

THE EFFECTS OF BUSINESS COMMISSION ON GROWTH: THE TYPES AND PRINCIPLES

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ABSTRACT

This study explores the impact of business commission structures on organizational growth, focusing on the various types of commissions—such as fixed, tiered, and residual—and the core principles that guide their effective implementation. Fixed commissions offer predictability, while tiered models encourage higher achievement by rewarding escalated sales performance, and residual commissions incentivize long-term client relationships and service continuity. Each model aligns differently with organizational goals and market demands, and choosing the right one can significantly influence employee engagement and business growth. Business commissions serve as monetary incentives tied to performance metrics, which motivate employees to achieve and surpass their targets. The structure of these commissions can significantly influence employee behavior and, consequently, the overall productivity and profitability of a company. Research suggests that commission plans rooted in clearly defined policies and consistent evaluation frameworks lead to higher job satisfaction and organizational loyalty. The study concluded that the underlying principles of fairness, transparency, and alignment with company goals are essential to ensuring that commissions serve as effective tools for expansion rather than sources of conflict. The study also recommended that it enables employees to know exactly how they earn their commissions. When the system is clear and easy to follow, they will trust it more and be more motivated to work hard.

KEYWORD: Business Commission, Business Growth

INTRODUCTION

In today's cutthroat business environment, companies are always looking for new and efficient ways to boost productivity, boost sales, and promote long-term expansion. Among these tactics, commission-based pay plans have become a major factor in company success, particularly in sectors that rely heavily on sales. Business commissions are financial rewards linked to performance indicators that encourage staff members to meet and exceed goals. The structure of these commissions can significantly influence employee behavior and, consequently, the overall productivity and profitability of a company (Kamble & Rajesh, 2021). As businesses navigate fluctuating markets and evolving consumer demands, understanding the dynamics of commission structures becomes increasingly vital to strategic management.

The types of business commissions—namely fixed, tiered, and residual—play distinct roles in shaping organizational outcomes. Fixed commissions offer predictability, while tiered models encourage higher achievement by rewarding escalated sales performance, and residual commissions incentivize long-term client relationships and service continuity. Each model aligns differently with organizational goals and market demands, and choosing the right one can significantly influence employee engagement and business growth (Al-Kahtani et al., 2022). However, the effectiveness of any commission system depends not only on its type but also on the principles guiding its design and implementation, including fairness, transparency, and goal alignment. Poorly structured commission systems may demotivate workers or lead to unethical behavior, thereby undermining business objectives. Furthermore, the underlying principles governing commission structures are crucial in ensuring their sustainability and ethical relevance. A well-constructed commission system should balance individual motivation with corporate values, ensuring that incentives align with both short-term goals and long-term vision. Research suggests that commission plans rooted in clearly defined policies and consistent evaluation frameworks lead to higher job satisfaction and organizational loyalty (Chen et al., 2023). Based on recent empirical findings, this study aims to examine the effects of various commission kinds and their guiding principles on business development as multinational corporations increasingly use performance-based compensation to boost growth.

CONCEPT OF BUSINESS COMMISSION

Due to broader changes in economic structures, digital transformation, and legal frameworks, the idea of business commissions has undergone significant change in recent years. Commissions were historically related to sales-based incentives, but more recent interpretations cover a broad range of performance-linked pay schemes, regulatory monitoring systems, and digital marketing tactics.

In the realm of corporate governance and organizational performance, commission-based compensation has gained prominence as a strategic tool to align employee incentives with organizational goals. A study by Omaliko (2022) examined the impact of contemporary compensation schemes, including commission-based compensation (CBC), on corporate performance among oil and gas firms listed on the Nigerian Exchange Group. The study found that CBC positively influenced corporate performance, suggesting that performance-linked incentives can drive productivity and organizational success.

Regulatory commissions play a crucial role in ensuring compliance with legal standards and enhancing service delivery in various sectors. A study by Odusola (2022) critically appraised the Federal Competition and Consumer Protection Act (FCCPA) in Nigeria, highlighting the convergence of competition law and consumer protection under a single regulatory body. The study emphasized the importance of effective enforcement mechanisms and the potential challenges posed by overburdened regulatory bodies.

The advent of digital platforms has transformed traditional business models, introducing affiliate marketing as a prevalent strategy. Affiliate marketing involves third-party individuals or entities promoting products or services in exchange for a commission on sales generated through their efforts. A study by Nwogu (2020) explored the concept of affiliate marketing and its impact on the performance of online businesses in Nigeria. The study found that affiliate marketing significantly improved sales volume and profitability, underscoring the effectiveness of performance-based commissions in the digital economy.

Innovation is a key driver of performance in governmental corporations. A study by Otieno and Juma (2024) investigated the relationship between innovation practices and performance in

commercial governmental corporations in Kenya. The study found that innovation significantly influenced performance, suggesting that fostering a culture of innovation can enhance the effectiveness of governmental organizations.

TYPES OF BUSSINESS COMMISSION

A business commission defines how the organization will pay employees according to the sales that they make. For leadership, this means reviewing the budget and margins to determine how much money can be allocated towards commissions, along with the employees' base salary, and any incentives that can be offered to further drive sales. Business commission can be broadly categorized into base salary plus commission, straight commission, draw against commission, and tiered commission. Additionally, there are structures based on revenue, profit margin, or a combination of factors.

➤ **Revenue-Based Commission**

In this model, commissions are calculated based on a percentage of the revenue generated by each sale. It's commonly used in B2B or SaaS environments, where the value of a sale is directly tied to recurring revenue or contract value. For example, a SaaS sales representative may earn a 7% commission on all subscription sales they close.

➤ **Tiered Commission:**

In the tiered commission model, salespeople earn a certain percentage of commission on all sales up to a designated amount. Once they achieve their revenue goal, their commission increases. This encourages them to exceed sales goals and close more deals. Commission rates increase as a salesperson reaches higher levels of sales, (Onyango, 2016).

➤ **Straight commission:**

Salespeople who work on straight commission only earn money when they complete a sale. No sale equals on income. Since the company doesn't provide a base salary, it can offer higher commission rates which often attracts the best salespeople. The straight commission structure allows salespeople to function like independent contractors who set their own hours, which saves companies money in taxes, benefits and other expenses. The company is out money only when the salesperson brings in revenue. A salesperson earns income only when they make a sale. No fixed salary is provided, (Kuratko & Hodgetts, 2015).

➤ **Residual commission:**

The residual plan benefits salespeople with ongoing accounts or clients. As accounts continue to generate revenue, commission payments continue. The structure encourages salespeople to retain their customers or develop repeat business. This structure is most common in agencies and consulting firms that handle long-term accounts. An ongoing commission paid for as long as the customer continues to use the product or service, (Weitz., et al., 2015).

➤ **Gross Margin Commission:**

Unlike revenue-based commission, a gross margin commission structure rewards sales reps based on the profitability of each sale rather than the total revenue. This encourages reps to close high-margin deals rather than just focusing on volume. This model works well for industries where maintaining profitability is crucial, such as retail or wholesale.

➤ **Bonus-based Commission:**

A bonus-based commission structure offers sales reps bonuses for hitting specific targets or milestones, such as reaching 120% of their sales quota. These bonuses are often tied to broader company objectives, such as launching a new product or entering a new market, and can help drive focused sales efforts, (Mancilla, 2024).

➤ **Override Commission**

In multi-level sales organizations, override commissions allow managers and team leads to earn commissions based on their team's performance. They receive a percentage of their team members' commissions, fostering leadership and team development.

THE EFFECT OF BUSINESS COMMISSION ON BUSINESS GROWTH

In recent years, businesses have increasingly adopted commission-based compensation models to drive growth and performance. These structures, which tie employee earnings to sales outcomes, are particularly prevalent in sales-driven industries. This examines the effects of business commission structures on business growth, drawing insights from recent studies and industry practices.

➤ **Enhanced Sales Performance and Revenue Growth**

Commission-based compensation directly links employee earnings to performance, incentivizing sales personnel to exceed targets. A study by FasterCapital (2023) highlighted that tiered commission structures, where higher sales volumes yield increased earnings, can lead to significant sales growth. For instance, a tech startup reported a 50% increase in sales after revising its commission tiers to reward top performers.

➤ **Employee Motivation and Retention**

Well-structured commission plans can boost employee motivation and reduce turnover. Novatia Consulting (2023) found that organizations with balanced compensation models, combining base salary with performance-based incentives, experienced a 20% increase in sales performance. This approach not only motivates employees but also fosters loyalty, as individuals are more likely to stay with companies that offer rewarding compensation structures.

➤ **Short-Term vs. Long-Term Growth Considerations**

While commission structures can drive immediate sales, they may also encourage short-term thinking. A study published in the International Journal of Hospitality Management (2020) noted that increasing employee compensation could enhance revenue growth in the short term but may undermine it after one year. This suggests that businesses must balance immediate incentives with strategies that promote sustainable, long-term growth.

➤ **Operational Costs and Profit Margins**

High commission rates can increase variable costs, potentially impacting profitability. FasterCapital (2023) emphasized the importance of aligning commission structures with business objectives to ensure that increased sales do not come at the expense of profit margins. Companies must design commission plans that incentivize sales while maintaining healthy profit margins.

➤ **Market Expansion and Strategic Alignment**

Commission structures can influence business strategies, including market expansion. For example, a multinational corporation adopted a balanced scorecard approach, where commissions

were based not only on sales figures but also on customer satisfaction and retention metrics. This holistic model resulted in a more customer-centric sales process and significant improvements in customer loyalty and repeat business.

➤ **Customization and Role Differentiation**

Tailoring commission structures to specific roles within the sales team can enhance effectiveness. Novatia Consulting (2023) highlighted the importance of customizing incentive programs to align with the unique contributions of each role, such as account managers, lead generators, or customer service representatives. This approach ensures that incentives resonate with individual responsibilities and motivations, leading to improved performance and business growth.

THE PRINCIPLES OF BUSINESS COMMISSION

The concept of commission is governed by several underlying principles, which define the ethical, financial, and operational framework within which commission-based activities occur. Understanding these principles is vital for businesses, agents, and regulatory bodies alike.

➤ **Principle of Performance-Based Compensation**

The core of commission systems lies in performance-based rewards, meaning payment is tied to the successful completion of a task—typically a sale or client acquisition. Unlike salaried roles, commission earnings are variable and depend entirely on the agent's productivity and the revenue they help generate. George and Sims (2021) emphasize that this system enhances employee motivation and aligns the goals of the agent and the organization. For example, in real estate, a broker may earn 5% of the final property sale price. If no sale is made, no commission is earned—highlighting the direct link between performance and compensation.

➤ **Principle of Agency Relationship**

Commission arrangements often depend on an agency relationship, where an individual (the agent) is authorized to act on behalf of another party (the principal). The agent represents the principal's interests, and in return, earns a commission for successful transactions. Jensen and Meckling (2022) explain that agency theory helps resolve conflicts of interest between principal and agent through incentive structures like commissions. For instance, insurance agents act on behalf of insurance companies, selling policies in exchange for a percentage of each premium.

➤ **Principle of Proportionality and Fairness**

This principle suggests that commissions should be fair and proportionate to the value of the transaction and the effort involved. Low commissions can demotivate agents, while excessively high commissions may create unsustainable financial pressure on the business. According to Tang and Wu (2021), a balanced and ethical approach to commissions promotes long-term employee satisfaction and customer trust. For example, offering a 0.5% commission on a million-dollar deal may be reasonable, while offering the same on a low-margin \$1,000 product may be unfair.

➤ **Principle of Timely Payment**

The timeliness of commission payments is crucial. Once the conditions in the commission agreement are met (e.g., the client has paid), the agent should receive their due compensation without unnecessary delay. Lin and Park (2023) found that prompt commission payments significantly affect agent retention and job satisfaction. Late payments can erode trust and reduce motivation.

➤ **Principle of Non-Exclusivity (Unless Contracted)**

By default, agents are free to represent multiple principals unless a contract specifies otherwise. Non-exclusive commission structures allow agents more freedom to maximize their earnings, though exclusivity clauses may apply in specific industries. Osborne (2021) notes that non-exclusive arrangements foster a dynamic and competitive agent environment, especially in freelance or affiliate sales. However, exclusivity clauses must be clearly documented if required.

STRATEGIC WAYS OF GIVING OUT COMMISSION

➤ **Tiered Commission Structure**

A tiered commission model rewards employees with increasing commission rates as they achieve higher sales or performance thresholds. This strategy motivates employees to surpass their targets and promotes sustained productivity (Jindal & Reinartz, 2021).

➤ **Revenue-Based Commission**

This strategy involves awarding commissions based on the total revenue generated rather than individual sales. It encourages team collaboration and aligns employee goals with the organization's financial performance.

➤ **Profit-Based Commission**

Rather than rewarding sales volume alone, this model compensates employees based on the profit margin of each sale. It ensures that sales staff prioritize high-margin products or services and discourages unnecessary discounting.

➤ **Activity-Based Commission**

This strategy rewards employees not just for sales but also for key activities that lead to sales, such as generating leads, conducting follow-ups, or securing meetings. It is often used in B2B or service industries where sales cycles are long.

➤ **Hybrid Commission Structure**

A hybrid commission combines base salary with multiple forms of commission (e.g., tiered + activity-based). It provides income stability while offering motivation through variable pay.

➤ **Team-Based Commission**

This strategy involves giving commissions to teams rather than individuals, fostering collaboration and reducing internal competition. It is ideal for environments that require coordinated efforts, such as customer service or project management teams.

In conclusion, the effects of business commissions on business growth are multifaceted, significantly influencing motivation, productivity, and overall profitability. By offering structured commission systems—such as revenue, tiered, or residual commissions—businesses can incentivize employees and partners to achieve higher performance levels, thereby driving growth. The underlying principles of fairness, transparency, and alignment with company goals are essential to ensuring that commissions serve as effective tools for expansion rather than sources of conflict. When thoughtfully implemented, commission structures can foster a performance-driven culture that not only boosts sales but also promotes long-term sustainability and competitiveness in the marketplace.

RECOMMENDATIONS

1. It enables employees to know exactly how they earn their commissions. When the system is clear and easy to follow, they will trust it more and be more motivated to work hard.
2. It enables employees to always pay commissions on time and make sure the calculations are correct. Fairness builds trust, and trust leads to loyal and hardworking employees.
3. It helps businesses to carefully choose the commission type—fixed, tiered, residual, or hybrid—based on their operational goals.

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