The Impact of Aligned Rewards and Senior Manager Attitudes on Conflict and Collaboration between Sales and Marketing

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Biographies

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Research Highlights

Survey of UK, B2B companies revealed the value of aligned rewards to sales/marketing

B2B organizations which align rewards can increase sales/marketing collaboration

Aligned rewards alone do not reduce inter-functional conflict between sales/marketing

Senior managers' support for coordination is vital in improving collaboration

Senior managers' support can reduce inter-functional conflict between sales/marketing

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Abstract

This research was carried out using five case studies and a survey to discover how sales and marketing managers are rewarded and if alignment of rewards can improve collaboration between sales and marketing and/or reduce inter-functional conflict. In addition, it examined the role of senior managers' support for coordination on sales/marketing collaboration. The results reveal that organizations which use aligned rewards can increase sales/marketing collaboration through such reward structures, but not reduce inter-functional conflict. In addition, senior managers' support for coordination is vital, as it increases sales/marketing collaboration, and strongly reduces inter-functional conflict. This is important because inter-functional conflict has a strong negative impact on collaboration between sales and marketing in business to business firms.

Keywords: Rewards Alignment, Management Support for Coordination, Sales/Marketing Interface, Collaboration, Inter-functional Conflict.

This paper examines the effectiveness of rewards alignment, and the role of senior management, in improving collaboration and decreasing conflict between sales and marketing personnel in business-to-business firms. The sales/marketing interface has a direct and significant impact on customers and the revenue-earning potential of the firm. Guenzi and Troilo (2007) for example linked the effectiveness of Marketing/Sales relations, to positive outcomes such as superior value creation, and market performance. Hence, the effective management of the sales/marketing interface is possibly of greater importance in improving business performance and organizational success than any other internal interface (e.g. Dawes & Massey, 2005; Homburg & Jensen, 2007; Le Meunier-FitzHugh & Piercy, 2007), particularly within business-to-business firms (Dawes & Massey, 2006).

A key proposition investigated in this study is whether sales/marketing collaboration can be improved by aligning the reward structures of sales and marketing. A number of conceptual and empirical studies (e.g., Dewsnap & Jobber, 2000; Rouzies, Anderson, Kohli, Michaels, Weitz & Zoltners, 2005; Kotler, Rackham & Krishnaswamy, 2006) have identified aligned or joint reward structures as a key mechanism to improve the sales/marketing interface. However, to our knowledge, this proposition has not previously been empirically tested. A major issue addressed in our study therefore is whether aligning reward structures to reflect broader "superordinate" goals (e.g., company performance) rather than individual departmental goals, can facilitate collaboration and reduce tension between sales and marketing.

According to Galbraith (2002:12), "The purpose of the reward system is to align the goals of the employee with the goals of the organization" and "to be successful, the focus of rewards must be compatible with the tasks and structures laid down for the organisation" (Child, 1985:202). However, Alldredge, Griffin and Kotcher (1999) note that in many organizations, sales and marketing are being pulled in two different directions by independent goals and reward systems. Although sales and marketing are sometimes considered to be part of the same function with the same objectives, in reality they are often managed as two distinct departmental groups with independent goals (e.g. Anderson, Dubinsky & Mehta, 1999; Olson, Cravens & Slater, 2001). These goal differences may be a source of interdepartmental friction, and may indicate a lack of understanding of the importance of coordination by senior management (e.g. Colletti & Chonko, 1997; Homburg & Jensen, 2007; Lorge, 1999, Strahle, Spiro & Actio, 1996).

The impact of senior managers' support for sales/marketing coordination on inter-functional conflict and collaboration is also explored. Tjosvold (1998) noted that as internal collaboration improves productivity and competitiveness, increasing it is a key managerial objective. There is evidence to suggest however that the sales/marketing interface is not always harmonious or collaborative (e.g. Kotler Rackham & Krishnaswamy, 2006; Lorge, 1999; Rouzies et al., 2005). Moreover, inter-functional conflict (e.g. working at cross purposes, low support, and obstructive behavior) in the sales/marketing interface reduces collaboration (Le Meunier-FitzHugh & Piercy, 2007; Menon, Jaworski, & Kohli, 1997) and operational effectiveness. Both improving collaboration and reducing conflict between sales and marketing should be a target for senior managers according to Kotler, Rackham and Krishnaswamy (2006), but many managers are not focused on achieving these objectives.

We make a number of contributions to the literature. First, whilst a number of studies have discussed the impact of rewards on the sales/marketing interface (e.g. Dewsnap & Jobber, 2000; Rouzies et al., 2005; Kotler, Rackham & Krishnaswamy, 2006), this is the first empirical test of this issue. Our study therefore responds to Chimhanzi (2004), who called for further research into the effects of reward systems on interdepartmental integration. Our second contribution is that we examine the role of senior managers' support for sales/marketing coordination in reducing inter-functional conflict and improving collaboration. Our study therefore not only adds to the scant literature on the sales/marketing interface, it also contributes to the debate on the impact of senior management attitudes on the interface, thereby filling a gap in our knowledge. Our specific objectives are:

- *To identify from the literature key constructs influencing sales/marketing collaboration.*
- *To explore the roles of senior manager's support for collaboration, and aligned rewards in reducing inter-functional conflict, and increasing sales/marketing collaboration.*
- *To empirically test whether aligned rewards, and senior managers' support for coordination reduce inter-functional conflict, and increase collaboration.*

The article is structured as follows. First we provide a review of the relevant literature and then we describe our methodological approach to the exploratory phase of our study. We present the findings from our exploratory case studies, specify our conceptual model and develop our hypotheses. The methodology for the quantitative part of the study and the results from the quantitative phase are then presented. A discussion of the findings follows, and finally we present our conclusions, the limitations of the study, and directions for future research.

Literature Review

Collaboration between Sales and Marketing**:** Functional specialization is important for operational effectiveness, but must be accompanied by a collaborative working environment (Maltz & Kohli, 2000; Piercy, 2006; Ruekert & Walker, 1987). In this study, our conceptualization and definition of 'collaboration' is drawn from Kahn's (1996) research into R&D/marketing integration. This research revealed that collaborative factors such as collective goals, mutual understanding, informal activity, shared resources, common vision, and esprit de corps are more effective in improving internal interfaces than simply interaction or integration of activities. As both Shapiro (2002) and Kotler, Rackham and Krishnaswamy (2006) have noted, sales and marketing have necessarily different roles within the firm, so integration of their activities would be inappropriate and possibly counter-productive. The intangible elements underlying the collaboration construct may therefore be more effective than mere interaction or integration of activities, in improving the sales/marketing interface.

As Shapiro (2002) notes: "Nowhere is the need to work together more important than in the twin customer-facing functions of marketing and sales". Two studies of the sales/marketing interface found that the configuration of the relationship between the departments impacts on the levels of conflict or collaboration. Kotler, Rackham and Krisnaswamy (2006), for example, suggested a continuum of relationships between sales and marketing staff from 'undefined (and largely conflicted)', through 'defined; and aligned', to 'integrated (and usually conflict-free)'. However they also noted that very few organizations had truly 'integrated' relationships. A second study, by Homburg, Jensen and Krohmer (2008), found five different configurations from 'ivory tower' to 'sales-driven symbiosis' illustrating the relative power of the marketing or sales role within the organization, their structural linkages, information sharing ability, orientations and knowledge. These configurations are associated with differing levels of cooperation and market performance, suggesting that within and across industries, the sales/marketing interface varies in terms of levels of collaboration and conflict.

A number of other studies have found that there are operational efficiencies to be gained through improved internal collaboration, which may lead to greater customer satisfaction and improved business performance (e.g., Kohli & Jaworski, 1990; Morgan & Turnell, 2003; Narver & Slater, 1990; Webster, 1997). Tjosvold (1988) indicated that inter-functional collaboration led to increased productivity and competitiveness, while Le Meunier-FitzHugh & Piercy (2007) found that sales/marketing collaboration in business-to-business organizations positively impacts on business performance. Many senior managers now believe that enhanced internal cooperation leads to business success and are adopting relevant managerial initiatives to improve the sales/marketing interface (Griffin & Hauser, 1996; Krohmer, Homburg & Workman, 2002; Shapiro, 2002).

<u>Senior Managers' Support for Coordination</u>: As Kahn (1996) has noted, it is important for top management to implement programs which encourage departments to achieve goals collectively, to foster mutual understanding, to work informally together, and to share the same vision, ideas, and resources. Consistent with this, Viswanathan & Olson (1992) suggested a key role of senior management is to create the culture and environment of the organization.

However, as Smith, Gopalakrishna & Chatterjee (2006:565) note: “On the surface, the marketing-sales relationship seems symbiotic and complementary, though in practice, coordinating the two functions is rarely an easy task”. Sales for example are expected to achieve ‘hard’ measures of performance such as short term sales targets, while marketing are often set longer term ‘softer’ goals which are more difficult accurately quantify, e.g. brand building. In setting these independent targets for the sales and marketing groups, it seems that senior managers may have difficulty in assessing the trade-offs between short-term and long-term financial performance (Gupta, Raj & Wilemon, 1985; Webster, 1997). The existence of independent targets suggests that some senior managers do not acknowledge or overtly support the need for improved sales/marketing coordination.

In contrast, studies of the R&D/marketing interface have found that senior managers and representatives from each functional area constantly stress the value of working together to achieve common goals (e.g. Lucas & Busch, 1988; Krohmer, Homburg, & Workman, 2002). If targets are set jointly then the overall direction and individual contributions to achieving these objectives can become explicit and encourage greater cooperation between individuals and departments. Consistent with this, Dewsnap and Jobber (2000) suggest that senior managers who are focused on improving sales/marketing integration will promote mutual understanding and greater cooperation. To address this issue, various authors (e.g., Cordery, 2002; Schmonsees, 2006) have suggested that attention should be given to better alignment of departmental targets, and the use of shared objectives, while still retaining the independent views of sales and marketing. If senior managers fail to coordinate sales and marketing because of poor planning and setting independent goals, this may increase conflict between the two functions (Strahle, Spiro &

Acito, 1996; Colletti & Chonko, 1997). Importantly, unless senior managers are focused on removing barriers to sales/marketing collaboration, it is unlikely that it will be achieved by itself (Piercy, 2006).

Inter-functional Conflict: Yandle & Blythe (2000: 14) describe conflict as "a breakdown or disruption in normal activities in such a way that the individuals or groups concerned experience difficulty working together". Here we define inter-functional conflict as a state of negative affect and tension between sales and marketing, which manifests itself in dysfunctional and negative behaviors in their working relationships, and a dislike of working with each other. A number of studies have suggested that sales/marketing conflict is endemic (e.g., Kotler, Rackham, & Krishnaswamy, 2006). The Aberdeen Group (2002) for example found that sales personnel repeatedly complain that support tools provided by marketing are inadequate, and marketing frequently accuse sales of misunderstanding or misusing marketing collateral. Both sales and marketing may therefore be following their own agendas, causing poor coordination and destructive tension between the two groups (Arthur, 2002).

Within some firms, sales and marketing have developed mutual negative stereotyping, distrust and non-cooperation based on goal conflict and the strength of their group identities (Dewsnap & Jobber, 2002). As Oh, Labianca and Chung (2006:578) have noted: "Groups create boundaries that are both cognitive and real, that are meaningful to the members, and that affect subsequent identification and behaviors". Research into team identification indicates that the value and emotional attachment that group members assign to their 'team' encourages them either to interact freely or to disengage from interaction with other groups (Bergami & Bagozzi, 2000). These issues can characterize the sales/marketing interface and lead to conflict, which in turn is detrimental to collaboration (Dewsnap & Jobber, 2000). Even in well-coordinated organizations, poor relationships between sales and marketing may create inter-functional conflict that will be detrimental.

According to Kotler, Rackham and Krishnaswamy (2006), the basis for conflict between sales and marketing comes from both economic and cultural sources. Sales people produce revenue and may be process driven, while marketing people are more creative and are a cost centre for the organization, but they frequently have to share a single budget granted by senior managers. This sharing of resources may create friction between the two groups. Sales and marketing also appear to have some cultural resistance to working together (e.g. Dawes & Massey, 2005; Dewsnap & Jobber, 2002; Yandle & Blythe, 2000), created by the acquisition of specialized knowledge and skills that is linked with functional identities (Van der Vegt & Bunderson, 2005). Dawes and Massey (2005) examined various mechanisms to reduce sales/marketing conflict, but they did not consider the effects of different reward structures, hence our examination of this issue here.

<u>Rewards Alignment</u>: One difficulty in integrating sales and marketing is that although these departments have similar aims (e.g., to improve market penetration and increase sales), they are frequently set different goals by senior management, against which their performance is measured. An inherent problem is that the objectives of any two departments may be incompatible (Pinto, Pinto, & Prescott, 1993). Marketing may for example wish to pursue a premium pricing strategy to maintain positioning, but this may conflict with sales' discounting to meet monthly sales targets. In such ways, sales and marketing may therefore be rewarded for behaviors and outcomes that are inconsistent with each other's objectives and these contradictory, competitive goals can reduce cross-

functional collaboration and increase conflict. Some scholars recommend setting "superordinate goals," i.e., "goals that are urgent and compelling for all groups involved, but whose attainment requires the resources and efforts of more than one group" (Sherif, 1962:19). Scholars in fields such as compensation research (Coombs & Gomez-Mejia, 1991), new product development (Kucmarski, 1988), and marketing (Hauser, Simester & Wernerfelt, 1994) all recommend changing reward systems to reflect superordinate goals such as company profits, or profits from a specific project. By doing this, it may be possible to better align the objectives of different functional managers.

Evidence suggests that superordinate goals can increase inter-group cooperation and group output (e.g., Pinto, Pinto, & Prescott, 1993; Sherif, 1962), and limit or defuse inter-group conflict (e.g., Deschamps & Brown, 1983). Moreover, where sales personnel are compensated for achieving a superordinate goal such as increasing company profits, this provides an incentive to be more collaborative and further increase profitability (Gomez-Mejia & Balkan, 1989). Consistent with this, Kotler, Rackham and Krishnaswamy (2006) suggested that sales and marketing rewards should be aligned so that they share responsibility for revenue objectives. Similarly, Strahle, Spiro and Acito (1996) strongly recommended that sales bonus schemes should be linked to implementing marketing strategy successfully. Evidence supporting the benefits of aligned rewards exists in studies of Marketing/R&D working relationships during new product development (e.g. Souder & Chakrabarti, 1978; Gupta, Raj & Wilemon, 1987).

Traditionally however, sales is rewarded through a basic salary and commission (or bonuses) based on sales success rather than on achieving superordinate goals (Cespedes, 1991; Fuentelsaz, Gomez, Martinez, & Polo, 2000), and the most widely-used measure of sales effectiveness is still total sales volume (Baldauf & Cravens, 1999). Few studies have examined how marketing personnel are rewarded, although Coombs and Gomez-Mejia (1991) found that most organizations reward marketing on the performance of their department in isolation from any other department's goals. Marketing personnel, for example, often receive bonuses for increases in market share, regardless of how they were achieved (Keenan, 1989; Turner, 1979). More recently, Loning and Besson (2002) found that the most commonly set target for marketing personnel was overall sales (not based on any particular sales campaign or activity, or the success of advertising campaigns). Alternatively, marketing rewards may be linked to increasing profitability or the successful introduction of new products/brands to the market place (Alldredge, Griffin, & Kotcher, 1999), but they are seldom rewarded for helping to achieve specific sales targets. When sales and marketing are rewarded only for their own departmental performance, their rewards are not aligned. Conversely, when these departments are set superordinate goals and their reward system recognizes joint performance (e.g., company profits), their reward structures are aligned, and this in turn should both decrease inter-functional conflict, and increase collaboration in the sales/marketing interface.

Methodology

The phenomena examined in our study may be both observed and measured. Our research therefore uses a mixed methodology consisting of five case studies, and a survey. The advantage of using a mixed methodology is that it allows a combination of both quantitative and qualitative research methods to be used, thus combining the strengths of both methods. The exploratory case studies are appropriate for investigating the ways in which sales and marketing personnel are rewarded, the impact of those rewards on sales and marketing activities, and to clarify senior managers' support for sales/marketing collaboration and reducing inter-functional conflict. The cases enable the generation of theory based on the interpretation of the social interactions (Harrison, 2003). The phenomena uncovered by these case studies were then combined with the existing literature and used to help develop our conceptual framework (Parasuraman, Grewal & Krishman, 2004). This framework was then tested via a survey, using a large sample, and quantitative analysis. The methodology is therefore presented in two stages, beginning with the exploratory phase.

Stage I: Exploratory Phase

The first task of our exploratory phase was to negotiate access to a mixture of large organizations working in a business-to-business environment. The five organizations that were finally involved in this phase were from a number of different industries, each with separate sales and marketing departments and which all operated through intermediaries, selling into business-to-business markets. The five firms which allowed this high level of access were an industrial manufacturer, two consumer goods companies, and two publishers.

The basis for the studies were hour-long personal interviews with three personnel in each company – the Head of Sales, the Head of Marketing and their line manager. All interviews used questions relating to the nature of the sales/marketing interface, goal setting, the existence of conflict, and its resolution. We also investigated the means through which management sought to increase integration, the value and benefits those managers saw in this integration, and the nature of the rewards system they used (see Appendix 1).

To help understand the overall context of the cases the researcher visited each firm and reviewed their marketing and sales support materials, as well as the company accounts.

Exploratory Case Study Findings

We present below the findings from the five-case studies in the form of an active description of each organization's sales/marketing interface, and the perceived influence of senior manager's support for coordination, and the organization's reward systems. The five organizations used different reward systems, and had differing levels of coordination and inter-functional conflict between sales and marketing (see Table 1).

[Table 1 near here]

Publisher 1: The senior managers of this organization were supportive of sales/marketing coordination, and were focused on creating a collaborative culture. There was a profit-based bonus scheme for the Sales Manager based on the department's sales activities, and the sales representatives were paid via a salary, plus commission based on sales volume. The rewards of the sales personnel were for sales performance, rather than aligned with superordinate goals such as company success. Similarly, all marketing personnel were primarily rewarded via a salary, but were also included in a company-wide profit-share bonus scheme linked to organizational success, but sales personnel were excluded from this bonus. This suggests low sales/marketing rewards alignment.

Respondents reported high levels of formal and informal communication between sales and marketing, and some effective systems for setting joint targets and reviewing progress. However, there was evidence indicating that their objectives and activities were not fully aligned, which occasionally caused tension between the two groups. The sales personnel were focusing on meeting their targets and wanted marketing to support specific short-term promotions to 'shift stock', whilst marketing was not aware that these targets had been set for the sales team. Any conflict was resolved quickly through either the senior managers' involvement or through negotiation between the two parties.

Publisher 2: Employed a reward system similar to Publisher 1, with sales personnel on a basic salary (approximately 50% of their overall achievable income). Commission was based on achieving monthly sales targets, with a final bonus paid at the year end for achieving overall territory sales targets. This reward structure focused sales personnel's attention on achieving sales targets, suggesting low rewards alignment. As a result, sales personnel were not interested in participating in any activity that did not generate sales. The sales representatives were quite insular and protective of their income and resented the activities of telesales. They had little contact with marketing staff, suggesting low sales/marketing collaboration, but they did fill in marketing questionnaires after each call. However, they did not receive any feedback from marketing after the information had been collated.

Unlike the other organizations studied, Publisher 2 rewarded their Sales Manager primarily through commission, although the Marketing Manager was rewarded with a basic salary and an annual bonus paid for the achievement of organizational targets, but these rewards were not linked to achieving either marketing or sales targets. Although this organization had a marketing department, there was no clear indication of the focus of its activities, and sales and marketing were not set aligned targets. Promotions appeared to be unplanned and were related mostly to the promotion of new publications. The division focused on targeting acquisition and publishing, rather than sales and marketing. This organization exhibited the lowest collaboration between sales and marketing of those in the study. There was evidence from the interviews that sales and marketing staff basically ignored each other and each simply got on with their own tasks. Conflict occasionally flared up, but no-one acted upon it. The Chief Executive was not concerned whether sales and marketing worked together or not, and was concentrating on managing the external relations with shareholders and other interested parties.

Industrial Manufacturer: This organization had a complicated bonus scheme based on a number of factors. Although sales personnel were rewarded for sales success, managers tried to refine their rewards to encourage the achievement of other targets, for example developing long-term relationships with existing customers through maintenance visits to discuss the market, and for the collection of market information. The Sales Manager was rewarded via a significant salary, with additional bonuses based on sales success. All marketing personnel, including the Marketing Manager, were rewarded through a salary plus bonus scheme. Again, this reward structure suggests low alignment between marketing and sales in this firm.

The departments experienced little conflict and they were actively attempting to work more closely together, a move that was supported by senior management. A number of tools were employed to achieve greater collaboration, including sharing information, and more integrated goals and activities, but they did not have an aligned reward structure. These initiatives came from the senior management team which was trying to achieve more coordinated activities across the whole organization to make them more competitive in the marketplace.

Consumer Goods 1: This firm used a basic salary scheme for all their personnel with no bonuses paid. However, the sales personnel were set independent sales targets, which were used to evaluate their performance. Although there was no commission scheme, these sales targets created a desire to achieve sales, but did not focus personnel on achieving specific marketing strategies, which were set separately from sales targets. Marketing personnel were also rewarded by a salary scheme and followed their own program of marketing measures, which were not necessarily linked to sales activities. This was because senior management team separated responsibility for sales and marketing activities between two groups. They were also geographically separated, and neither sales nor marketing were focused on achieving integrated marketing or sales targets, and this firm did not explicitly align sales and marketing rewards.

However, there was little conflict because the sales and marketing staff had a good working relationship, which had been built up over a number of years, and was supported by informal communications. They described themselves as a close-knit community, but this organization exhibited very little coordination of activities between sales and marketing and only low levels of collaboration.

<u>Consumer Goods 2</u>: Adopted the same basic rewards system for all sales and marketing personnel, consisting of a basic salary and bonuses based on achieving sales targets. If the overall targets were achieved the sales and marketing managers were paid the same monthly bonus on top of their salaries. The effect of this reward structure was to focus marketing on achieving sales success, and marketing people were very supportive of sales activities. As such, this firm has explicitly aligned the rewards of sales and marketing.

There was little conflict between the two groups, with the sales personnel supporting marketing events (in-store promotions and exhibitions) and contributing willingly to the market intelligence system. The sales and marketing managers had frequent meetings which were encouraged by the Managing Director, to discuss how to promote sales and achieve targets. All the teams were asked to meet regularly together to plan activities, share information and evaluate progress. Sales and marketing personnel were working towards a single goal in a collaborative manner.

Overall the results of these five cases studies suggest that it is common across several industry sectors for firms to not explicitly align the rewards of sales and marketing. In addition, these cases reveal that there is significant variation in a number of key constructs we examine in this research. These include the level of collaboration between the two functions, the extent to which senior management support sales/marketing coordination, and the level of conflict between the two departments.

Conceptual Framework and Hypotheses

The conceptual framework (see Figure 1) has been drawn partially from previous studies (e.g. Griffin & Hauser, 1996; Gupta, Raj & Wilemon, 1986; Dewsnap & Jobber, 2000; Rouzies et al., 2005), and from the results from the exploratory research discussed above.

[Figure 1 near here]

Senior Manager's Support for Coordination**:** Senior managers have the ability to create a culture of cooperation, as well as to encourage formal and informal communications that can help to build an environment where collaboration between sales and marketing can develop (Kahn, 1996; Lucas & Busch, 1988). Menon, Bharadwaj and Howell (1996:309) stated that senior managers should "formalize overlapping activities that require inter-functional coordination and should clarify roles that are mutually dependent and have potential for role ambiguity". To achieve this they need to promote mutual understanding, and align sales and marketing objectives, while not detracting from the independence of the two groups (e.g., Dewsnap & Jobber, 2000; Krohmer, Homburg, & Workman, 2002; Le Meunier-FitzHugh & Piercy, 2007).

A number of scholars (e.g. Cordery, 2002; Smith, Gopalakrishna & Chatterjee, 2006; Kotler, Rackham & Krishnaswamy, 2006; Schmonsees, 2006) have suggested that inter-functional conflict can be reduced if senior managers overtly support coordination and intervene to help prevent inter-functional conflict developing. Le Meunier-FitzHugh (2009) found that senior management plays a critical role reducing inter-functional conflict by aligning goals and activities of sales and marketing, but this requires their attention and support to be successful. If senior managers' support for improving inter-functional relationships is not forthcoming then improvements are unlikely to be made (Piercy, 2006).

The findings from Publishers 1 and 2 were informative (see Table 1) as they revealed the key differences between these two organizations' profiles. There is a significant disparity in the senior managers' support for coordination within the organizations. In Publisher 1 senior managers were focused on aligning goals and activities, and sales and marketing have a collaborative working relationship with little conflict. Publisher 2 did not have aligned goals and their senior managers were not focused on internal coordination. This organization exhibited little collaboration and there was some inter-functional conflict between sales and marketing. The literature and case studies showed that senior managers attitude to the sales and marketing interface can have a positive effect on improving collaboration and reducing conflict. Accordingly we hypothesize:

> $H_{1:}$ *Senior managers' support for coordination will increase sales/marketing collaboration.*

Inter-functional Conflict: Previous studies have highlighted that sales and marketing have a tendency to follow their own agendas, suffer from poor coordination and may develop distrust and non-cooperation, based on goal conflict and internal competition (Arthur, 2002; Dewsnap & Jobber, 2002; Kotler, Rackham & Krishnaswamy, 2006; Rouzies et al., 2005). Van der Vegt and Bunderson (2005) suggested that inter-functional conflict may be created by cultural differences caused by strong functional identities. However, it has been noted that sales and marketing need to maintain these differences to be effective (Krohmer, Homburg, & Workman, 2002). Allowing inter-functional conflict to develop and not focusing on improving collaboration is detrimental to operational efficiency and will eventually adversely affect business performance (Le Meunier-FitzHugh & Piercy, 2007).

Our case study results support this view, as the majority of organizations studied exhibited an inverse relationship between inter-functional conflict and collaboration. The case studies also indicated that inter-functional conflict may be reduced through intervention by senior management through improving formal and informal communications and increasing awareness of each others activities. The three most collaborative organizations exhibited little inter-functional conflict, whilst Publisher 2 exhibited the most conflict and the least collaboration (see Table 1). As noted previously, even in well-coordinated organizations, poor sales/marketing relationships may create friction that can reduce collaboration. We therefore hypothesize:

$H_{2:}$ *Senior managers' support for coordination will reduce inter-functional conflict between sales and marketing.*

$H_{3:}$ *Inter-functional conflict between sales and marketing will have a negative impact on sales/marketing collaboration.*

Rewards Alignment: The extant literature presents a persuasive case that rewards alignment should reduce inter-functional conflict and increase sales/marketing collaboration (e.g. Hauser, Simester & Wernerfelt, 1994; Kotler, Rackham & Krishnaswamy, 2006; Pinto, Pinto, & Prescott, 1993; Rouzies et al., 2005). Differences in reward structures between functional areas may cause serious co-ordination problems (Fincham & Rhodes, 1999) and lead to inter-functional conflict. Aligning reward structures to reduce conflict is a recommendation supported by current thinking on rewards. Research into the Marketing/R&D interface (e.g., Gupta, Raj & Wilemon, 1987; Souder & Chakrabarti 1978) for example suggests that joint or aligned rewards helped increase collaboration, because both groups feel a responsibility for the success or failure of the joint project. Similarly, others have suggested that aligned rewards improve sales and marketing integration (e.g., Dewsnap & Jobber, 2000; Rouzies et al., 2005). Kotler, Rackman and Krishnaswamy (2006:78) stated that "one of the barriers to shared objectives, however, is the thorny issue of shared rewards."

The case studies indicated that aligned rewards had not been universally adopted within the participating firms (see Table 1). For example, Consumer Goods 1 adopted a salary-only reward for both the Sales and Marketing Managers. The objective was to concentrate on achieving overall organizational objectives rather than individual departmental targets, but collaboration between sales and marketing in this organization was still very poor. This may be because their senior managers were not focused on improving coordination, and had not yet aligned their goals or reporting structures to facilitate this transformation. Consumer Goods 2 had an aligned reward structure based on achieving sales targets, a collaborative sales and marketing interface, and low levels of conflict (see Table 1). Their management adopted joint target setting meetings and formalized reporting structures. None of the other organizations however had fully implemented superordinate goals, though the one with the most aligned rewards had collaborative sales and marketing operations, and low inter-functional conflict. An aligned reward structure between sales and marketing is likely to increase collaboration, and decrease inter-functional conflict and we hypothesize:

> H4: *Greater sales/marketing rewards alignment will increase sales/marketing collaboration.*

> H5: *Greater sales/marketing rewards alignment will decrease inter-functional conflict between sales and marketing*.

Methodology Stage 2: Survey and Empirical Tests

To test our hypotheses, data was collected through a postal survey. The population of interest was large UK-based organizations (turnover of more than £11.2 million) operating in business-to-business markets. The rationale for choosing these organizations is that they are more likely to employ separate sales and marketing teams (Piercy, 1986). A sampling frame of 3,349 organizations was provided by a commercial agency and duplicate listings were removed. From the cleansed sampling frame, 1,000 organizations were randomly selected for inclusion in the study and a pre-tested, self-administered questionnaire was personally addressed to the Managing Director/Chief Executive of each organization. The survey generated 223 (22.3%) responses. of which 77 were ineligible for a variety of reasons. According to Menon, Bharadwaj and Howell (1996) and Slotegraaf and Dickson (2004), an acceptable response rate from Managing Directors or Chief Executives is between 10-20%, which was achieved in our study.

MANOVA tests were carried out to discover if there were any significant differences between the types of respondent, industry types, and organizational turnover for the model constructs, and no significant differences were detected. Two possible sources of sampling error were considered. To examine non-response bias, chi-square tests and multiple t-tests where performed on the early and late response groups (Armstrong & Overton, 1977). The early and late response groups were tested using a chi-square based on industry type, turnover, and number of employees, and no significant differences were found. The non-coverage error was examined by comparing the characteristics (turnover, number of employees and industry type) of a sample who did not respond. The tests found that non-response bias was not present in the data.

We checked for multicollinearity, and the variance inflation factors are all below the cut-off value of 10, and all condition indices were well below the critical value of 30, suggesting multicollinearity was not a problem. We also tested for homoscedasticity, normality, linearity, independence of residuals and outliers (Pallant, 2004) and no irregularities or problems were discovered in the data (see Table 2).

[Table 2 near here]

<u>Operationalization and Measurement</u>: The majority of the items used were drawn from prior research, which assists with the concurrent validity of the questionnaire (e.g. Menon, Jaworski & Kohli, 1997; Hult, Ketchen & Slater, 2002). All measures are reflective multi-item scales except for rewards alignment, which is formative.

Collaboration between Sales and Marketing was measured using five items adapted from Hult, Ketchen, and Slater (2002). The items measure the extent to which there is teamwork, team spirit, shared vision and goals between sales and marketing.

The seven items used to measure *Inter-functional Conflict* were adapted from Menon, Jaworski, and Kohli (1997), and capture the level of tension that occurs during work-related interactions between sales and marketing.

A new two-item scale was used to measure *Senior Managers' Support for Coordination*. The scale captures the extent to which senior managers support the alignment of sales and marketing goals and activities. It is important to develop new measures that reflect the concepts they are trying to assess, and that have face validity (Bryman, 2001). The items were developed in conjunction with senior sales and marketing executives and subsequently tested for comprehension with executives. Krohmer, Homburg, and Workman (2002) found that senior managers should be aware of the benefits of integration and promote cross-functional involvement. Additionally, Menon, Bharadwaj and Howell (1996: 309) suggest, "Managers should formalize overlapping activities that require interfunctional coordination and should clarify roles that are mutually dependent and have potential for role ambiguity."

A new formative scale consisting of eight items was used to measure *Rewards Alignment* which we define as the extent to which sales managers and marketing managers are rewarded for their own departmental performance only, or for joint performance. A 100-point constant sum scale was used which allowed respondents to indicate the percentage of their rewards that came through salary, commission, or bonuses, and whether these were paid for departmental performance, or for performance on some superordinate goal, e.g., company success. For example, where sales and marketing managers were rewarded via salary and bonuses based on only sales department or marketing department performance, this is indicative of low alignment between the departments. In contrast, the greater the percentage of their salary package that is paid for overall company success, i.e., a superordinate goal, the greater the rewards alignment.

Measure Refinement: Principal components analysis revealed that all reflective scales were unidimensional. Given that the samples were relatively small, confirmatory factor analysis was not used because of the likelihood of non-convergence and improper solutions (Gerbing & Anderson, 1988). Instead, partial least squares (PLS) was used to estimate the measurement and structural models, specifically, *SmartPLS 2.0* (Ringle, Wende & Will, 2005).

Analysis of the measurement model diagnostics suggested that most of the items are adequate indicators of the latent variables. With interpersonal conflict however, it was necessary to delete three of the seven items measuring this construct due to low standardized factor loadings. The loadings were well below the recommended level of ≈.71 (Fornell & Larcker, 1981**)** which suggests that they did not account for a sufficient amount of variance in the latent variable. Such items add little to the explanatory power of the measurement model, and if not omitted, could attenuate and bias the path estimates in the structural model (Hulland, 1999). In addition, domain sampling theory would suggest that the deletion of these items in a reflective scale should not pose any significant problems in terms of producing valid, reliable measures of this construct. See Table 3 for the measurement properties of the retained items.

[Table 3 near here]

Convergent validity was established as the t-statistics for each item were all statistically significant (Anderson & Gerbing, 1988), and the average variance extracted

(AVE) for each construct exceeded .50, suggesting the items explain more variance in the latent variables than variance due to measurement error (Fornell & Larcker, 1981).

Discriminant validity was established using Fornell and Larcker's (1981) criterion that the AVE for each construct in a test pair be greater than the square of the correlation between those two constructs. All pairs of variables passed this test. This result was corroborated using a test advocated by Chin (1998) involving the items' cross-loadings. No item should load higher on another construct than it does on the construct it purports to measure, and all items met this criterion, establishing discriminant validity. Last, reliability was established because the composite reliabilities of the multi-item measures ranged from .80 to .93. Overall these diagnostics suggested that our measurement was adequate, and that it was appropriate to proceed to structural model testing.

PLS Structural Model Testing Results

PLS was used to estimate the structural models for various reasons. First, the sample is relatively small, second, no assumptions are made about multivariate normality, and third, the primary concern is prediction of the endogenous variables (cf. Chin, 1998; Diamantopolous & Winklhofer, 2001). To establish the stability and significance of the parameter estimates, the t-statistics were computed using 500 bootstrap samples. The results of the PLS structural model testing are presented in Table 4 below.

[Table 4 near here]

The R^2 results for the two dependent variables were high, particularly sales/marketing collaboration, $R^2 = .60$, and inter-functional conflict $R^2 = .30$. This suggests that the model has high explanatory power, explaining 60% and 30% of the variance in these dependent variables respectively.

The results for H1 linking senior managers' support for coordination to sales/marketing collaboration were supported ($\beta = .32$, $p<.001$). This suggests that when senior managers support coordination, sales/marketing collaboration is considerably higher. Consistent with this, we find that senior managers' support for coordination strongly reduced inter-functional conflict ($\beta = -.52$, $p<.001$), so H2 is supported. This result is important because we also find good support for H3, as there is a strong negative effect from conflict to sales/marketing collaboration ($\beta = -.52$, $p<.001$).

The results for the rewards alignment hypotheses however were mixed. H4 linking rewards alignment to sales/marketing collaboration was supported ($\beta = .11$, $p<.056$)[4]. This suggests that when sales or marketing rewards are aligned towards superordinate goals, e.g., being rewarded for overall company performance, sales/marketing collaboration is higher. However, we found no support for H5, linking rewards alignment to inter-functional conflict.

As part of our analyses, we also tested whether rewards alignment moderated the relationships between senior managers' support for coordination, and both conflict and collaboration, and no moderating effects were found. In addition we tested whether senior managers' support for coordination moderated the relationship between both inter-functional conflict and rewards structure and collaboration, and again, no moderating effects were found.

Discussion, Conclusions and Management Implications

This study focuses on whether senior managers' support for coordination and the use of aligned reward structures have positive effects in reducing conflict and/or improving

[4] H4 closely approached statistical significance. The t-statistic is 1.5978, and for significance at the .05 level it should be 1.645. It fell .0472 short of this, which suggests that the path coefficient is significant at $\approx p<.056$, or 94.4% confidence rather than 95%.

collaboration between the sales and marketing functions. Both the quantitative and qualitative findings indicate that senior managers' support for coordination plays an essential role. Specifically, where senior managers openly support sales/marketing coordination, collaboration between sales and marketing is substantially higher. Importantly, our model testing results show that the impact of senior managers' support for coordination in reducing inter-functional conflict was much greater than its effects on improving collaboration between sales and marketing (see Table 4). This may be because inter-functional conflict manifests itself in fairly visible forms, such as antagonistic relationships and dysfunctional behaviors. Where senior management overtly supports coordination however, this will send a strong signal to managers that a solution to their problems and smooth operations are highly valued by senior management, and this should significantly reduce that conflict. Senior managers can take steps to address conflict specifically through discussion, brokering solutions and adjusting strategies. Consistent with this argument, the Head of Publishing, Publisher 1 said: "*There has to be intervention, sometimes*". Our results are consistent with Homburg, Jensen and Krohmer (2008), who argued that to achieve collaboration between sales and marketing, senior managers need to create a culture of sharing, learning together, knowledge management, and structural linkages that is rarely achieved.

Our findings also support Lawrence and Lorsch (1976) who suggested that inter-functional conflict may be addressed by senior managers through direct confrontation, or by the manager acting as an expert/specialist and actively intervening in the conflict. Managers unable to take either of these options may be less effective in dealing with conflict. The Sales Director from the industrial manufacturer explained how inter-functional conflict was directly addressed by senior management in the organization:

> "*If there's a conflict between departments you just tend to go up to General Management. There is a local Management Committee here and they meet once a week and have what they call an issues meeting. So if there are any issues/inter-department issues building up, they get resolved or redressed*."

Our case studies also suggest that positive informal relationships between sales and marketing personnel may have a significant impact on reducing inter-functional conflict. In the organizations that were more collaborative, the working relationships were underpinned by frequent contacts as illustrated by a quote from the Marketing Manager of Consumer Goods 2:

> "*The Sales Manager and I get on well together. We have a formal weekly meeting with the Divisional Head, but we talk every day and this is where we tend to sort out any issues or problems that have arisen".*

Consistent with our case studies, our model testing results found that increased inter-functional conflict between sales and marketing strongly reduced collaboration between these two departments. This is important because our qualitative research indicated that there was some inter-functional conflict evident in all of the organizations, even the most collaborative ones. The main issues appeared to be over planning, budgets and lack of internal communication. The reduction of inter-functional conflict is an important target for senior managers wishing to improve inter-functional relationships. According to our qualitative data this could be achieved through a clear direction from senior managers of the importance of coordination, goal alignment, good informal and formal communications, improving joint planning and a reduction of wrangles over resources.

Turning now to the findings regarding rewards alignment, the extant literature suggests that setting aligned rewards should help reduce inter-functional conflict (e.g.

Chimhanzi, 2004) and improve collaboration between sales and marketing (e.g. Dewsnap & Jobber, 2000; Kotler, Rackham & Krishnaswamy, 2006). Whilst the results from the qualitative research on the impact of rewards on inter-functional conflict or collaboration were inconclusive, our PLS model testing found that aligned reward structures were positively related to sales/marketing collaboration. The more sales and marketing people are able to work together, it seems the greater the opportunities for improving collaboration. The adoption of a rewards system that reinforces attaining superordinate goals removes one of the difficulties of the sales and marketing interface; individually set and rewarded targets. If both groups are given rewards (in whatever form) to achieve the same goals, they are more likely to be motivated to cooperate and coordinate their activities. The Industrial Manufacturer the VP Sales and Marketing explained:

> *"Everybody gets a measure of bonus depending on the performance of the whole organization, value created and value maintained ... So yes, everyone gets bonused on performance."*

However, the results from our PLS analysis also indicate that aligned rewards would not necessarily help reduce inter-functional conflict between sales and marketing. This was a surprising result as previous researchers (e.g. Chimhanzi, 2004, Gupta, Raj & Wilemon, 1987; Souder & Chakrabarti, 1978) had suggested that rewards may be used to reduce conflict between functional groups. The proposition was that rewards can become a source of friction, especially if groups are offered strong incentives to achieve their own targets. The introduction of aligned rewards might be expected to reduce this, but the qualitative research showed that rewards packages between sales and marketing, were not a burning issue between the parties. There was a general acceptance that they were simply rewarded differently and this had always been the case. It seemed to be an accepted practice that sales remuneration package includes a reward for sales targets achieved, that is not usually offered to marketing staff. More important to the respondents was that the rewards system should be fair and that they were being rewarded for achieving targets. The Sales Manager for consumer goods 2 explained:

> *"If marketing get it wrong in terms of promotions and product development, why should we be penalized for their mistakes? Additionally, why should they be rewarded on our success if they have not contributed to it?"*

This finding would suggest that there are additional influences that are outside our current study (e.g., organizational justice) could help reduce inter-functional conflict between sales and marketing. Senior managers who focus on aligning goals creating a collaborative culture however, are still likely to achieve greater inter-functional collaboration than those who do not. Our results suggest that strategies to improve the sales/marketing interface should include the use of aligned reward structures. The format of these rewards; part bonus, fully salaried, or wholly based on incentives, is not critical, but both Sales Managers and Managing Managers should have their rewards linked to achieving superordinate or joint goals.

Last, improving the sales/marketing interface should be a priority for senior managers. The reduction of inter-functional conflict is an important target, as this research shows that conflict has negative and direct effect on collaboration between sales and marketing. To reduce inter-functional conflict, senior managers need a proactive approach and deal with conflict directly, and to be seen to openly support and encourage sales/marketing coordination.

Contributions, Limitations and Future Research

This research provides insights into the effects of reward structures for sales and marketing personnel in business-to-business organizations. It is the first study to empirically test the impact of rewards alignment on the sales/marketing interface. The research found that majority of sales and marketing personnel are rewarded independently, but to improve collaboration an aligned reward structure may be advantageous. Rewards aligned towards achieving organizational goals can help to focus sales and marketing staff on collaborating with each other, although our study found that aligned rewards did not reduce interdepartmental conflict.

The second contribution of this paper was to add to the scant literature on the management of the sales/marketing interface, by contributing to the debate on the impact of senior management attitudes to coordination. Our results indicate that senior managers' support for coordination has a greater impact on improving collaboration between sales and marketing than previously found, and also has considerable influence in reducing inter-functional conflict.

This research has a number of limitations. Firstly, the quantitative data only considered sales and marketing managers' rewards and not those of sales and marketing personnel generally. Future research could survey all sales and marketing staff within the organization. Further, the measures of rewards in the quantitative survey were based on estimates made by the senior manager/CEO and more detail could be obtained from a survey of sales and marketing managers.

Although this research indicates that senior managers' support for coordination can help improve sales/marketing collaboration and reduce inter-functional conflict, further research is needed to help understand how this influence operates and identify other relevant variables. The reduction of inter-functional conflict is an important area for senior management to address. Dawes and Massey (2005) have done some work in this area and identified some variables that reduce conflict between sales and marketing, including structural, individual-level, and communication variables. However our study suggests that rewards structures are another salient factor influencing sales/marketing integration, and additional research is therefore needed into other types of reward structures that may be used to achieve this.

It would also be interesting to carry out a survey into organizations, where the sales and marketing departments operate in a different business context to find out if collaboration between sales and marketing is high or in need of improvement, for example financial services, chemical/pharmaceutical industries. Additional research could also reveal if inter-functional conflict is an issue in B2C organizations and if rewards and senior manager's attitudes to coordination are instrumental in reducing this conflict and improving collaboration. Finally, this study only considers organizations in the UK and an investigation into other markets could be made to see if aligning rewards to superordinate goals operates in a similar manner.

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Appendix 1 -Semi-Structured Interview Questions used with the Head of Sales, the Head of Marketing and their Line Manager.

1) In your view, what is the relationship between marketing and sales in your organization?

2) Are the marketing goals/sales goals independent? Do senior management support these goals?

3) How does your company measure marketing/sales success and do you believe this is the most effective approach?

4) Do you have any joint targets, objectives or goals?

5) Please describe the type and level of senior management involvement in the sales and marketing functions and in setting objectives/goals.

6) Does conflict exist between sales and marketing in your organization? If so, what type?

7) If conflict exists between sales and marketing, do senior management assist in resolution and how do they do that?

8) Does the structure of the organization help in the resolution of conflict, and if so how?

9) Do senior management encourage integration between departments within the organization?

10) Do you believe sales and marketing share the same values and goals?

11) In your view, what are the benefits of a good working relationship between sales and marketing?

12) What (if anything) could be done to improve the relationship between sales and marketing in your organization?

13) Do the reward systems differ between sales and marketing, and if so how? And how do rewards relate to the sales/ marketing relationship?

14) Do you believe that your sales and marketing rewards are integrated and adds value? If so, how?

15) What do you think are the benefits of integration between sales and marketing?

Appendix 2 - Reflective Multi-item Measures

Construct	Items	Adapted From
Inter-functional Conflict	Seven-point scale anchored by 1 "Strongly Disagree" and 7 "Strongly Agree." (1) When members of sales and marketing get together, tensions frequently run high; (2) Sales and marketing generally dislike interacting with each other; (3) Sales and marketing feel that the goals of their respective departments are in harmony with each other[r]; (4) Protecting sales and marketing departmental areas of responsibility is considered the norm in this organization; (5) The objectives pursued by the marketing department are incompatible with those in the sales department; (6) There is little or no interdepartmental conflict between sales and marketing [r]; (7) Sales and marketing get along well with each other [r].	Menon, Jaworski & Kohli (1997)
Senior Managers' Support for Coordination	Seven-point scale anchored by 1 "Not at All" and 7 "An Extreme Extent" (1) Senior management ensures that the sales and marketing goals are closely aligned (2) To what degree does senior management ensure that the activities in the sales and marketing departments are well coordinated.	New Scale
Sales/Marketing Collaboration	Seven-point scale anchored by 1 "Strongly Disagree" and 7 "Strongly Agree." (1) Cross-functional teamwork is a common way of working within the sales and marketing; (2) Sales and Marketing are committed to sharing their vision with each other; (3) There is agreement between sales and marketing of our organizational vision; (4) A team spirit pervades sales and marketing; (5) Sales and marketing share the same goals.	Hult, Ketchen & Slater (2002)

[a] Item deleted following assessment of measurement model
[r] Item reverse scaled

Table 1 – Exploratory Research Summary

Organization	Senior Managers' Support for Coordination	Rewards Alignment	Inter-Functional Conflict	Sales/Marketing Collaboration
Publisher 1	Supportive	Independent Rewards	Very Low Conflict	Collaborative
Publisher 2	Not Supportive	Independent Rewards	Some Conflict	No Collaboration
Industrial Man.	Supportive	Independent Rewards	Low Conflict	Improving Collaboration
Consumer Goods 1	Not Supportive	Independent Rewards	Low Conflict	Some Collaboration
Consumer Goods 2	Supportive	Aligned Rewards	Very Low Conflict	Collaborative

Table 2 - Descriptive Statistics and Correlations

Construct	Mean	S.D.	1	2	3
1. Senior Managers' support for Coordination	4.92	1.40			
2. Inter-functional Conflict	2.73	1.10	-.49**		
3. Rewards Alignment	40.19	3.67	.15	-.12	
4. Sales/Marketing Collaboration	5.10	1.19	.63**	-.67**	.25**

** Correlation significant at p<.01 (2 –tailed test)

Table 3 - Assessment of Measurement for Reflective Constructs

Construct	Indicator	Standardized Loadings	Alpha	Composite Reliability	AVE
Sales/Marketing Collaboration	1	.816	.89	.92	.69
	2	.900			
	3	.829			
	4	.793			
	5	.821			
Inter-functional Conflict	3	.805	.68	.80	.51
	6	.625			
	7	.826			
Senior Manager's Support for Coordination	1	.928	.85	.93	.87
	2	.940			

Table 4 - PLS Model Testing Results

Linkage in the Model	Hyp. No.	Std. Beta	t-stat
Senior Managers' Support for Coordination → Sales/Marketing Collaboration	H1 (+)	.32	4.9051***
Senior Managers' Support for Coordination → Inter-functional Conflict	H2 (–)	-.52	-7.5617***
Inter-functional Conflict → Sales/Marketing Collaboration	H3 (–)	-.52	-8.4927***
Rewards Alignment → Sales/Marketing Collaboration	H4 (+)	.11	1.5978*
Rewards Alignment → Inter-functional Conflict	H5 (+)	.08	0.7421
Sales/Marketing Collaboration R^2 = .60; Inter-functional Conflict R^2 = .30			

* Sig. at p≤.056; ** Sig. at p≤.01; *** Sig. at p≤.001

Figure 1 – Conceptual Model