeeze on costs. The reduction in spending inevitably means that there will be a tightening of expenditure budgets (Leat and El-Kot, 2007). Organizations emphasize do more with less and hence take every opportunity to cut costs and arrest declining revenues and margins.

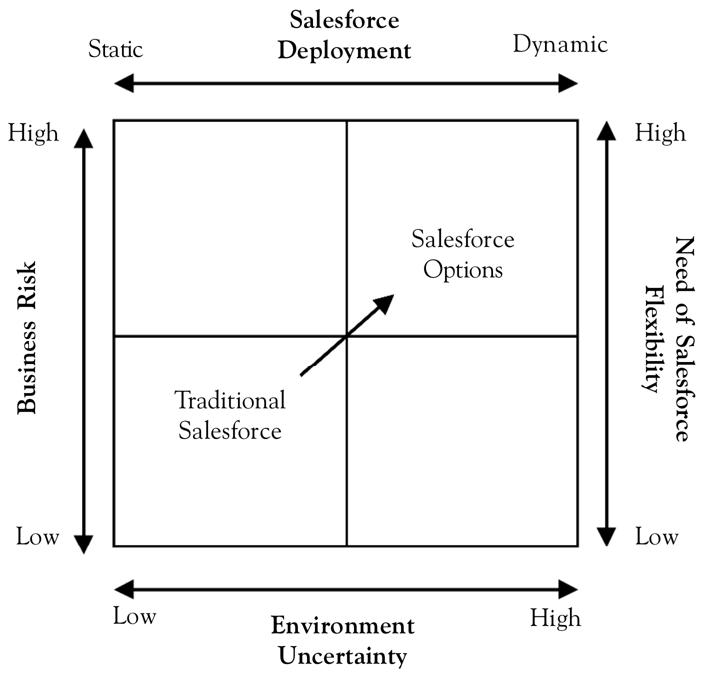
Due to environment uncertainty, investments in salesforce are related to sales organization's business risk, that is, variability in its financial returns. These risks necessitate the creation of real options for salesforce investments (also called salesforce options). Salesforce options are a subset of real options and are defined as investments in the salesforce of organizations that provide the capability to respond to future contingent events. These salesforce options generate variability of salesforce investments over time. As environment change become more rapid and of greater magnitude, the returns from investments in salesforce become more unpredictable, resulting in the creation of more salesforce options to demonstrate more flexible salesforce investment, i.e., higher salesforce flexibility.

Flexibility is the ability of an organization to respond to various demands from its dynamic competitive environment and hence it is valuable to organizations as it provides them with the ability to adapt when faced with uncertainty (Sanchez, 1995). As a critical organizational capability, flexibility can be seen as real options that enable organizations to adapt to diverse and changing requirements from the external environment and manage uncertainties proactively (Kogut and Kulatilaka, 2001).

Although, the significance of flexibility in other functional areas of the organization, such as operational flexibility, product customization and resource flexibility has already been emphasized, salesforce flexibility and its possible contribution to competitive advantage of the organization have not been examined extensively. Salesforce flexibility is one of the important aspects of sales organization's flexibility, and it is focused on adapting sales employee attributes (such as knowledge, skills and behaviors) to changing environmental conditions. Empirically, a significant and positive relationship has been found between HR flexibility and organization performance (Bhattacharya *et al.*, 2005; and Ketkar and Sett 2010). In a dynamic environment, salesforce flexibility can be seen as a valuable and dynamic capability that helps the sales organization to adapt to changing environmental contingencies for achieving competitive advantage and superior performance.

Under conditions of uncertainty and instability, sales organization's ability to operate with flexibility in their salesforce investment decisions brings more value to the organization. With investments by sales organization to create built-in flexibility provides more than one option (i.e., salesforce options) for future course of action to the sales organization (Figure 2). As future conditions unfold, sales organization can then rightly choose the most befitting

Figure 2: Real Options Approach – Enhancing Salesforce Flexibility



Source: Madhani (2018)

course of action, based on emergent new circumstances. This approach to investments, widely known as a real options approach, has been increasingly recommended in the strategic management. Salesforce options provide a strategic organizational capability to adapt to future contingent events and flexibly manage uncertainties arising from fluctuations in the value of the underlying salesforce.

The valuation of each of these salesforce options created by SFM practices should be approached by considering the source of their flexibility. Salesforce options are generated through a specific type of SFM practices that are intended at building a salesforce capability to respond to future uncertain events and hence, not all SFM practices are options. Hence, only certain SFM practices are valuable to the organizations because they increase their flexibility. The salesforce options may expire when the sales organization's capabilities and sales employee competencies are unutilized and hence it may be lost over time. Therefore, using the real options logic for salesforce investment necessarily entails a rigorous and frequent analysis of salesforce, their uncertainties, and costs of creating the options. All of these contribute towards a greater understanding of the strategic role for SFM practices in building salesforce flexibility.

SFM Practices and Environment Uncertainty

Most of the capabilities that sales organization possess can be linked to salesforce and therefore effective management of salesforce is considered critical for creating and sustaining competitive advantage. Real options are appropriate as a tool for strategic reasoning and the valuation of several types of flexibility created by strategic management practices. Thus, organizations might find it valuable to make an initial investment in flexibility to create the option to defer, expand, grow, abandon, or flexibly switch the mix or the output scale (Madhani, 2013).

However, salesforce, like other forms of assets, have several uncertainties associated with them. The future value of salesforce can be uncertain (e.g., performance of sales employees may go down over time or job responsibilities may change causing a misfit between the skill set of salesforce and the job requirement), which, as per real options theory, is uncertainty of returns. The number of salespeople required in a particular sales territory may fluctuate according to market dynamics or there may be unexpected demands for skills (role of specialist salesforce or account manager) that the sales employees do not possess. According to real options theory, these uncertainties are called uncertainty 'volume' and 'combinations'. Uncertainties of combination (alignment of territories) are unforeseen changes in the deployment of salesforce, giving rise to the need for reallocation of employees due to variations in the skill, product or customer demand. To hedge against those uncertainties, sales organizations could purchase timing options (hiring contingent, part-time or temporary employees) or switching options (re-allocation).

Furthermore, costs of salesforce, in the form of salaries, commissions, benefits, etc., may also enhance uncertainty (e.g., because of external factors there may be a significant rise in the salesforce costs due to statutory benefits or overall high fixed costs of salesforce or low cash flow of the sales organization during uncertain environment), which according to real options terminology are referred as uncertainty of cost of continued investments. Consequently, any investment decision in salesforce, from the decision to acquire (buy) as an indirect salesforce (independent sales reps) or develop (make) as an in-house salesforce (direct salesforce), motivate with higher variable pay or retain salesforce with fixed pay, carries with it uncertainty regarding the future return from that investment and the risk that the pay-off may not be as expected.

In addition, a unique uncertainty associated with salesforce or any human assets is that the employee may leave voluntarily, thereby taking valuable knowledge capital away. Each of these scenarios assumes that the sales employee is valuable and the organization wishes to retain him; otherwise the exit option to 'disinvest' the sales employee through lay-off is open for the organization. Exit option, also known as abandonment or termination options, allows sales organization to cease a salesforce investment at some point before completion. Sales organizations often downsize salesforce to save costs in the short run, although they may need more, not fewer, salespeople to implement new strategies. Many sales organizations take advantage of temporary declines to eliminate mediocrity in their salesforce. Once the turnaround starts, they hire salespeople who are more qualified than the ones they let go. Sometimes what looks like a misallocation of resources is really mediocre performance.

As seen in the above scenarios, uncertainty related to salesforce can come from the organization, due to strategic changes, or from the market dynamics such as changes in business conditions, customer needs and competitor actions. The uncertainties associated with salesforce and the factors that contribute to them at the 'individual', 'organization' and 'market' level are given in Table 1. Uncertainties of salesforce can be related to returns, volume, combinations and costs (Table 1).

Uncertainties of returns refer to the depreciation (or appreciation) of the value of human assets, i.e., salesforce and variations in the value generated by them. Skill obsolescence, demand for future skills not possessed by the salesforce, and loss of productivity are some examples of uncertainties of return on salesforce. Uncertainties of volume are fluctuations in the demand and supply of the quantity of salesforce, both inside and outside the organization, while uncertainties of combination are unforeseen changes in the deployment of this human asset, i.e., salesforce, giving rise to the need for reallocation. Uncertainties of costs are the variations in the ratio of the total expenses on salesforce relative to firm revenues. High and fixed sales employee costs and fluctuating firm revenues give rise to uncertainty of costs for salesforce.

Uncertainties of Returns

At the individual sales employee level, uncertainty of returns may stem from skill obsolescence or inability to learn new skills. Salesforce skills may become obsolete or gradually eroded if sales employee is unable to upgrade or learn new skills as demand changes based on new role, territory, product or customers. Therefore, the performance of sales employee may not remain the same over the years and return on investments in salesforce may be affected. If sales employees do not adapt their skills and knowledge to the changed market circumstances or are unable to learn fast, obsolescence of skills become a major risk for the sales organization.

Voluntary turnover of sales employees has also become a major risk for sales organizations. Individual factors, like overall job dissatisfaction arising from dissatisfaction with pay, promotion or supervisory sales manager relations, as well as dissatisfaction with job content like autonomy, responsibility, etc., are predictors of voluntary turnover. Sales employee turnover results in the loss of critical knowledge of customers and markets, resulting in huge loss of accumulated knowledge. Even if sales employees do not leave the sales organization, uncertainty of returns from salesforce can arise from loss of productivity due to employee dissatisfaction, lack of motivation and/or lack of commitment. Only motivated and committed salesforce can translate their product knowledge and selling skills into sales performance as well as higher customer retention and, to the extent that motivation and commitment of the salesforce vary and do not actually contribute to the level of their true sales potential, uncertainty of returns may arise.

At the organization level, the sources of uncertainty of return are related to the skill profile of the salesforce in the organization, i.e., the combination of skills or skill sets that the salesforce possesses. For an organization, a critical skill group may become depleted due to

Table 1: Uncertainties of Salesforce Investment

Uncertainties	Sources of Uncertainties		
	Individual	Organization	Market
Uncertainties of Return			
1. Demand for future skills 2. Turnover of salesforce 3. Lower productivity of salesforce 4. Lower quality of hire 5. Higher cost of sales employee 6. Skill obsolescence	1. Sales employee dissatisfaction 2. Lack of commitment by salesforce 3. Inability to learn new skills 4. Voluntary turnover of salesforce due to sales manager relationship/ territory issues 5. Better opportunity elsewhere	1. Changing skill profile of salespeople and mismatch with market requirements 2. Turnover of critical skill group or high profile salespeople 3. Inability to generate/ accommodate new skills and learning 4. Inability to institutionalize knowledge 5. Lack of salesforce, training and development plan 6. Breach of psychological contract and lack of concern for employees 7. Poor reputation of firm 8. Lower job security	1. Changing career patterns of salesforce 2. Pro-cyclical hiring 3. Non-availability of skill set during expansion stage of business cycle
Uncertainties of Volume and Combinations			
1. Variations in number of sales employees required 2. Variations in deployment of types of salesforce according to territory/services and customers	1. Absenteeism 2. Resistance to change in job assignment related to product, selling role or territory	1. Variations in demand for number of sales employees in different job assignments or territories 2. Lack of slack/buffer (in terms of generalist/specialist salesforce and account managers)	1. Variations in demand due to uncertainty of external environment

Table 1 (Cont.)

Uncertainties	Sources of Uncertainties		
	Individual	Organization	Market
Uncertainties of Costs			
1. Variations in total employee outlay vis-à-vis cash flow	1. Abuse of sales incentives and fringe benefits 2. High fixed pay (guaranteed pay) /bonuses for sales employees	1. Variations in profitability 2. High fixed cost and operating leverage	1. Business cycles stages such as recession period 2. Competitive pressures for cost reduction 3. Organizational life cycle stages such as maturity and decline

voluntary or natural turnover. If an organization fails to support adequate learning or generation of new skills or cannot institutionalize knowledge, then the effect of such skill-profile mismatch or skill depletion will be profound and uncertainty of returns will be high. Therefore, lack of salesforce training and development can contribute to a skill crisis over time. In addition, an organization's lack of concern for salesforce, as evident in, a stressful work environment, lack of career development plan, etc., can lead to salesforce dissatisfaction, poor motivation and less commitment, which may result in loss of market share in the long run due to non-optimum effort on the part of sales employees to apply their knowledge, skills and abilities.

Market factors that give rise to the uncertainties of return are related to demand for and supply of skills related to salesforce. The external labor market provides a set supply of various skills that may be needed by the sales organization. Salesforce with critical and new skills may become scarce and uncertain (problems related to pro-cyclical hiring conducted during booming economy), or there may be shortage of required skills (due to changing career patterns). In large part, it is the interface of the supply of the market with the demand of the salesforce that creates the uncertainty of returns. Environmental forces like fast changing business conditions, rapid internationalization, intense competition, technology enabled selling, etc. impact on the skill demand of salesforce.

SFM Practices for Managing Uncertainties of Returns

Some sales organizations seek employment stability as a means of achieving high commitment, high involvement, and flexibility among their sales employees thereby reducing uncertainty of return. Employment stability may also have a positive impact on the reputation of the organization, which in turn, may help in attracting and retaining best talent. Employment stability is influenced by SFM practices such as selective as well as countercyclical hiring, performance-based compensation design, and investment in training and development. In selective hiring, organizations make sure at the stage of recruiting the salesforce that they get the right persons that subscribe to the organization's objectives and values. The employment stability can be enhanced with extremely careful applicant screening and employee selection. Countercyclical hiring strategy involves allocating resources of an organization unconventionally and differently by selective hiring during recessions that occur prior to a revival in economy. Hence, it also reduces pressure to hire candidates when good applicants are scarce and available at a premium (Madhani, 2011).

A sales organization that regularly invests in training is able to adjust to the changed market conditions at a relatively lesser cost compared to the competitor that did not create sufficient flexibility in its salesforce. The need for investment in salesforce may be considerably bigger for a sales organization that has not yet acquired adequate level of skills and knowledge which would enable it to swiftly adjust to new conditions. Investment in salesforce training also increases future value of salespeople (Madhani, 2017a and 2017c). Sales organizations with employment stability practices attempt to avoid layoffs during business downturns, they also avoid staffing up too quickly during business upturns. Employment stability helps sales organizations avoid pro-cyclical hiring and the higher associated hiring costs of facing greater competition in the job market as most organizations attempt to fill positions at the same time. With all these SFM practices, sales organizations will be able to manage uncertainties of returns.

Uncertainties of Volume and Combinations

Uncertainties of volume arise due to fluctuations of demand and supply of the number of sales employees (change in salesforce size) in a territory. At individual sales employee level, uncertainty of volume may occur due to voluntary turnover of sales employees because of better job opportunity in the market such as during the growth stage of economic life cycle; while uncertainty of combination may come from change in the selling role defined as generalist salesforce, product specialists or account manager. Organization-related factors such as fluctuations in the salesforce size, also present uncertainty. With under-staffing during the growth stage of the business cycle, organizations are unable to capitalize on all opportunities. Hence, sales organizations need to add more manpower by hiring fresher/ more salespeople. Here, compensation charge is premium paid for the option, for getting long term benefits. When a company increases the size of its salesforce during the beginning of the growth period, it does not maximize sales or profits at first. In the long-term, however, the company will make more profits than if it had started with a smaller salesforce (Zoltners *et al.*, 2006).

Other factors influencing uncertainties of volume are changes in sales territory, new product introduction, geographic expansion, etc. Real options theory supports the salesforce expansion decision because it provides optimal investment rules where investment decisions are at least partially irreversible and uncertainty is present. Situations of fast growth, introduction of new product in the market or introduction of existing product in the new market or territory often involve significant uncertainty and expose sales organization to the potential for downside risk, making real options theory necessary for an accurate valuation of salesforce investment decisions in this context.

Market factors can present the sales organization with unexpected short-term misalignment of salesforce in a given territory. Consequently, given a set sales territory, the inability to predict the size of sales employees presents a risk to the sales organization in terms of uncertainty of volume. For example, in a territory, a sales organization experiencing a 10% excess salesforce might realign its workforce numbers by transferring this extra salesforce to another territory. However, such territory realignment is not dynamic in nature and depends on many market factors and accordingly the number of salesforce required in a territory changes. Hence, during such a situation either sales organization is unable to achieve expected sales volume (deficit of sales employees), or it overpays (due to excessive sales employees in a territory). Sales organizations must revisit sizing issues when they move from generalist salesforce to specialist ones (i.e., specialization by markets, products, activity or customers) or account managers during different stages of business life cycle (Madhani, 2010b).

Uncertainties of combination arise when there is a need to reallocate (realign) employees or their skills within the assigned sales territory due to qualitative or quantitative variations in demand and supply. Hence, uncertainties of combination arise when there is a need for reallocation of salesforce in a sales territory due to demand and supply mismatch. The challenge in developing the capability to reallocate salesforce to different sales territory is to identify suitable territory, to convince them for such territory realignment and to motivate them to perform at their best in their new sales territory.

SFM Practices for Managing Uncertainties of Volume and Combinations

SFM practices that generate capabilities to manage uncertainties of volume and combinations are job/territory rotation and team-based work. Many sales organizations formally or informally rotate inexperienced sales employees among different kinds of sales jobs in different sales territories in order to develop multiple skills as well as to create flexibility for the sales organization. Similarly, in many sales organizations, fresh trainees are associated with experienced salespeople. The broader aim of such practices is to be able to reallocate salesforce in response to changing market needs. Thus, there is a reallocation and shifting of sales employees in a sales territory and also among different sales category that helps the sales organization to maintain its flexibility and manage costs. In essence, these SFM practices generate switching options.

When demand is uncertain such as in maturity and declining stages of business life cycle, employing a large number of full-time or permanent or direct salesforce is a risk. The sales organizations can use direct salesforce or contractual sales employees (independent reps). Direct salesforce consists of full or part-time paid employees who work for the sales organizations exclusively. Contract salesforce consists of independent representatives, agents and brokers who are paid a commission based on their sales. Use of contingent, manufacturer's representative and contractual employees creates capabilities that allow the sales organization to alter operating scale, i.e., vary the total number of sales employees, according to fluctuations in demand (Madhani, 2012).

During the start-up stage of an organizational life cycle, sales organization hire contract sales employees as there is lot of uncertainty during this stage (Madhani, 2010a). The use of contingent, part-time and contractual sales employees create timing options for the sales organization for which uncertainties of future salesforce demand exist. Timing options manage uncertainties of volume by 'deferring' or 'staging' the salesforce investment. Through these options the sales organization has the choice not to commit itself fully in the current period in acquiring direct salesforce. The firm 'leases' the human capital in the form of contractual/temporary employees or it may 'stage' investment in the form of part-time employees.

Sales organization's decision to substitute permanent sales employees with temporary sales employees as a real option offers the sales organization a source of flexibility and cost control. Large use of temporary sales employees during uncertain environment allows the sales organization to quickly adjust its salesforce in response to deteriorating economic conditions at low cost relative to adjustments involving permanent employees. There are various motives for deploying temporary or part-time sales employees: reducing hiring costs associated with employees, cutting costs of administrative overhead, training, selection and staffing; increasing flexibility with respect to market fluctuations, skills and salesforce distribution; and the desire to avoid restrictions and consequences associated with commitment to permanent sales employees. Real options theory can be used as the determinants of option value and the relative advantage of using temporary sales employee versus permanent sales employees to hedge against downside risk exposure.

The choice between a direct salesforce and reps depends on many economic and non-economic factors. The decision related to the use of direct salesforce or reps should be investigated not only for their cost and returns but also for the market dynamics, its sales range and reach in the market and the relative strengths of the reps (Madhani, 2012). Sales organizations must reassess their salesforce structure of direct salesforce versus reps and associated compensation plan across the economic cycle (Madhani, 2014a) as well as business life cycle (Madhani, 2014b).

Use of contingent, part-time and contractual sales employees sometimes results in higher costs in the short run. However, these costs are incurred to provide the necessary flexibility to sales organizations, which may offset the costs in the long run. Such costs can be considered the option premium. In terms of option expiration, the deployment of contingent sales employees may continue if uncertainty of volume persists and the option to alter scale does not expire.

At optimal salesforce size (volume) and corresponding structure (combinations), sales organization is able to attract, retain and motivate the 'right' type of salespeople, build long term relationship with customers, gain market share, and enhance profitability (Madhani, 2015). When making salesforce expansion decisions, sales organizations should appropriately account for overall costs (including real and social costs) that may occur as a result of future layoffs. Hence, instead of only focusing on volume (i.e., size of salesforce), sales organization should also focus on enhancing productivity of sales employees. However, salesforce productivity improvement entails upfront cost and hence, it has to be evaluated with overall benefits and enhanced flexibility. In the long run, productivity improvement is more economical compared to increasing salesforce size (Ledingham *et al.*, 2006). With all these SFM practices, sales organizations will be able to manage uncertainties of volume and combinations.

Uncertainties of Cost

Uncertainties related to salesforce cost exist when there are high fluctuations in the performance of sales organization but the expenses associated with salesforce are relatively fixed. In such cases these organizations should create options to manage sales employee costs through higher variable compensation plans. Hence, sales organizations hire salespeople (reps) on a full commission basis (e.g., sales of newly introduced product) under high uncertainty of performance, while, under less uncertain conditions, commission is added to the base pay of salespeople (e.g., reps for financial services sales).

At individual level, abuse of sales incentives and fringe benefits as well as higher proportion of fixed pay in pay mix of sales employees cause uncertainty of cost. At an organization level, variations in organization profitability and high fixed cost and operating leverage of organization cause uncertainty of cost. At the market level, business cycle stages such as recession and slump period, competitive pressures for cost reduction and organizational life cycle stages such as maturity and decline cause uncertainty of cost.

SFM Practices for Managing Uncertainties of Cost

During the period of high business risk, variable compensation reduces uncertainty of cost. SFM practices of higher variable pay better align employees' interest with that of the organization, leading to greater transparency, commitment and adaptability on the part of the sales employees and also reduce commitment of fixed costs. However, there are challenges in deploying variable pay under certain circumstances. In fact there exists optimum balance between fixed and variable pay compensation (Madhani, 2009b). Uncertainties related to cost can be managed by the sales organizations with SFM practices of designing optimal mix of financial and non-financial rewards (Madhani, 2017b).

Similarly, SFM practices of performance-based variable plans are designed at the firm or unit level to generate options to alter cost. In performance-based variable plans, employees would accept variations in their pay according to changes in organizational performance. Sales organizations may incur upfront costs in introducing and maintaining these incentive plans which are the premiums for the options. However, over the long run, the benefits derived from flexibility of costs should offset the premium. Also, once set up, these options do not expire unless there are shifts that change the cost structure. During the period of high environmental uncertainty, HR flexibility and accompanying performance management practices enhance effectiveness of organization in terms of higher performance (Madhani, 2016).

SFM Practices for managing uncertainties of salesforce investment related to returns, volume and combinations and costs are given in Table 2.

Table 2: SFM Practices for Managing Uncertainties of Salesforce Investment

Uncertainties	SFM Practices for Managing Uncertainties of Salesforce Investment
Uncertainties of Return	
1. Demand for future skills 2. Turnover of salesforce 3. Lower productivity of salesforce 4. Lower quality of hire 5. Higher cost of sales employee 6. Skill obsolescence	1. Competitive pay 2. Employee participation 3. Voice mechanisms 4. Attractive benefits 5. Training and development 6. Selectivity in recruitment 7. Countercyclical hiring 8. Broad-based skills 9. Employee engagement
Uncertainties of Volume and Combinations	
1. Variations in number of sales employees required 2. Variations in deployment of types of salesforce according to territory/services and customers	1. Job/territory rotation 2. Full-time versus part-time employees 3. Direct salesforce versus independent reps 4. Use of contingent and contractual sales employees 5. Team-based work
Uncertainties of Costs	
1. Variations in total employee outlay vis-à-vis cash flow	1. Variable pay plan 2. Performance-based incentive plans 3. Enhancing HR flexibility 4. Optimal mix of financial and non-financial rewards

Implications

Human capital is a strategic asset and set the conceptual model to consider HR practices as creating real options (Bhattacharya and Wright, 2005). Extending this concept further to sales organizations, this study considers salesforce as a strategic asset and SFM practices as creating real options in terms of reducing uncertainties of return, volume, and costs related to salesforce. Extending real options thinking to salesforce relies on the assumption that as human capital salesforce has value, and that the value changes over time. Hence, sales organizations using such salesforce options enhance sales employee—sales organization fit rather than sales employee—sales job fit so that, when territory or job profile changes, the sales employee still remains valuable to the sales organization.

There is a premium associated with creating these salesforce options. Many of these SFM practices involve additional investments on salesforce. For example, selectivity in recruitment for broad-based skills required for generalist job of salesforce, during beginning of the growth stage of business life cycle may require highly competitive pay. As attractive benefits involve higher costs, the firm needs to do a judicious cost-benefit analysis in terms of the magnitude of risks and benefits accrued before implementing such SFM practices. There may also be synergistic effects among these salesforce options that override the additional costs. For example, the synergistic effect of selectivity of recruitment for broad-based generalist skills, training for such broad-based skills and skill-based pay taken together may be more effective in reducing uncertainty of returns than each of them individually.

Conclusion

The study acknowledges that investments in salesforce are similar to investments in other types of real assets and thus carry uncertainties. The real options framework used in this study analyzes the different types of uncertainties associated with salesforce and accordingly related SFM practices may create options to minimize these risks and create value for the sales organization. Therefore, real option is in fact salesforce option, since it allows the sales organization to pay smaller price for the adjustment. Salesforce options are the result of bundles of SFM practices adopted by the sales organization that increase the organization's capabilities to manage uncertainty. The ability of the organization to operate flexibly in dynamically changing business conditions is crucial in the long-run. The underlying logic of real options provides an extension of how researchers and practitioners can approach the management of salesforce uncertainty and provide an alternative view of value creation.

Future Directions: The emphasis on management of salesforce uncertainties raises a number of issues that need further investigation. First, this theoretical framework sets the stage for empirical investigation of the relationship between different types of risks associated with SFM practices and presence of different salesforce options. Salesforce options would have synergistic effects when they act in 'bundles' of multiple interacting options, the need to identify these different 'bundles' exists. Third, individual salesforce options may manage more than one type of risk. For example, higher variable pay of salesforce may manage uncertainty of costs and may create learning options. ✪

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