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Incentives in the consultancy business

Bachelor Thesis

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Abstract

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Background and research question: There are several manners to control employees and ensure that they perform in accordance to the company's objectives. This is obtained by the use of management control systems. One of the controls measures available is reward systems. In knowledge-intensive companies, the employees constitute the primary asset for competition. This inspired the following question:

How can a knowledge-intensive, consultancy company remunerate and evaluate the consultants' performances and does it contribute to knowledge development and retaining high-performing employees?

Purpose: This thesis will give an idea to how a reward system was designed and how this system affects the employees' willingness to stay within the organisation. Furthermore, show how to perform evaluations and how to endorse knowledge development.

Limitations: Concentrating the thesis on one company to keep data collecting feasible and study a company that the authors knew tried to keep their high performers on a long-term.

Methodology: The thesis has used a qualitative approach to better understand and interpret the respondents' answers. Three respondents gave their opinion on the case company's remuneration programme in semi-structured interviews since the authors wanted to hear their own thoughts regarding the programme.

Analysis and conclusion: Several types of rewards exist in the company, albeit only two main rewards are frequently used. The use of a clear career model, which informs the employees of possible paths to take and expectations to reach them, is very important as a motivating influence. Employees who have the necessary qualifications and perform well are paid and promoted quickly if their evaluations express potential. However, these evaluations take much time and effort to complete and the outcome is subjective.

Suggestion for further studies: There are several approaches possible towards reward systems. Since this study displayed the rewarding influence of a career model on employees, a future study regarding the behavioural effects of a career model on employees would be highly interesting. Interesting to see would be if the use of an "Up or Out" policy attract certain types of people. Since this was a case study of one company, it would be interesting to study if other companies within the business handle this issue of rewards in another way.

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1. Introduction

This chapter describes the background of Management control systems and gives the reader a general idea of the study. Furthermore, present the aim and purpose for the thesis.

1.1 Background

Today's companies see their employees as one of their most important assets, if not the most important one. The ability to recruit and maintain the best people with the desired knowledge is crucial for the future success of any company. By using management control, organisations are capable to control and motivate the employees from seeking employment elsewhere. This is where Management control systems (MCS) come in. These systems work by influencing the workforce's behaviour to work in accordance with the management's desires and their way should be the best way possible to reach the strategic targets.

A MCS can be constructed in several different ways and are a very important tool when it comes to encouraging and sometimes forcing employees to act in an organisation's best interest.¹ A strategically and important question for today's organisations is how to employ and foremost motivate and keep competent personnel². Companies can control their employees in multiple ways. This variety is due to different preferences among different companies, cultures, and employees. When it comes to rewarding employees two main types exist, positive and negative. Positive incentives work by promoting good performances and negative incentives by the fear of punishment from performing poorly.³ Companies can today offer their employees a vast variety of different rewards. The rewards may come as either monetary or non-monetary. Even when different methods exist, all of them work by making your staff regularly perform with the company's best interest in mind. Employees have a tendency to work harder in rewarded activities and by helping the employees to understand the expectations on them, incentives can function to motivate them to work more effectively.⁴ The employees being controlled can receive rewards individually, in groups, divisions or even corporately. Evaluations of the workforce can facilitate the control regarding that employees work to achieve the targets set by the company. Evaluations are conducted either tightly or loosely depending on strategy and effects that the firm wishes to achieve.

Bearing in mind that employees are the most important assets for knowledge-intensive companies, since these businesses only have their workforce's knowledge as a primary source for competition. The issue in this report is therefore to focus on consultancy firms, which are an example of this business. Knowledge intensive consultancy companies are well suited for this thesis, since their primary competitive asset is their employees. Within this business, there are several types of companies working to achieve different goals. There are some firms, which only serve as an employment service for their customers and consultants. The chosen company for this report is of another category, namely a company that tries to keep their consultants on a long-term basis. We have chosen to examine this type of company to see

¹ Merchant, K. and van der Stede, W. (2007)

² Arvidsson P, 2004

³ Merchant, K. and van der Stede, W. (2007)

⁴ Merchant, K. and van der Stede, W. (2007)

what kind of incentives and rewards they use to manage the employee turnover, and how these affect the employees' performances.

1.2 Research question

- How can a knowledge-intensive, consultancy company remunerate and evaluate the consultants' performances and does it contribute to knowledge development and retaining high-performing employees?

1.3 Purpose

The purpose with this essay is to describe how a company within the knowledge intensive consultancy rewards their employees and how this choice affects the consultants. Furthermore, find out how the consultant's performances are measured, and what importance the evaluation has on the consultant's rewards and future projects. To answer the questions above this study will contain interviews from employees in the consultancy business.

1.4 Limitations

Due to the limited period of this study, it has been necessary to concentrate on one single consultancy company to keep the amount of data collecting at a feasible level. Further, the authors have chosen to study a company within a category that tries to keep their consultants on a long-term basis.

1.5 Disposition

Chapter 2 will show and justify the used methodology in this thesis.

Chapter 3 consists of theories concerning rewards and incentives the consultancy business.

Chapter 4 presents the interviews that are the main data collected to serve as discussion basis for the following chapters.

Chapter 5 compares the theory with the empirical findings from chapter four and an analysis is made concerning differences and similarities between these previous chapters.

Chapter 6 is a summary and conclusion of the findings in this thesis and finishes with a discussion about possible further studies within this field.

2. Methodology

In this chapter the methodological choices will be presented and the line of actions taken to accomplish this thesis. The last section of the chapter presents a discussion of the methodological problems of the thesis.

2.1 Background for description of method

The choice of the subject discussed in this thesis is based on the authors' studies in accounting and management control where an interest for incentive- and reward systems was found. When the possibility came to write about these systems in an environment with employees working in knowledge-intensive businesses the interests grew. The lack of previous research also made this issue even more important. To make this thesis more interesting we have chosen to dig deeper into one company opposed to make a quantitative report comparing different companies in the business.

The process started by increasing the authors' knowledge concerning the different types of incentive systems that exists and the theories behind them. Furthermore, we also learned more about the rewards, both monetary and non-monetary, that are used and the advantages and disadvantages in choosing an individual or group reward. However to receive a deeper understanding before performing the theoretical framework the authors had to read a great deal of literature, books, scientific articles and thesis, concerning the chosen topic

2.2 Research approach

Already existent theory is plentiful regarding incentives, rewards, and about the consulting industry but not all three of them collectively. Therefore, the deductive approach is closer to the thesis' purpose, which means developing theories first and follows by collecting data to test and develop the theories further, within the context of knowledge-intensive businesses. The opposite, would be an inductive research, collecting data first and then developing a theory to base the data analysis on.⁵

According to R. Patel and B. Davidson,⁶ there are three very common types of researches. The *explorative*, that explores the unknown areas of a subject to support and build information to use in further studies. The primary purpose of an explorative research is to gather as much information as possible about your problem. *Descriptive* researches are better to take on when a field of study already contains a certain amount of information, which also start to become systematically arranged in models. This method limits itself to exploring a few aspects of those issues of interest. Usually only one form of collecting data is used in descriptive studies. The last common type of research is the one that *tests hypothesis*. To test a hypothesis the research must be conducted in a manner that assures that the risk of other things than those within the hypothesis can affect the result is kept at a minimum. When conducting this study the choice was to have a descriptive purpose, describing the problem area supported by theories. Further, test the theories with the empirical findings to see whether, they can be implemented within knowledge intensive consultancy organisations. However, one has to take into consideration that there are no directly adjusted theories in this field. Therefore, the

⁵ Saunder. Lewis. &Turnhill. (2003)

⁶ Patel, R. & Davidsson, B. (1991)

authors may need to adjust and support the thesis with theories from other fields, depending on the findings in the empirical chapter.

2.2.1 Method of investigation

According to Holme and Solvang,⁷ there are two ways of collecting data for research, quantitative and qualitative. The quantitative method taking a statistical approach by using charts and tables based on numbers to analyse and the qualitative method using subjective and verbal ways of analysing the collected data.⁸ Previous research in this field is common. However, for the specificness of the consultancy business and for this thesis, it is more suitable to conduct a qualitative approach. The aim of the thesis is to describe the consultants' perceptions of evaluation and remuneration within the business. Some of the common traits of qualitative research are:⁹

- They should have a special interest of the importance and meaning of how people perceive different actions. It is an interpretation of the symbols and meetings with people during the research.
- Qualitative research is also having an interest of the patterns of behaviour focusing on regularities in social activities.

Data in a qualitative research is the product of an interpretation process and is unlike quantitative data not just lying around to waiting for unveiling. Since it is all an interpretation of material the researcher's values, opinions will inevitably play an important part of the interpretation, and this should not be forgotten in the analysis.¹⁰ The choice of a qualitative method enables us to better understand and subjectively interpret the thoughts and opinions of the respondents stated in the interviews.

A distinguishing trademark for case studies is only examining one unit instead of multiple units hence allowing to dig deeper within the studied unit and portray more details. Instead of a survey-study that would only be able to scratch the surface on several units. Furthermore, allowing the use of all suitable methods, sources, and theories at the same time in a case study to examine the interesting processes and relationships that exist within the studied unit. This is in contrast to experimental studies that spend much energy on manipulating variables and change circumstances. Case studies allow the researcher to study activities and objectives in their natural environment without any influence from the outside.¹¹ Therefore, the authors have chosen a case study based on individual interviews on one single organisation, instead of a survey study on several organisations, because wanting to seek a deeper understanding for their experiences and feelings.

2.2.2 Selection of company

Consultancy companies are plentiful and concentrating on one single company was necessary to complete a successful case study. The choice was not to look at consulting firms that operates like an employment service to find jobs for unemployed consultants. To be able to find results from all the different aspects of a MCS this thesis have chosen to concentrate on a company that tries to keep their consultants/employees within the organisation on a long-term basis. Regarding keeping their employees on a long-term basis, the authors had to form a

⁷ Holme, I.M. & Solvang, B.K. (1997)

⁸ Patel R. & Davidson B. (1991)

⁹ Tesch, R. (1990)

¹⁰ Denscombe, M. (2000)

¹¹ Denscombe, M. (2000)

subjective opinion about how each possible case company worked with their employees. Obviously, they also had to be willing to participate in the interviews needed and have some kind of reward or management control system. After the first contact with the case company they were willing to participate and met all the necessary criteria.

The interest is to see how a company that operates in the consultancy business work to maintain their most valuable asset, namely their employees. To find the answers to this, as mentioned earlier a qualitative study has been chosen. To be able to study the effects of a MCS on consultants this is the chosen method to complete this study. Due to lack of previous studies in this area, the only way of collecting data has been through conducting several interviews. To receive a fair understanding of the case company, the authors wanted to perform interviews with employees at different levels of the case company. The choice was to interview the HR-manager in Sweden, who is familiar with the case company's incentive system, to obtain a deeper understanding for their choice of incentive system and to receive a general picture of the case company. Further, we have interviewed one Senior Manager who has worked his way up to his current position and who both participate in the projects and evaluate the consultants' performances. Furthermore this is followed by one interview with a consultant, to learn his view on evaluations and if he has trust in the incentive systems. Since this is a study of how the MCS at the case company works, the data collected from the interviews will not be compared with other companies.

2.3 Interview

There exist several methods of executing an interview: the structured, the semi-structured, and the unstructured. Structured interviews are conducted by posing identically questions in the same order to every respondent, where the scientist has a strong control over the posed questions.¹² This gives the possibility to generalise and compare the results. However when it comes to the level of structuring, it depends on how much the respondent is given the opportunity to elaborate and formulate their own answers.¹³ A semi-structured interview is conducted with openness, where the interviewer has a list of subjects but is flexible with which order to pose the questions and give the respondent develop his or her ideas.¹⁴ An unstructured interview gives the respondent total freedom to interpret the questions.¹⁵ When conducting an interview it is important to make sure that the respondent and the surrounding settings should not be identifiable in the essay, to spare them from the possible embarrassment of the research.¹⁶ Further one can chose between conducting an individual or a group interview. The benefits with choosing an individual interview is that it is relatively easy to control, it is rather easy for the scientist to see whose opinions belongs to who. The benefits from a group interview are that the participants can discuss the subject and it could increase the reliability of the result.¹⁷ The authors have chosen a semi-structured interview, since the authors wanted to give the respondent spaces to answer and interpret the questions. This gives us the opportunity to follow up the answer if necessary to receive a deeper understanding for their organisation. Since having a qualitative approach and seeking to understand and interpret the feelings of the respondents, the authors they want. Some of the questions in the

¹² Denscombe, M (2000)

¹³ Patel, R and Davidsson, B (1991)

¹⁴ Denscombe, M (2000)

¹⁵ Patel, R and Davidsson, B (1991)

¹⁶ Punsch, M. (1986)

¹⁷ Denscombe, M (2000)

questionnaire have been changed depending on the different respondents, since we want to receive different information depending on their position within the organisation.

2.4 Literature search

Searches for literature about reward systems were conducted from human relations perspectives, motivational perspectives, an organisational perspectives, and most importantly for us, from a management control perspectives. Searched are also issues about the differences between consultancy companies' and other companies. Literature was primarily searched in the local library catalogue *Gunda* at Gothenburg University. Article searches were made in the database of Business Source Premier. Literature was also found by looking at references from books and articles concerning reward and incentive systems. The literature has all been of a secondary data nature since it was collected earlier, for someone else, and for another purpose. The only primary data in this thesis is the interviews, which were conducted solely for the purpose of this thesis.¹⁸

2.5 Approach for analysis

The criterion to fulfil to be reliable is that given the same circumstances and instruments to measure, the result should still be the same. Regarding qualitative research, the personal opinions and thoughts of the person conducting the research may have a significant influence on the end result.¹⁹ The question whether or not a qualitative research is reliable comes down to:

“In case someone else conducts the same research, will that person come to the same results and conclusions?” (Translated from Denscombe, M (2000), p. 250)

A yes to this question signals that the research is reliable. However, there can be no certain answer to this question, but qualitative research can tackle this issue by an explicit statement of the goals and premises of the research, of how the work was conducted and of how the authors reasoned when decisions were made. Constructing a detailed log of decisions taken and of the reasoning behind them would help this cause. Only if a log is constructed may the readers follow the line of decisions and thus determine whether another researcher would have ended up with the same results.²⁰

The opinions of the authors and previous experiences have inevitably affected the result of the thesis although, having made an effort to remain as objective as possible. The authors started this process by finding a theoretical framework based on a business administration perspective. This was how the authors wished to commence the study. However, upon completion it was clear that using other perspectives could have resulted in different findings and results. Moreover, the findings implicated that the use of more organisational ideas would have been ideal.

Validity can be summarised in the following key questions:

- Are the conclusions fair in against their complexity towards the examined object while simultaneously being consistent and avoiding to large simplifications?
- Has the researcher's opinions been recognised as an influence on the work but at the same time not as a reason for biased or distorted reports?

¹⁸ Eriksson. Widersheim-Paul. (1997)

¹⁹ Denscombe, M (2000)

²⁰ Denscombe, M (2000)

- Have the researched objectives been chosen from ample and clear grounds regarding the purpose behind the research?
- Have possible alternative reasons been examined? The researcher must show that the reason chosen is not just the easiest and quickest one to come to. It must be shown that competitive theories have been compared and if there are possible hidden problems with the chosen explanation.
- Have the results been triangulated with other sources to confirm the validity?
- Have the suppliers of information been given the possibility to view the results and present their views on the proposed explanation? Normally it is expected that they should agree with the research statement and feel that it is consistent with their feelings.
- To what extent are the findings consistent with existing knowledge in the field and how well these new findings can be transferred to other comparable situations?²¹

The authors, without assistance from the case company, chose the objectives with this study and they were chosen to cover enough grounds regarding rewards systems in use by the company. The findings are largely consistent with much of the ideas in the theoretical chapter. Upon completion, it has become evident that some findings are pulling the thesis more towards organisational issues. From the organisational point of view, the theory lacks more support. However, the starting point was business administration and it is from this view the theory was firstly found. Most of the findings are transferable and applicable to other companies in the business as well, but a few of them are solely applicable on the case company. Interviews with different people, working in different positions in the organisation have enabled a better understanding of their conditions and to form an own opinion regarding their system.

The authors have chosen not to mention the case company by name. After being in contact with them, the company has failed to decide, on time whether or not their name was usable in the thesis. Therefore, the choice was not to mention their name. Other models or identifiable trademarks used in this thesis are not in any way confidential. However, they are necessary to use to explain key issues. These models and trademarks are by the company often and freely communicated to all interested parties, especially to new or potential recruits.

²¹ Denscombe, M. (2000)

3. Theoretical framework

This chapter gives a description of the theory concerning this thesis. Firstly, a brief introduction concerning the consultancy business followed by general theories concerning different types of controls, incentives, and evaluations. The basis for the theory is mostly on the ideas of Merchant and Van der Stede,²² since the authors find it panoptic and it touches the important sections in this field.

3.1 Consultant specific issues

There are not enough theoretical findings in the specific area that this thesis concern. Namely the area of large consultancy companies with highly educated staff that companies want to keep for a long time. Instead, it is necessary to glance at the theory regarding temporary work employment, which highly educated staff is a small part of. Therefore, this theory enables to introduce the consultancy business and explain why it is different to the normal line jobs. Further, the theory will describe how companies within the consultancy business create value for the trinity of themselves, the consultants and most importantly, for the client company.

All consultants work under a temporary contract with the client company although they may well have a permanent work contract with their consultant agency. Findings from previous research in this area of temporary work employment show that young people, ethnic minorities, unmarried and female workers are overrepresented in the temporary jobs sector compared to permanent jobs.²³ Another very important difference to permanent jobs when it comes to highly educated labour in the temporary employment sector is that these employees have a larger salary than those employed in permanent jobs. This differs to unskilled labour where temporary employees have a significantly smaller salary than permanent workers do.²⁴ Furthermore, there exists a much higher employee turnover in temporary jobs and within two years between one or two thirds of the workforce in temporary employment, dependant of viewed country, has moved on to a permanent employment.²⁵ Reasons for this can be the fact that temporary workers are significantly more dissatisfied with their job security, and in general, they are a bit more dissatisfied with their overall pay.²⁶

3.1.1 Why there is a demand for temporary workers

There are several different reasons for organisations to hire temporary workers from other companies rather than to find and employ their own permanent workers. In a report from Andersson and Wadensjö²⁷ there are five examples of when temporary workers are a good choice for an employment.

First, is the explanation that using temporary workers for short periods or part time jobs can turn several part time jobs into a few full- time jobs instead and many people want to work

²² Merchant, K. & Van der Stede, W (2007)

²³ Taking the measure of temporary employment, OECD Employment Outlook 2002, abstract

²⁴ Andersson, P. & Wadensjö, E. (2004)

²⁵ Taking the measure of temporary employment, OECD Employment Outlook 2002, abstract

²⁶ Taking the measure of temporary employment, OECD Employment Outlook 2002, p. 151

²⁷ Andersson, P. & Wadensjö, E. (2004)

full-time instead of part-time jobs. This is where an agency for temporary workers can come in to collect all of the different part time jobs to be able to offer them to employees as a full time employment at the agency.

Second, is the fact that it is costly to recruit new people to an organisation. Examples of onetime costs are advertisement, selection, and training. This is even more important if the duration of the employment is short. Then the costs to recruit a new employee might serve as a prohibitive factor. However if they should hire a company that has temporary workers/consultants instead, then that company will take the costs of recruiting employees and they will be able to spread this initial cost of recruitment over several temporary assignments. It is also often quicker to receive a well-suited temporary worker from a consultant company then to recruit them by yourself.

Thirdly, a temporary work agency is sometimes with their specific knowledge, better equipped to recruit the right people than their client companies and especially in cases when the client companies are smaller and less powerful then the agency. Companies with workers for hire often have the right people with good knowledge of certain fields of work and it can be easier to turn to them first then to try to recruit on your own.

The forth reason is that laws and regulations in countries often limit the possibility to lay off and employ people when demand changes or at least makes this process very expensive and then works in an intimidating manner. This is where the hiring of consultants is effective. Permanent workers can serve the minimum demand of the market and when demand increases, consultants come in to cover the excess demand. This works easily since consultant companies can quickly withdraw their consultants from their assignments at one client customer to reassign them to other clients.

The final reason is mostly found in American companies and implies that the cost of using a consultant is cheaper than using a permanent employment since temporary workers generally have worse benefits in the US.²⁸ This is not applicable in our case since Swedish laws and work agreements have some minimum requirements and benefits that companies need to supply for their workers.²⁹

3.1.2. Building competence

Knowledge-intensive businesses are identified by the use of qualified remedies to the present problems. They rely heavily on the total competencies of all individuals or groups involved in the organisation. Thus, profitability in such an organisation will also be dependent on the specific knowledge and competence of the employees. Consultancy businesses are a typical example of this type of business, where employees can leave the organisation and by leaving also taking profit and competence as well as potential future evolution along with them.³⁰

Employees working in this type of industry do not lack opportunities for competence development since they normally can learn a lot just from interacting with co-workers and clients. However, in this line of work it is necessary to cope with potential situations of competition between colleagues and between their own interest in developing themselves against the needs and interest of the company. Instead of competition, it is necessary for the

²⁸ GAO/HEHS-00-76, p. 4

²⁹ IFAU-Hur bemanningsbranschen fungerar, rapport 2004:15, p. 9

³⁰ Hansson, J. (2005)

management to create a will and opportunity to learn from one another. This is what successful knowledge companies have been capable to capitalise on and they concentrate their efforts of competence development on finding these opportunities and encouraging them.³¹ A knowledge company is compelled to match the staff's demands and needs for learning and can stimulate that by e.g.

- Recruiting only the best
- Give as hard tasks and challenges as the employees are capable and willing to handle
- Let the employees be in charge of their own projects, have a leading position in the company or have more economic responsibility
- Let the employees become co-owners or partners instead of only employees
- Train them in building networks, i.e. social relationships
- Supply opportunities for the employees to create large, new and external networks
- Give opportunities to try new ways of renewing knowledge, e.g. challenging projects, courses, field excursions and etcetera³²

3.1.3 Learning on the job

Monotone, single-handed work tasks supply few possibilities to develop any person. Instead, assignments that allow space to take personal responsibility, that give personal influence, that allow possibilities to test new methods, that supply interaction opportunities with other groups in the company or with suppliers or customers are needed accompanied by feedback regarding the end results to efficiently develop people's competence.³³

Competence, knowledge, skills are all often evolved during interaction with others. Interacting results in transfer of competence and different perspectives to knowledge and experiences. The most suitable organisations for this are those who are built upon groups instead of individuals, those who are designed to have the right for own decisions instead of direct supervision and for flexible jobs over firm ones.³⁴

Very common is the transfer of information from one person to another and this can happen from superior to subordinate, between colleagues or by an instructor to a student. It can take place under collective forms as teacher held courses or in mechanical forms through manuals, self-study materials, or media. Superiors are also capable to act as either coaches or teachers.³⁵ The role as a teacher can be described as a mentor – apprentice relationship.³⁶ Coaching is not only the transfer of knowledge, which is the case with teaching. Instead, it is about facilitating for employees to learn by themselves. Other important coach assignments are to assist in spotting the important aspects of the work tasks, spot areas that are in need of improvement and transfer these needs into actions. To be a coach can also just be to support and assist an employee through their career development and to push their performances.³⁷

³¹ Hansson, J. (2005)

³² Olausson, I. Kompetens mer än bara yrket. SvD, 1987-04-18

³³ Hansson, J. (2005)

³⁴ Forslin, J. (1996) Från taylorism till...? Om förändring av arbetets organisation mot bakgrund av fem företagsprojekt. Stockholm, SPF.

³⁵ Hansson, J. (2005)

³⁶ Kram, K.E. (1988) Mentoring at work. Lanham, University press of America

³⁷ Hansson, J. (2005)

3.2 Different types of control

This theory enables to illustrate how a company ensures that their employees perform in accordance to the company's objectives. Not all the methods of control are suited for everyone therefore the choice will have an impact. With the aid of this theory section the authors seek to understand how the choice of control methods affect the evaluation, remuneration and retention of the employees. There are several different means of controlling the employees' behaviour. Different means of control are used for different reasons. Some of them work as preventive controls and others operate to detect and eliminate any undesired behaviour.

Using the indirect form of results control is effective when the most preferable behaviour is unclear and can allow autonomy, which spawns innovation. Autonomy is also highly valued by employees high up in the hierarchy. Reaching efficiency is only possible if all of the following conditions are satisfied: Knowledge of the desired result, ability to affect the result and an ability to measure the controlled result effectively. Results controls are often supported with at least one other form of control below.³⁸

Action control being the most direct form of control that management can undertake since it focuses directly on the desired behaviour on the employees whom management must rely on. Action controls is a large group of control methods, it can include action accountability, pre-action reviews or behaviour constraints. However, they are only effective if organisations can perfectly well determine the desired or/and undesired actions, and if organisations have the capability to guarantee that the desirable actions do occur and that the undesirable do not occur.³⁹

Cultural control is a powerful tool and designed to engage group pressure as a way to receive mutual monitoring. There cannot be any employees allowed to deviate from the accepted values and norms within the group. Codes of conduct and group rewards are good examples of different methods to form an organisation with culture controls.⁴⁰

Personnel controls are based on the perception that people have a natural tendency to control and motivate themselves. They serve three different types of purposes. Firstly, some of these controls ensure that employees know what is expected from them by clarifying expectations. Secondly, personnel controls can ensure that an employee has the right qualifications and resources necessary to perform his/her assignments. Thirdly, personnel controls can create self-monitoring among the employees. Self-motivation is the conception of that people's conscience guides them to do their best and this will lead to increasing their level of self-satisfaction and self-respect while simultaneously making their organisation successful when the staff is performing their best. "Intrinsic motivation" is one of the other names in use to describe the last purpose.⁴¹

Along with the three purposes of personnel controls, there are also three different methods to implement them. It can be through selection and placement of recruits and employees, through training or through the design of the job accompanied by a supply of necessary resources.

³⁸ Merchant, K & Van der Stede, W. (2007)

³⁹ Merchant, K & Van der Stede, W. (2007)

⁴⁰ Merchant, K & Van der Stede, W. (2007)

⁴¹ Merchant, K & Van der Stede, W. (2007)

- Selection and placement involves finding and recruiting the right people for a specific position. However, this is not only the process to screen recruits through security checks, confirm their references or to see if they have the necessary educations. It also requires finding a position that fits the character of the recruit or of an existing employee. To have the right person in the right place will increase the chances to be successful and therefore organisations often dedicate much time and effort on this subject.
- Training is another mean to make sure those employees on a specific position in the company has the right skills by informing them about what actions and results might occur if the tasks are performed in the best manner. By better training, an employee can feel better motivated by understanding their jobs more thoroughly and thus feeling more professional. Training can be conducted either in a formal manner, e.g. courses, or in an informal manner through mentoring or learning from your co-workers.
- Job design and supply of necessary resources are essential to optimise workforce performance. A job assignment should be designed to allow motivated and qualified personnel a decent chance to succeed with the job. If the assignments are too complex or if the necessary resources are not supplied to complete the assignments then the workers are not in control of their job, nor are they in control of the outcome of their performances. This will in turn inevitably affect motivation and job satisfaction. The employees will spend their time arguing on the occurrences they are incapable of controlling and not concentrating on their assignments.⁴²

3.3 The significance of evaluations

From the employee's point of view the evaluation process is a question of fairness and from the management's point of view it is a question of the efficient utilization of human resources." (Kressler, H. 2003, p. 53)

This theory section enables to treat part of the research question of how the case company evaluates the consultants' performances. Further, this theory is of a general nature so that the reader will receive a general idea of how to perform evaluations in an organisation. Furthermore, the authors hope to illustrate connections between the evaluation process and future career possibilities and the art of the remuneration. Below, different types of evaluations are explained and the different purposes they serve. Evaluations serve several purposes and are an invaluable asset to all organisations. Following the ideas of Kressler,⁴³ evaluations are important for businesses to be effective, for the utilisation of resources, for managing business processes and most importantly for reaching the business objectives. Furthermore, he describes different methods for evaluating employees.

The functional top-down method is very common in most companies. All people working in organisations are involved in the evaluation process by being evaluated or by evaluating people themselves. This method works by having employees at different levels of the hierarchy within an organisation evaluating the employees on the level below and then reporting the results upwards their superiors. Thus, using the human resources of the organisation efficiently and efficiently use the economic resources available in the company.⁴⁴

⁴² Merchant, K & Van der Stede, W. (2007)

⁴³ Kressler, H. (2003)

⁴⁴ Kressler, H. (2003)

Bottom-up methods serve a different purpose than the previous method. Top-down methods direct its attention more towards performance contribution and efficiency whereas the bottom-up method aims more primarily at the leadership skills of an employee in charge of a team or department of an organisation. This method is highly reliant on the culture and the relationships between workers in a specific organisation since this all affects whether the critique will be used in a positive manner. An evaluation like this is founded on the interpersonal relationships between the people giving and taking critique and therefore it can only be effective when the competence level of the people involved is high enough.⁴⁵

The 360-degree evaluation is different from the above methods. Placing every evaluatee in the centre of attention and then allowing every colleague, superior and sometimes suppliers and clients to have their say in an evaluation, this method gives everyone affected by an employee the opportunity to participate in the employee's evaluation. In short, this means taking the opinions from the widest amount of people possible into consideration for an evaluation. These evaluations can often be assisted by the use of forms where employees can quickly fill out an evaluation regarding one person's manners. However, Bacal⁴⁶ highlights some important aspects to use these systems efficiently. The evaluatees need to trust those who evaluate them as well as the evaluation system itself. If the evaluatee does not trust those who evaluate then the evaluatee might discount the feedback, imagine ulterior motives behind negative critique, become angry or feel attacked. On the other hand, when the level of trust is high and the evaluatee takes the critique with the only motive of performance improvement then this system can be very fruitful. These systems also have the advantage of reminding the staff of the effects their actions have on not only customers and superiors, but also on their co-workers, e.g. people who are performing well at the expense of their colleagues' performances will be spotted. Furthermore, Bacal⁴⁷ claims that feedback that is not requested is mostly found as intrusive and imposing, therefore it is best used if the persons being evaluated have entered into the process voluntarily.⁴⁸ When needed to have inputs from such a vast amount of people to complete a 360-degree evaluation will inevitably need more time and require more effort from the evaluator than other methods.

As previously stated an evaluation is from the management's point of view an indicator of the efficiency in the use of human resources however from an employee's perspective, it is a matter of being fair. It is very important to all workers that they know how their performance is determined to be able to form their expectations of the work and to deal with weaknesses. This may also reveal whether the current position is suited for an employee or if the employee ought to find another position.

For the management the use of evaluations of employees' performances can help to uncover if there is a need for training, career plans and it is a perfect basis for handing out performance-based pay.

Furthermore, there are two different aims with the evaluations in a company. Character appraisals and task-based evaluations record an employee's long-term performance ability, thus also indicating the employee's potential for future development. Whereas results or target based evaluations are concentrating on short-term performance efficiency and often these are

⁴⁵ Kressler, H. (2003)

⁴⁶ Bacal, R. (2003)

⁴⁷ Bacal, R. (2003)

⁴⁸ Bacal, R. (2003)

the groundwork for rewards and incentives. The main purposes of using evaluation systems as the following:⁴⁹

- Reward policies
- Definition of training needs
- Elimination of weaknesses
- Career and employment plans
- Performance incentives
- More targeted leadership
- Emphasising strategic key issues
- Allowing a more efficient communication

This means that the purpose of an evaluation is to not only rate performances but also to innovate, motivate and evolve the employees' competencies. To give and receive feedback is also a primary cause for conducting evaluations.

3.3.1 The Controllability Principle

The essence of this principle is that employees should not be held accountable for those factors that they cannot control. In the words of Merchant and Van der Stede⁵⁰ (2007), "Employees should not be penalized for bad luck. Neither should they be given extra rewards for mere good luck." If employees are evaluated with measures with factors beyond their control, they tend to develop excuses instead of doing their job. They can become risk averse and fail to implement ideas that are good for the organisation if they involve some risk.⁵¹ Further, three examples of different factors of uncontrollability will be given namely, economic and competitive factors, acts of nature and interdependence.

- Uncontrollable economic and competitive factors that can affect results measurements include demand, prices, competitors' actions, laws and regulations, consumer tastes and etcetera.
- Acts of nature is all types of natural disasters that cannot be foreseen and riots, key executive deaths and if not caused deliberately fires, accidents, thefts, and etcetera.
- Interdependencies is when an organisation's or an individual's performance and therefore its measured results are dependent on others within the organisation or on other organisations.⁵²

To some extent, insurances and the way of designing responsibility structures may reduce the effect of uncontrollable factors. If an organisation has used measurements in which uncontrollable factors have had influence during the measured period then there are some means to adjust the measurements. Subjective performance evaluations can be used to sort out the distorting effect of uncontrollable occurrences. Although the use of this method tends to include some sort of bias between the involved performer and evaluator and an excuse culture is easily founded. Another way is using relative performance evaluations where employees' results are evaluated in comparison to a peer group of employees that are performing roughly the same tasks. The down side of this method is that these peer groups are difficult to find. A third way of measuring performance is to use flexible performance standards where targets are set at the start of the measurement period. Over the course of the period, the targets are revised if the conditions on the market have changed.⁵³

⁴⁹ Kressler, H. (2003)

⁵⁰ Merchant, K & Van der Stede, W. (2007)

⁵¹ Merchant, K & Van der Stede, W. (2007)

⁵² Merchant, K & Van der Stede, W. (2007)

⁵³ Merchant, K & Van der Stede, W. (2007)

3.4 Incentive compensation systems

" All other things being equal, individuals tend to gravitate toward and remain in those organizations that give the most desirable rewards." (Lawler, E.E. 1981.pp. 16)

This section of theory enables to treat the aspects of remuneration and retaining the employees set in the research question. Further, it will illustrate how to remunerate the employees after achieving the goals set by the company and explain the different types of existing remuneration. As will be described here, incentive systems are an important tool for an organisation in guiding their employees to the desired results and it motivates them to achieve the performance targets.⁵⁴ The wage and reward system shows the employees and the outside world what is important for a company and it provides a significant aid in order to affect the employees' development, commitment and will to learn.⁵⁵ There exist both positive and negative incentives, also known as rewards, see table 1 for examples. These can be both monetary and non monetary, one can note that non monetary rewards often are greatly appreciated by the employees and have a low financial burden on the organisation, i.e. praise and recognition. Negative rewards often take form of absence of positive rewards, such as not receiving a bonus or no promotion.⁵⁶

3.4.1 Rewards & incentives

The authors have chosen to use both the terms incentives and rewards into consideration in the thesis. Therefore, a distinction of these two closely related components is needed. Armstrong (1993) has given a good definition to these two areas:

- "Rewards recognise past achievements and provide remuneration and other financial and non-financial benefits in accordance with individual and team competences and contributions."
- "Incentives encourage and energise people to do more and to do better in the future by offering the opportunity to earn financial and non-financial benefits"

Considering these definitions, the close relationship between them is visible. Rewards can become incentives by creating a desire for higher levels of remuneration. This means that if the reward should be perceived as an incentive for better performance, is completely dependent on the employee's perception of the value of the reward. If he/she cannot find any value in them then they will not become an incentive for future performance improvements. To make the employees perceive the offered rewards as incentives is something companies need to work hard to achieve.

3.4.2 Intrinsic and extrinsic motivation

"People do work for money-but they work even more for meaning in their lives. In fact, they work to have fun. Companies that ignore this fact are essentially bribing their employees and will pay the price in lack of loyalty and commitment." (Pfeffer, 1998, p. 112)

There are two types of motivation at a workplace, intrinsic and extrinsic. Firstly, intrinsic motivation comes from within and is when people feel that their work is important and they are encouraged to use and develop their skills and abilities. The pleasure for the employee

⁵⁴ Merchant, K & Van der Stede, W. (2007)

⁵⁵ Hansson, J. (1997)

⁵⁶ Merchant, K & Van der Stede, W. (2007)

derives from performing well in relation to a standard.⁵⁷ Managers can in several ways increase intrinsic motivation, they can make the employees proud of where they work, or they can include the employees in the goal-setting process. When the employees take part of the goal-setting process, they are more likely to work towards achieving them.⁵⁸ These are not rewards in the general meaning but they are very important when it comes to employees enjoying their work and tend to have a deeper and longer effect. Secondly, extrinsic motivation includes all other types of rewards that are expected to motivate performance, both positive and negative, i.e. praise, increased pay, promotion, and loss of job.⁵⁹ Extrinsic motivation can be increased by the managers through connecting bonuses to the achievement of a goal.⁶⁰ The extrinsic rewards can have an immediate and powerful effect but it is not sure that it will last on a longer-term basis.⁶¹ To satisfy all the needs for an employee, they need to receive both intrinsic and extrinsic rewards, i.e. a high wage will not make up for a boring job or the opposite.⁶²

Table 1. Example of positive and negative rewards

Positive rewards	Negative rewards (punishments)
Autonomy	Interference in job from superiors
Power	Loss of job
Opportunities to participate in important decision-making process	Assignment to unimportant tasks
Salary increase	Zero salary increase
Bonuses	Chastisement (public or private)
Stock options	No promotion
Restricted stock	Demotion
Praise	Public humiliation
Recognition	
Promotions	
Titles	
Job assignments	
Reserved parking places	
Country club membership	
Job security	
Merchandise prizes	
Vacation trips	
Participation in executive development programs	
Time off	

Merchant, K. & van der Stede, W. (2007), table 9.1 p. 394

3.4.3 Performance-dependent incentives

“A goal is a formal aspiration that defines purpose or expected levels of achievement”
(Simons, R. 2000 pp.230)

⁵⁷ Bartol, K. M & Locke, E.A. (2000)

⁵⁸ Simons, R. (2000)

⁵⁹ Armstrong, M. (1993)

⁶⁰ Simons, R. (2000)

⁶¹ Armstrong, M. (1993)

⁶² Lawler, E.E. (1981)

Companies use performance- dependent incentives, or rewards, to help increase the interest from the employees to strive towards the organisations objectives and strategies.⁶³ Each employee needs guidance how to be able to contribute to the company's goals and strategies. The rewards specify what is important to focus on and help to communicate the company's strategy.⁶⁴ This provides three types of management control benefits, namely an informational, a motivational, and finally a personnel-related. Firstly the informational benefit, inform and help attract the attention of the employees on which result areas within the organisation that is important to focus on. Only by telling the employees that for example quality is an important area might not be enough, but if the company include quality measures in the annual bonus plans it is more likely to make employees to emphasise on quality⁶⁵. Secondly, the motivational benefit. Some employees need to have an incentive to aim at, to maintain their focus, hard work, and to overcome their cooperation difficulties. Therefore an incentive increases some employees' performance, and motivates them to work extra hard with the organisation's best in mind.⁶⁶ Thirdly, the personnel- related control benefit, which leads to the fact that performance-dependent rewards are often an important part of the employee's compensation. Hence, offering some employees a salary that depends on their performance, where they have a low base salary and the opportunity to earn more if they meet the performance demands. If they reach the demands, their salary will climb from below average to above average. This type of rewards is likely to attract the entrepreneurial type of person rather than the risk averse.⁶⁷

Further incentive systems can have a non-control purpose, which means that the compensation for the performance-dependent incentive systems varies with the firm performance. Hence, when the organisations performance is poor, they pay a low compensation and the opposite when performance is high, in other words smoothing the earnings.⁶⁸

The ideal is that measures should be objective, responsible, and complete. It is difficult for the managers who are evaluating the performances of the employees to maintain objective in their evaluation. Objective measures derive from standard formulas and one can clearly see which results and performances that are desired.⁶⁹ Negative aspects with this type of evaluation are that it is difficult to measure all employees after the same standards. Subjective measures on the contrary depend on one person's personal judgment. This type of evaluation requires good information so that the evaluating manager can perform a fair evaluation. Further, the employee must have confidence for the fairness in the evaluating manager's subjective decision.⁷⁰ In order for Performance-dependent rewards to create the ideal motivation, they should satisfy the following criteria⁷¹.

- Have a value for the employee
- Be large enough to have an impact on the employee
- The value and reason should be understood
- It should be provided soon after the performance

⁶³ Lawler, E.E. (1981)

⁶⁴ Simons, R. (2000)

⁶⁵ Merchant, K & Van der Stede, W. (2007)

⁶⁶ Merchant, K & Van der Stede, W. (2007)

⁶⁷ Merchant, K & Van der Stede, W. (2007)

⁶⁸ Merchant, K & Van der Stede, W. (2007)

⁶⁹ Simons, R. (2000)

⁷⁰ Simons, R. (2000)

⁷¹ Merchant, K & Van der Stede, W. (2007)

- It should be durable and remembered for a long time
- It should be reversible
- Cost efficient

3.4.4 Monetary incentives

“Money is the crucial incentive because...it is the most instrumental; it can be used to purchase numerous other values...Money is directly or indirectly related to all of man’s needs...No other incentive or motivational technique comes even close to money.” (Locke et al., 1980, pp. 379-381)

As shown in table 1 there are different types of rewards, but the most common incentive is in form of money. One can classify monetary incentives into three categories; performance-based salary increases, short-term incentive plans, and long-term incentive plans. Normally employees receive a salary increase on an annual basis, this increase is rather small, but it has a considerable value since the annual salary increase with an average of 2-3 percent. Short-term incentive plans, also known as bonuses, are payments based on performance that are measures over periods of one year or less. These performances can be based on group or individual level and are often calculated from a standard formula, e.g. 4 % of sales. Finally, long-term incentives measures performances longer than one year. With this type of rewards, the organisation wants to motivate and reward employees that contribute to the organisations long-term success. However, these types of rewards are normally restricted to high-level managers and are equity-based, which means that they are based on the changes in the value of the organisation’s stock.⁷²

3.4.5 Group rewards

Group rewards are based on a collective achievement and it has become a quite popular model to use by companies. These compensations are often used when it is difficult to measure individual performances in projects. The reward is generally linked to a group performance, and distributed to all contributors. With this system, the employees share the risk and it can increase the motivation to collaborate. However, the freerider effect needs consideration, since employees who do not contribute at all also can receive a reward.⁷³

3.4.6 Tournament incentive programs

Tournament incentive programs is a common method that organisations use to reward their employees, where a group of employees compete for the rewards and where the winners receive promotions and the losers obtain nothing at all. This tends to be effective when organisations want to find qualified individuals for top positions. However, this method is not preferable when the objective is to motivate and encourage teamwork on a large group of individuals.

3.5 Side effects from using incentives

This section enables to treat the following parts of the research question, namely how to retain the employee within the company and how to set the performance targets upon which the remuneration is based. Further, it will discuss the side effects that can derive from the chosen

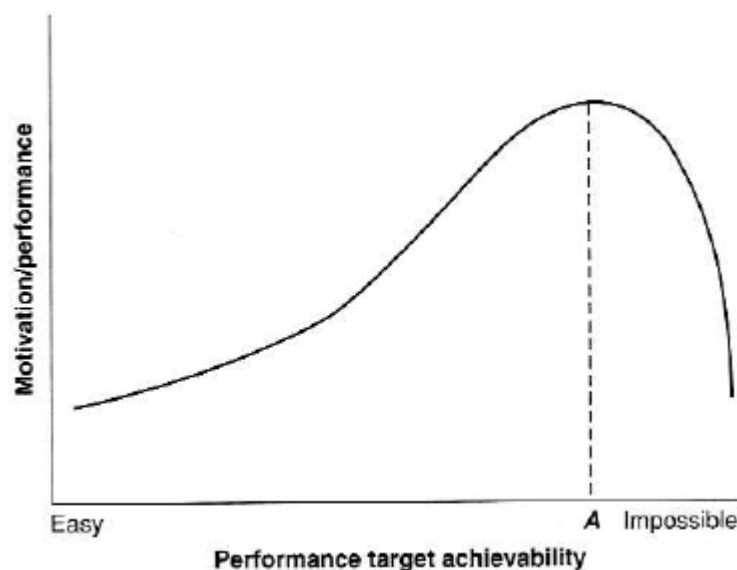
⁷² Merchant, K & Van der Stede, W. (2007)

⁷³ Fisher, J.G et al. (2008)

compensation system. Previous findings contain several examples of damage and misfortune caused by implementing incentive plans. This section deals with the problems that can occur from the use of, or attempt to use incentive plans. These ideas are based on the book *Management Control Systems* by Merchant and Van der Stede.⁷⁴

When setting targets in a budget as the basis of future incentive payouts, target achievability is of major concern. If the target is set too high, the employees will find them impossible and will lose commitment, hence not making an effort to reach them. If targets are too low, the employees will be able to reach them with ease and this will require a minimum of effort and not promoting efficiency or creativity. Effective targets are set in between the above, just before people start to get discouraged from the targets. This point may be difficult to find but to have a *challenging but achievable target* is the most effective way to reach the goals.

Figure 1. The relationship between performance target achievability and motivation/performance



Source: Merchant & Van der Stede (2007) p. 336

Furthermore, the different types of controls available to apply on employees can create different forms of negative side effects. Behavioural displacement is one of them and occurs when an organisation's management control system produce or encourage behaviours that are harmful and actually misdirect attention from the true objectives or the selected strategy of the organisation. Two examples are mentioned below however Merchant and Van der Stede have listed more in their book.⁷⁵

- When sales people are given monthly quotas to fill. They tend to work for the easy sales instead of those that are more lucrative, top priority sales or towards customers that places smaller orders.
- R&D departments that are rewarded by the number of patents filed tend to have many patents on their findings but this does not mean that this will be better for their research to enhance the company's commercial performance.⁷⁶

This is a result of a poor understanding of what the real needs of the company are. Instead rewards are given to perform tasks that might at first glance seem well intended but in the end

⁷⁴ Merchant, K & Van der Stede, W. (2007)

⁷⁵ Merchant, K & Van der Stede, W. (2007)

⁷⁶ Merchant, K & Van der Stede, W. (2007)p. 180

these tasks will undermine the corporate performance. Behavioural displacement also happens when people with the wrong knowledge are recruited or when employees receive fallacious training.

Another negative effect, discussed by Merchant, and Van der Stede,⁷⁷ which can spring from control systems, is gamesmanship. This is the common name for all actions taken by employees to improve performance indicators without actually producing any positive economic effects for the company. Slack resources are one example of gamesmanship. The consumption of slack resources is for example; when a division within an organisation consumes more resources than is actually necessary. This happens if there is an information asymmetry when setting a budget between the division manager and the person responsible for setting the budget targets. The manager can then set the budget target lower than necessary and easier achieve the targets at the end of the budgeted period thereby consuming more resources than necessary. Slack can also be positive by reducing tension with the manager and leaving resources to enhance creativity and innovation in the division.

Another example of gamesmanship is data manipulation. This can be made by either falsification or by data management. Falsification is one form of data manipulation and operates by someone who is being measured reporting erroneous data. The other form is data management, which are actions designed to change the reported data. This is commonly used to make a manager look better or to be able to at least by the numbers reach a budgeted target. This is in no form an advantage for any organisation and can cause severe damage to the organisation if used regularly.⁷⁸

Negative attitudes can cause job tension, conflicts, frustration, resistance, and etcetera. These attitudes are very harmful for a company since they will likely increase lack of efforts, absenteeism, and eventually employee turnover combined with loss of competence. These attitudes are the results of perceiving action controls as too controlling or just unnecessary. Then people start to feel overly controlled and lose their manner towards the establishment that is controlling their actions. They can also be the result of having result targets that employees feel are too difficult, not meaningful, uncontrollable, unwise, illegal, or unethical. If measurement systems are perceived as unfair or if punishments are used this may also provide a good source for creating negative attitudes among employees.⁷⁹

3.5.1 Myopia

Myopia issues in performance measurement systems mostly concerns managers or other people working higher up in the hierarchy. Myopia is when anyone takes an action that enhances his/her performance in the short run but will cause negative effects or less positive effects for the organisation in the long run. Investment myopia is when e.g. holding a manager accountable for short-term returns, which can postpone or reduce investments that can have a positive pay off in future measurement periods.⁸⁰ A good example of operating myopia is General Motors during the last year and presently when the demands for large trucks and SUVs have plummeted mainly due to the increase of petrol prices. To keep the sales figures up large reductions on prices were made even when this meant that the vehicles would not be profitable to produce. This is potentially hurting future sales if no improvements are made to

⁷⁷ Merchant, K & Van der Stede, W. (2007)

⁷⁸ Merchant, K & Van der Stede, W. (2007)

⁷⁹ Merchant, K & Van der Stede, W. (2007)

⁸⁰ Merchant, K & Van der Stede, W. (2007)

the vehicles. Destroying your own goodwill by behaving as in this example or by forcing your workforce to work overtime at the end of a measurement period to get goods ready for sale, producing more/faster at the cost of quality and etcetera are ways of boosting current sales but possibly destroying future sales.⁸¹ All of the above are ways of increasing current figures that are the grounds for rewards but in the same time making future success more and more difficult. The long-term is after all the most important focus for most organisations since they mostly work to survive in the long-run.

3.5.2 Impossibilities with incentives

Other problems that incentives can bring have been discussed by several previous studies in the field of management control. One of the researchers is Alfie Kohn, with numerous articles and books in the motivational field, who wrote an article called “Why incentive plans cannot work”⁸². This article shows different reasons for why incentives plans are a generally bad idea to offer employees.

- First is the statement that “pay is not a motivator”, which is followed by Frederick Herzberg’s argumentation that if you cut a person’s take home pay into half, his/her morale would suffer enough damage to reduce performance. However, if the pay is doubled instead does not automatically lead to better performances. Pay is not the most important issue for employees. It ranks around fifth or sixth when conducting surveys.
- Rewards are also argued to have a punishing side by making rewards dependant on certain behaviour. Therefore, management manipulates their subordinates to act in a certain manner. The experience of being controlled is likely to give a punitive effect in the long run. To have an anticipated reward withdrawn is also an example of a punishing factor.
- Furthermore, rewards are responsible for rupturing relationships and destroying teamwork. This is because an individual reward that causes people to compete for rewards, recognition or to rank them against each other leaves several losers behind the few winners. While competing they will start to see themselves as obstacles to their own success and they will work for their individual gain. No one will work to improve the collective work performance and without that, there will be no quality.
- Rewards ignore reason by using incentives to boost productivity while there might be better ways to gain a productivity increase. Treating the employees better, training and educating them on their tasks, enhancing team work are all examples of ways in which productivity can increase without or at least before using a reward plan.
- Rewards discourage risk taking and innovation by having people working only on those tasks that will lead the reward. People lower their sights when they have to think about what the outcome of their efforts is. “Do this and you will get that” makes employees focus on “that” instead of “this” and thereby reducing the innovation possibilities in the process.⁸³

⁸¹ Merchant, K & Van der Stede, W. (2007)

⁸² Kohn, A. (1993)

⁸³ Kohn, A. (1993)

4. Empirical data presentation

In this chapter the results from our interviews are given. First a brief introduction of the company will be given and it will be followed by three interviews with employees in different positions within the case company. The interviews were conducted with the Swedish HR Manager at the Stockholm office, followed by a Senior Manager and a Consultant both from the Gothenburg office.

4.1 A general background to the company

The case company is a worldwide organisation operating in 49 countries and mainly focusing on consultancy work. The company is divided into four sections; enterprise, services/outsourcing, consulting and solutions. In Sweden the average age of an employee is 32 years and many of them are beginning to form a family. The employee turnover is circa 15% per annum, which is higher than in a normal industrial company with a typical supply chain but on the other hand it is below average in the consultancy business.⁸⁴

4.2 Interviews with the employees at the case company

The persons being interviewed had different positions within the case company which is described below. They will remain anonymous and therefore be called respondent A, B and C.

- **Respondent A: HR Manager**

The first interview was conducted as a telephone conference on May 07th 2008, with the HR Manager at the case company. The respondent has worked in the company for two years and was recruited to this position from another firm.

- **Respondent B: Senior Manager**

The second interview was conducted in person with a Senior Manager at the company's office, May 14th 2008. The respondent has worked in the case company for ten years and is still challenged and motivated by the job assignments. This is his first employment after graduating and he has worked his way up to his current position. The reason why he chose the consultancy business is because it is a flexible job and gives you a wide network.

- **Respondent C: Consultant**

The third interview was conducted in person with a Consultant at the company's office, May 16th 2008. The respondent has worked in the case company for three and a half years and this is his first employment after graduating. The reason why he started working as a consultant at this company is mainly that he did not want to move but also because it is an interesting and flexible job.

All the interviews follow the same general structure, however some questions were changed between the first and the following two since they are affected differently by the compensations system and the evaluation process. The questions concerned the general information about the case company, the compensation system and the evaluation process. See the interview guide in the appendices.

⁸⁴ Interview with Respondent A, , 07th May 2008

4.2.1 Working in the case company

The respondent B says that the recruitment of employees plays an important role to the company in finding the right suited employees. When he started working at the company the largest part of the employees had worked their way up in the company, while today they are recruiting outside knowledge to all levels of the organisation. Further the he adds that as newly recruited you are encouraged to take a large responsibility directly, which can be frightening but also challenging. Furthermore, when asked upon why applicants were so interested in working for them the respondent A listed all of the following as the trademarks for their enterprise:

- The company often operates with large multinational organisations and is involved in large projects with them. Every project is unique and requires certain knowledge.
- They can provide a career counsellor, often two steps higher in the career path, which works both as a mentor and helps you to make the best decisions for your career whether this is within the company or not.
- They have a very clear “career pyramid” to offer the employees. Assisted by it the employees can easily visualise the steps necessary to take and their performance expectations to climb upwards in this “pyramid.”
- They can provide a large variety of projects for their consultants, since the company has several different clients working in different types of businesses.
- The possibility to work in an international environment is substantial and if a consultant wishes to be reassigned to a branch of the group in another country, it can be solved without much fuss.

When asked upon what the most important incentive to work is, both the respondent B and C answered to have interesting and stimulating work assignments, however good colleagues are also a very important factor. Further they both thought that the benefits with working as a consultant were to work in different projects, to build a wide network of useful business contacts for the future and it allows a vast degree of flexibility. Further they also agreed upon that the relatively high remuneration plays an important role. The respondent C believes that the loyalty to the company is not as high in the consultancy business as elsewhere, since consultants tend to put their own career before the company’s. However he thinks they have a great community in the company, with a workforce where the majority group consists of young people with similar ambitions and they all help each other.

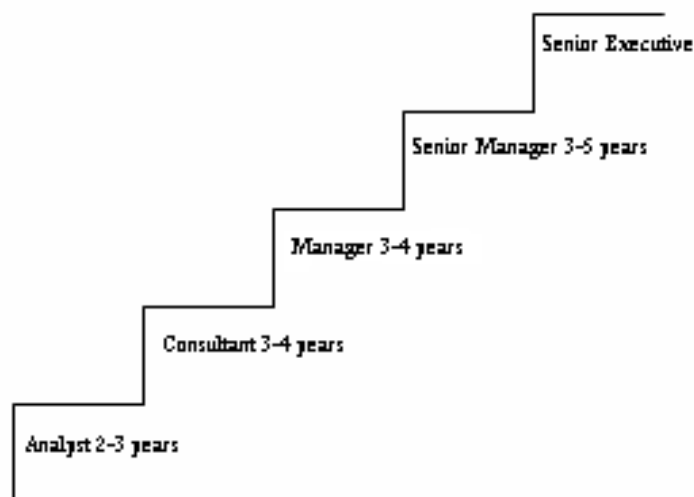
As stated in the introduction and according to the respondent A the company is organised in different sections and have a different structure among the employees depending on assignments. Regarding consultants, the main focus of the thesis, they always take on projects by working in certain project groups consisting of consultants with special knowledge in their respective areas. The group members are not always the same and changes for every project undertaken. All respondents agree on the fact that it is necessary to have a good team spirit and to be able to work in teams. The respondent A mentioned that the goal of each project is set beforehand with the help of the client companies and an employee responsible for the quality of the project, who is working as an objective observer. Furthermore this observer should along the course of a project make sure that all the goals are accomplished by the group of consultants by having a well functioning dialogue between the three parties; the responsible for quality, the consultants and the client company. Henceforth, since they are working in projects at client companies, it is common that the employees can have to commute to other cities or countries, which both the respondent B and C have done earlier in their careers. Because of his current position as Senior Manager The respondent B feel that he

can control his time and work assignments more than the employees on the lower levels in the company hierarchy.

4.2.2 Career and pay models

The career model of this company, “Up or out”, is of a pyramid structure and are described by all the respondents but foremost by the respondent A. The employee cannot stay on one level for a long period instead, they are advancing upwards in the organisation in accordance to their performances. Everyone cannot be promoted so either you perform well and earn your promotion or you should seek employment elsewhere. This is according to the respondent C nothing you think about in the daily work. Normally an employee stays in the organisation for about four years. Further the respondent mentioned that there is an existing alternative career model for those who have a special knowledge in a certain field, but did not explained it further.

This career model is very important for the company and was discussed further and exemplified with a graph during the interview with the respondent B. The model is explained upon the first encounter for a potential new employee. Below is a reproduction of the graph.



These are the five different stages of a career at our case company. They all provide different entry level pay which is fixed to the level you are working on. Above that base pay is a performance based pay dependant on your performance level. This pyramid also signalsises that there are more people working on the lower levels than in the higher ones. This is mainly due to the *Up or out* policy regarding the employees' careers.

Figure 2. Career Pyramid and time spent on the different stages.

Further the respondent A continues to explain the career model together with a pay model. There are 4-5 different pay models within the organisation and it is depending on the knowledge and education of the employee. The different pay models are set by the board of directors and these models are driven by the current market situation. The respondent C explain that the salary in this company is divided into two parts, one base salary which is the majority of the total pay check and a performance based part which is decided by the rating each employee receive after the *rating/promotion* procedure. There exists five performance levels, namely; below, consistent, above, significantly above and on top, where 40 % of the employee should be in the consistent category. The performances of an employee are evaluated each year and you receive a remuneration based on the category you fall into. A good performance will result in a higher paycheck.⁸⁵ During the first step of the company's pyramid the difference of pay between each performance level is not that large. However when the second step of the hierarchy has

⁸⁵ Interview with respondent A, 07th May 2008

been reached, the difference is significant between the performance levels that make up the performance based part of the pay package.⁸⁶

The effects this organisation seeks to achieve with these models are to keep and encourage the employees that perform well, which according to themselves is successfully accomplished, since there is a significantly lower percentage of the turnover among the top performers than the other categories of employees.⁸⁷ All the respondents agree that by performing well you affect your career positively, in terms of both higher pay check and faster promotions. The respondent C also believe that apart from the performance based rewards, that the high level of flexibility in the company where you can organise your time according to your own needs and the great understanding for work life balance, functions as a very good incentive to work hard.

Further the respondent B and C both mentioned that the consultants can affect their work situation by setting goals for themselves together with the career counsellors at the company during the evaluations which take place twice a year, this so you can improve and develop as a consultant. They can then ask to be part of certain projects but it is not sure that their wishes can be accomplished.

4.2.3 Benefits

The company does not have that many non-monetary benefits for their employees, instead you receive a higher paycheck if you perform well. The non-monetary benefits that do exist at the case company are i.e. promotions, healthcare, gym cards, a leased company car and the possibility to play golf or tennis.⁸⁸ As stated by all the respondents, promotions are an important part in this company since they are a performance driven organisation where the employees are encouraged to work hard and make a career within the limits of the organisation. Furthermore they try to form a strong corporate culture in the organisation, by arranging ski trips in the winter and outdoor parties in the summer to encourage the employees to spend time together. This is done to further enhance teamwork and driving people together to receive a sense of solidarity and belonging among all the employees in the company.⁸⁹ Which both the respondent B and C believe is one of the many strengths of the company. According to the respondent B it is fairer with a higher salary than to supply benefits which are not used by everyone, although he adds that it would be preferable with a more lucrative deal on a company car.

According to the respondent A there also exists apart from the performance based monetary reward which concerns all the employees a bonus system for the employees in the top of the organisation. These bonuses are based on your own performance as well as the company's performance. When an employee is promoted to manager he/ she will receive a promotion grant, which are shares in the company as thanks for a good performance. Further all employees within the company are offered the opportunity to buy company shares for a lower price than normal. To conclude one can say that the higher up in the organisation structure you are, the better bonuses and benefits you receive.

⁸⁶ Interview with respondent C, 16 May 2008

⁸⁷ Interview with respondent A, 07 May 2008

⁸⁸ Interview with respondent A, 07th May 2008, Interview with respondent B, 14th May 2008

⁸⁹ Interview with respondent A, 07 May 2008

4.3.4 The evaluation process

The evaluation process in the case company is very time consuming and is performed twice per year and may require up to three months before being accomplished.⁹⁰ On one occasion, called *Mid Year* a review of one's performances is made. This review is assisted by the employee's career counsellor who informs of the steps or projects necessary to take to reach the employee's goals and potential. Further a discussion is taken to see if the employee fits the company in the longer run or if it might be time to move on to another organisation. On the second occasion which is also one of the most important processes during a year is the *rating/promotion* process which takes place six months after the *Mid Year*.⁹¹ The evaluation is based on three main criteria namely;

- Value driver
- Business operator
- People developer.

These three are further divided into seven sub-categories each. The value driver criteria evaluates how innovative and how well you can solve the problems of the project. Further the business operator criteria measure your degree of efficiency in the projects. Finally the people developer criterions evaluate how well you contribute to the entirety of the accomplished project. This is made by analysing how well you have helped out with spreading your knowledge to your co-workers and thereby increasing the potential of every group member for future projects. Of course one criterion is also how you function with your team members in a group. The criteria to fulfil within people developer are made this way to make sure that assisting and helping team members shall be encouraged in this organisation and thus eliminating employees who only work for their own personal interest when this is not in line with the company's best interest.⁹²

The evaluation process is according to all the respondents described as a massive operation by the company where every employee's future within the organisation is decided. Everyone is rated based on their performances in all the projects they have taken part in and they are also compared against all other employees. First after each project everyone on the same level within the career model and performance level are rated against each other within the project members.⁹³ They are then compared within the same peer group but with members in their branch office and finally also on a national level. These comparisons should result in filling up the quota for the different performance levels in the organisation. The rates are given according to a normal distribution curve where consistent performers are the largest group. As an example, the consistent performers shall each year stand for circa 40% of the workforce. One project manager firstly has to rate the employees in his project group. Then project managers meet and need to rate their different employees against those of the other managers.⁹⁴ In this process, those employees that stand out as good performers and have the necessary potential are eligible for promotion to the next step in the career pyramid of the company. If an employee on the lower levels of the pyramid does not show signs of development then they are almost encouraged to step out and seek employment elsewhere. This system is designed to stimulate the top performers to stay within the organisation and to wipe out the employees whom are performing on the level below consistent and those not eligible for promotion.⁹⁵

⁹⁰ Interview with respondent A, 07th May 2008

⁹¹ Interview with respondent B, 14th May 2008

⁹² Interview with respondent C, 16th May 2008

⁹³ Interview with respondent B, 14th May 2008 and Interview with respondent A, 07th May 2008

⁹⁴ Interview with respondent A, 07th May 2008

⁹⁵ Interview with respondent A, 07th May 2008

One important aspect that should not be forgotten is that the client companies of course evaluate every project and the satisfaction level they have with the project group is what every evaluation is based on and will always remain an important factor throughout the evaluation process.⁹⁶

4.3.5 Disadvantages with the evaluation process

Here the respondents do not agree completely, according to the respondent A this system has no real disadvantages since it allows everyone to be seen and heard while also preventing any form of game playing.

According to Respondent B, a few disadvantages with this system do exist. The most visible one is that it requires immense administrative resources and time since it is an ongoing procedure to evaluate each project and each team member's contribution to each project. Further, there are sometimes occasions when employees are stationed in very small groups and not supervised too often. This causes a slight problem when it comes down to evaluations. However then a discussion of how the work has gone is taken with the client company to assist in the evaluation and for the future rating of the employees. This is however not a large issue since most projects are of a larger nature. The other problem mentioned by Respondent B, was that in the end all employees are rated on performance compared to the other employees and not necessarily based on their own performance on a given project. Since the organisation promotes a thinking of moving your career in the company either up or out. This makes it hard to keep special competence if this competence is found in employees on lower levels of the organisation, and if they do not possess necessary leadership skills to be promoted on to the next step of the pyramid.

Further, Respondent C adds that a slight difficulty can arise if the relationship between evaluator and evaluatee is contaminated by some kind of differences. This did not occur often and is even less common during evaluation and rating periods because evaluators can put their differences aside and perform a good and fair rating. He also stated that in his opinion and knowledge evaluations have always felt fair and objective. Furthermore, another issue that may arise in any type of teamwork is freeriding, and when asked upon this, Respondent C was convinced that it is impossible because the evaluations are based on the opinions from all your colleagues you have worked with. Since evaluations are made in this way, a freerider will quickly be detected.

⁹⁶ Interview with respondent B, 14th May 2008

5. Analysis

In this chapter, the theoretical framework will be related to the collected material from the interviews. The analysis will be divided into two main parts that we find highly important for this thesis. Firstly, different types of controls that involve evaluations and compensation systems, secondly the impact of the controls on the employees. This will then be the foundation for the conclusions in the following chapter.

5.1 Disposition of analysis

The analysis will be divided into two main parts so the reader shall receive a better understanding. The first one presents one by one the three types of control measures used by the case company to control their employees and how they are implemented. Further this first part also contains a brief analysis of the evaluation system and the compensation system for the case company. The reason for this is that the authors believe that it will increase the understanding for the interaction between the three control methods that will be presented in the second part. The second part will contain a deeper and more holistic analysis of the impact of the three types of control on the employees in the case company.

5.2 Controlling the employees

As stated in theory section by Merchant and van der Stede⁹⁷ there are different types of methods at disposal for controlling the employees' behaviours. Three of them, result, personal, and cultural control will now be presented.

Result control is an important method of control in the case company, which is shown by the fact that the employees are rewarded after achieving the desired result. The base upon which the performance is evaluated is the by 360 degree method, although it is carried out by superiors, i.e. top down. All projects are independent and different from the next one. This calls for constant innovation by the consultants and ensures that there are no standard procedures that can fulfil the project's objectives in the most effective manner.⁹⁸ In the case company all projects start by stating the targets and objectives of the project. This is followed by using an objective quality observer that surveys the project's performance to ensure that the stated objectives shall be attained. The quality observer combined with the use of personnel and culture control attributes to an effective use of results control. This will be described further in the sections below concerning evaluations and compensation.

Personnel controls are based on the perception that people have a natural tendency to control and motivate themselves⁹⁹, and it is shown in the case company by their use of career counsellors, their recruitment, their career model "Up or out" and individual performance compensation. Three different purposes with personnel controls can be described, namely clarifying expectations, ensure that the employee is qualified and has the right resources in his/her position and that employees can commence self-monitoring to perform well.¹⁰⁰ By using career counsellors and evaluators, the company makes sure that there is someone

⁹⁷ Merchant, K. and van der Stede, W. (2007)

⁹⁸ Merchant, K. and van der Stede, W. (2007)

⁹⁹ Merchant, K. and van der Stede, W. (2007)

¹⁰⁰ Merchant, K. and van der Stede, W. (2007)

present whom an employee can talk with and who can tell what the company expects from the employee. The theory suggest that ensuring qualifications is done by supplying training by the company either formally, or informally through guidance from the counsellor, and by promoting the rightly skilled people to the positions that suits them best¹⁰¹, and this is also implemented by the case company. From one of the respondent's point of view the ratings from the evaluations which are set in comparison to every other employee on each level of the organisation are a confirmation of that your performance has been noticed.¹⁰² Therefore, a respondent explained that every employee can compare their ratings with their peers and those who have received better ratings may derive a positive feeling from performing better than their peers and become motivated to climb up to the next level.¹⁰³ This comports well with the conception of self-monitoring or also known as intrinsic motivation seen in the theoretical section.¹⁰⁴

The case company makes sure that the best suited people are promoted to the right positions and, therefore remain in the organisation, by using the career model where those who perform well are pushed towards promotion and higher positions while those who are not performing their tasks well are pushed towards another employer. They only recruit the best students and once you are in the organisation the policy eliminate those who are performing at a too low level compared to their peers and top performers are encouraged to stay and take on more responsibility. Top performers and those who receive a higher rating are promoted faster up the hierarchy than others. This is the company's idea of selection and training which is described as a good fit between person and employment tasks as explained by the theoretical section by Kressler.¹⁰⁵

Since the case company has individual rewards, they work with controlling that each individual perform at their personal best. They have career counsellors, who help guiding the employee to achieve their individual career goals. The career counsellors help by explaining the different expectations on an employee to perform on a certain performance level. When an employee knows what is expected and is properly trained for the assignment it becomes much easier to do a good job and fulfil their potential. The most visible individual control is the evaluations, since they only show the individuals' contributions to the group. One can easily think that this would reduce teamwork. This type of compensation system, where the employees compete for promotions and raises, relates more to the tournament incentive program.¹⁰⁶ However, according to all the respondents it has the opposite effect since the case company has an evaluation criterion that is based on how well you work in teams and how well you help your colleagues with their personal development. Further, all the respondents think this is effective in creating a work climate where everyone helps each other.

Culture control is described as a way of endorsing group pressure to receive mutual monitoring.¹⁰⁷ This is to a certain extent visible within the company, where it is visible by the fact that every employee is involved in a project in which teamwork is more or less obligatory. Furthermore everyone within the team may contribute, positively or negatively, to the evaluations of any of their team members. According to the respondents the corporate

¹⁰¹ Kressler, H. (2003)

¹⁰² Interview with Respondent C, 16th may 2008

¹⁰³ Interview with Respondent C, 16th may 2008

¹⁰⁴ Bartol, K. M & Locke, E.A. (2000)

¹⁰⁵ Kressler, H. (2003)

¹⁰⁶ Fisher, J.G et al. (2008)

¹⁰⁷ Merchant, K. and van der Stede, W. (2007)

culture endorses a mutual monitoring, and members who do not perform or contribute with the best of their potential are quickly spotted and they will further on receive a worse rating and not be eligible for promotion. This eliminates the freeriding effect which can occur when working in projects.¹⁰⁸

5.2.1 Evaluations

In the theory, two objectives were used when to conduct evaluations, firstly long-term performance ability and potential by task based evaluations and character appraisals. The second objective is short-term performance efficiency to set rewards and incentives from and this is done through result or target based evaluations.¹⁰⁹ The main purposes of evaluations mentioned in theory were:

- Reward policies
- Definition of training needs
- Elimination of weaknesses
- Career and employment plans
- Performance incentives
- More targeted leadership
- Emphasising strategic key issues
- Allowing a more efficient communication¹¹⁰

In the case company the evaluations are evaluating the employees' short term performance to set each employees' performance based pay. Apart from this the evaluation also serves long term objectives by directly, through the career counsellor, communicating each employee's career plan and what weaknesses that may need correcting before moving on in the company. This is a perfect match with what the theory advocates.

Further, there are three different ways to carry out evaluations, through the use of top-down, bottom-up, or 360 degree evaluations.¹¹¹ This company uses all of them but not with the same frequency. The evaluations in the case company are performed in a both effort and time demanding procedure. The effort needed is to make sure that everyone affected by the evaluatee have their say in the evaluation, i.e. clients, co-workers, superiors and etcetera. Conducting an evaluation that has to take opinions from so many people is consistent with the 360-degree evaluation¹¹², it demands a lot of time before completion. The respondents mentioned it could take up to two to three months to complete the evaluations and when they take up one third of the operating time then they need to be successful. One of the things to bear in mind with 360 degree evaluations are that they requires trust to be effective.¹¹³ The respondents all trusted the system and found it very useful and fair. Even if the personal relationship between evaluator and evaluatee is not good, they can still for the cause of an evaluation set their differences aside and make a fair evaluation¹¹⁴.

In the case company a combination of top-down and 360 -degree evaluations are primarily used. Even though several people can cast their opinion on an evaluation, they are in the end carried out by superiors on subordinates, consistent with the idea of a top-down evaluation.

¹⁰⁸ Fisher, J.G et al. (2008)

¹⁰⁹ Kressler, H. (2003)

¹¹⁰ Kressler, H. (2003)

¹¹¹ Kressler, H. (2003)

¹¹² Kressler, H. (2003)

¹¹³ Kressler, H. (2003)

¹¹⁴ Interview with Respondent C, 16th may 2008

This is because the superiors are in the end responsible for who they promote.¹¹⁵ Bottom-up evaluations are used, but not frequently. When it is used it is only for certain levels of the hierarchy, namely for employees on at least a manager level or higher. The subordinates are eligible to contribute to evaluations of their subordinates under the 360-degree system and as a part of a bottom-up system when superiors are up for promotion. Then the primary focus of the evaluation is to test leadership competence.¹¹⁶ This is attributed to the fact that it is first on these levels that leadership is important since these roles require more personnel responsibility. This comports well with the theory regarding 360 degree evaluations.¹¹⁷

5.2.2 Personnel development

As stated in section 3.1.2¹¹⁸ and by the respondents, one of the main assistances to develop as an employee is through interaction with other members during the projects. Learning from project members is encouraged as it is one of three cornerstones of the evaluations and thereby also manage to reduce competition between colleagues and the attitude of “pushing oneself in front of the others”¹¹⁹, which can also hurt the needs and interests of the company.¹²⁰ Whether people actually are pushing themselves in front of their colleagues or not in the case company is not certain since the respondents all have a biased picture of the company. All of them reported the same things, namely that their team spirit is one of the best things about the job.

Another way in which an employee can develop is through projects that have new requirements that allow space to take personal responsibility and to personally influence the performance.¹²¹ Moreover, the case company has taken steps, in accordance to the theory, to maximise the potential of developing the staff’s competence. Those steps include recruiting the only the best, give as hard and challenging tasks that the employees are capable to handle, give the employees personal responsibility, let them build large social networks, and etcetera.¹²²

5.2.3 Compensation systems

The company of this thesis has a well-communicated strategy for their employees, namely “Up or out”, which pervade the whole organisation and therefore affects their choice of compensation system.¹²³ From the findings of the interviews one can notice that this company focuses on performance based monetary rewards.¹²⁴ Furthermore, employees need guidance in shape of rewards to strive towards the goals and strategies of the company, this correspond well to a performance based reward system.¹²⁵ This becomes even clearer when one of the respondents mentioned that consultants tend to put themselves and their own career first instead of the company’s.¹²⁶ Performance-based systems have three types of purposes, informational, personnel-related and finally motivational.¹²⁷

¹¹⁵ Interviews with Respondent B, 14th May 2008 and Respondent C, 16th May 2008

¹¹⁶ Interview with Respondent B, 14th May 2008

¹¹⁷ Kressler, H. (2003)

¹¹⁸ Hansson, J. (2005)

¹¹⁹ Interview with Respondent C, 16th May 2008

¹²⁰ Hansson, J. (2005)

¹²¹ Hansson, J. (2005)

¹²² Interviews with Respondent B, 14th May 2008 and Respondent C, 16th May 2008

¹²³ Interview with respondent A, 07th May 2008

¹²⁴ Merchant, K. and van der Stede, W. (2007)

¹²⁵ Lawler, E.E. (1981)

¹²⁶ Interview with Respondent C, 16th May 2008

¹²⁷ Merchant, K. and van der Stede, W. (2007)

- Firstly the informational has already been mentioned as above, it is guidance for the employees to understand the company's strategies and goals. Further the evaluation and the compensation are closely related, since your compensation is based on the rating of your evaluation. The criteria upon which an organisation bases their compensation will guide the employees in the right direction.¹²⁸ Further rewards reduces risk taking and innovation by employees concentrating their performances to the tasks they know will lead to remuneration.¹²⁹ The knowledge intensive consultancy business is an industry that always strives for innovation and the tasks are never the same in new projects. This makes it hard, if not impossible to find those tasks that employees can be certain to become rewarded for. Employees at the case company are guided in the right direction by career counsellors and their own strive to climb the career ladder.
- Secondly the personnel-related, which states that these rewards often are an important part of the employee's compensation. In this organisation the employees have a relatively high base salary and a lower performance based part. All the respondents thought that this was a well functioning system and that you can affect the variable pay part by how well you perform and this is a huge motivator.
- Thirdly, the motivational benefit which means that some employees need an aim to focus on in order to obtain the best possible result. In this company, it is in shape of a well-earned raise of your pay check if your performance is good, although a reappearing opinion among all the respondents is that the most important incentive with working is not money but good colleagues and interesting work tasks.¹³⁰ However, nobody denied that money had a great motivational impact on their desire to perform well. The significant difference in monetary terms between the different ratings and the performance based part of the pay check is according to the respondents enough to at least deter the employees from performances that will lead to a decreased rating and thus to a lower pay. Therefore, the respondents argue that pay is in fact an important motivator.¹³¹ This comports well with the theory of that, an employee needs both intrinsic and extrinsic motivation to do a good job.¹³² Where intrinsic motivation comes from within when doing a good job and extrinsic is all types of rewards that are expected to motivate good performance.¹³³

As mentioned in the section above, this company focuses first and foremost on monetary incentives for their employees. On the three lowest levels in the organisational hierarchy, analyst, consultant and manager the focus of monetary rewards lies on the performance which is based on the annual rating. However on the two top levels, senior manager and senior executive, they also have long-term incentive plans with bonuses when the company is performing well.¹³⁴ This is in accordance with the literature,¹³⁵ which divides monetary incentives into three categories with performance- based salary increases, short-term incentive plans and long-term incentive plans. Where the two first categories often concern all the employees and the third is restricted to higher levels of managers.¹³⁶

¹²⁸ Merchant, K. and van der Stede, W. (2007)

¹²⁹ Merchant, K. and van der Stede, W. (2007)

¹³⁰ Respondent A,B,C and Kohn, A (1993)

¹³¹ Interview with Respondent C, 16th May 2008

¹³² Merchant, K. and van der Stede, W. (2007)

¹³³ Armstrong, M. (1993)

¹³⁴ Interviews with Respondent A, 07th May 2008 and Respondent B, 14th May 2008

¹³⁵ Merchant, K. and van der Stede, W. (2007)

¹³⁶ Merchant, K. and van der Stede, W. (2007)

5.2.4 Tournament incentives

The type of reward system used by the case company where the performance based pay is handed out through a normal distribution curve where the largest group is average performance, and top performers only serve as a small part of the distribution,¹³⁷ displays the use of tournament incentives. Tournament incentives as described by literature as a system where the winners are promoted and losers receive nothing.¹³⁸ This is also the result in the case company. Winners, top performers, are promoted and well paid. Losers, those with lower ratings or weaker performances, are eventually guided to a career outside of the case company. Further a system similar to the case company is potentially harmful to team spirit.¹³⁹ In this case, team spirit is too important to jeopardise since all the work is carried out in projects. Therefore the people developer criterion, which is one of the three main criteria to be evaluated on, consists of how well an employee can contribute to a good team spirit, spread knowledge to the team and basically make the team perform to the outmost of their ability¹⁴⁰. Since the respondents all reported team spirit as one of the company's most important reasons for attraction and retention, they do not appear to have any problems with tournament incentives harming team work. However this could be debated as a subjective opinion, since they all compete for the same amount of rewards and need to trust the system. Furthermore rewards could be accused for rupturing relationships and destroying team work.¹⁴¹ However in the case company evaluations, which are the foundations for performance based pay, are built upon three major corner stones and one of them concerns how well an employee can integrate with colleagues. Integrating well and boost your team members' performance to receive a better end result is so much more important than pushing your own performance at the expense of your other team members. Therefore the case company, in contrast to Kohn's findings are working with an incentive system and simultaneously improving team work and the quality of the projects.

5.2.5 Employee turnover

In accordance to the theoretical section¹⁴², the case company is vastly reliant on the knowledge of their employees. Since there are plenty of employees in the lower steps of the hierarchy, it does not matter much if turnover among them is high. On the higher levels, it is much worse to have employees moving on to other employments since they have built up more knowledge about the organisation.¹⁴³ At the same time, these people are highly attractive on the market for other positions.¹⁴⁴ All the respondents interviewed mentioned that the case company had a relatively high employee turnover but not in comparison to the competitors, however they also stated that this was something the company both wanted and needed because of the "Up or out" policy. However, this policy sometimes generates a problem, e.g. when people who are not suited for promotion but have a special and important qualification and they have reached a breaking point at a level of the pyramid. Even though they have the right skills for the job, they might lack the desired personality to take the next step. Often this involves leadership skills. With the company's policy, "Up or out" they will not be encouraged to climb in the hierarchy. Instead, the "out" part of the policy is the one that comes first. This is not as harsh as it might appear. It just means that they can stay in their

¹³⁷ Interview with Respondent A, 07th May 2008

¹³⁸ Fisher et al (2008)

¹³⁹ Fisher et al (2008)

¹⁴⁰ Interview with Respondent C, 16th May 2008

¹⁴¹ Kohn, A. (1993)

¹⁴² Hansson, J. (2005)

¹⁴³ Interview with Respondent A, 07th May 2008

¹⁴⁴ Interview with Respondent B, 14th May 2008

current position or they can chose to find another employment since the employees of this company are very attractive on the market. If the employee chooses to remain then the career model does not allow much room for further development. This is where the respondent B saw the need for an alternative career model for these employees.

5.3 Interaction of controls

The three types of control interact in the company in several ways. The dominant methods of controls are result control and personnel control. The projects are measured on their performance, i.e. the result they have achieved. The result control is obtained through the quality observer, who monitors and evaluates the projects, and with this also makes sure that the other two methods of control are working properly. Personnel controls then steps in to see each individual's contribution to the projects' performances and if each individual know what is expected, have the necessary capabilities to perform their outmost and to ensure that they work their best in their own and their company's best interest. The career counsellor who always works at least one step above in the hierarchy is working as a coach to assist the subordinates in developing themselves and illuminating the possible paths to take in their careers.¹⁴⁵ This is similar to the issue of selection and placement in personnel control.¹⁴⁶ The career counsellor functions as an intrinsic motivator for the employee by giving feedback and showing appreciation and making suitable suggestion to future career paths¹⁴⁷. This is in accordance to the theory regarding mentorship.¹⁴⁸ The base of the evaluations for the employees is the 360 degree method, where every employee participates in the evaluation process of each other. The 360 degree method is strongly connected with cultural control. This is because in cultural control it is possible to engage group pressure to commence with mutual monitoring among peers. When peers are involved in the evaluations as well as conduct mutual monitoring no one is allowed to deviate from the corporate standards and expectancies. The 360-degree evaluations eventuate in possible promotions, performance based pay and skills in need of development. A negative effect derived from this model when working in projects is that you always have to be there for your co-workers, since you are interdependent for the outcome of the projects and thus your individual evaluation and reward. Since your co-workers participate in the evaluation process you become afraid of making errors in front of them.

¹⁴⁵ Interview with Respondent B, 14th May 2008

¹⁴⁶ Merchant, K. and van der Stede, W. (2007)

¹⁴⁷ Interview with Respondent B, 14th May 2008

¹⁴⁸ Hansson, J. (2005)

6. Conclusions

This chapter presents the conclusions based on the findings in the analysis, both a general and a case specific conclusion. This chapter ends with the authors' suggestions to further studies in the field.

6.1 Research question

The aim of this thesis was to answer the research question:

- *How can a knowledge-intensive, consultancy company remunerate and evaluate the consultants' performances and does it contribute to knowledge development and retaining high-performing employees?*

The question contains four important areas namely, remuneration, evaluation, knowledge development and retaining high-performing employees. To reply to the question appropriately the areas will be answered one by one.

6.1.1 Remuneration

There are numerous ways to remunerate employees however money and climbing the career ladder are popular motivational instruments within the knowledge intensive business. Money is a crucial factor because it covers most our needs. Further an important characteristic for the business is that the employees have a relatively low average age and are in the prime of their career life. The case company uses a system where the employees compete for a fixed amount of rewards and promotions, which highlights the question of: how can similarly aged and educated employees with the same ambition of career climbing attain their goals without interfering with the objectives of the company or of their co-workers? The authors believe that the case company has solved this problem in a good manner by remunerating behaviour that contributes to increase and spread knowledge to your co-workers. Thereby, contributing to better performances of all employees and simultaneously reducing the risk of rivalry. However the authors question how accepted this system can be since we have received a fairly biased picture from employees who all approve of the system. There should reasonably be employees who disapprove of the system in use.

6.1.2 Evaluation

The authors believe that the chosen evaluation process has to be trustworthy by the employees otherwise they will not strive to improve their performances which will not be to the company's advantage. Further the employees also need to have trust in their evaluators, since their subjective opinion often influence all parts connected to the evaluations e.g. relocations, rewards and performance based pay. Since knowledge intensive companies have their employees as their most important asset, it becomes more significant to invest time and money on thorough and fair evaluations. In the case company all evaluations were conducted subjectively. It might be hard to accept a subjective evaluation from one person, which can be facilitated by using several different subjective inputs instead of depending on one person's opinion, although it is very time consuming. The authors consider that that the evaluations are perhaps too time consuming and cost more than it is worth, similar results could be obtained

quicker less expensively Further by using only subjective evaluations people who do not trust or appreciate this system are inevitably neglected.

6.1.3 Knowledge development

Knowledge development derives from a good remunerations system; if the employees are willing to succeed they need to increase their competence, this will lead to better performance and in the end promotion. Projects play an important part in knowledge development since they supply the opportunity for interaction between companies and co-workers. Another significant factor for knowledge development is learning from mentors or coaches that are able to give guidance when needed. The will to learn in order to climbing the career ladder is created by supplying good career options, challenging assignments or by a good reward system. The authors reckon that the knowledge is developed in assistance by the theoretical ideas and that the system appears to be well functioning. However, some disadvantages do exist. Firstly, it requires several career counsellors and all of them have to stay updated regarding of how their apprentices' perform, weaknesses and future steps to take. Secondly, knowledge development with the use the "Up or out" policy implies that the case company develops some of their employees in vain due to the high employee turnover. In essence this means putting time and effort in developing people for your competitors.

6.1.4 Retaining high-performing employees

This line of business has a relatively high employee turnover, which makes it crucial to keep the top performing employees. This because the top performers are highly skilled and have a thorough understanding of the company's needs. A risk in this knowledge intensive business can be that the employees have short-term incentives, where they create value for themselves by using the company network and then move on with their career and their new network elsewhere. The authors believe that no matter what reward system you use you will always loose certain employees, the key is to retain the most important group of employees for your own business. The case company can afford to lose low performers and also some of the good performers at higher levels of the hierarchy. However, they are not willing to lose top performers or people with high potential. They manage to obtain these objectives but they are although vulnerable to losing top performers in higher positions due to their attractiveness on the market.

6.1.5 Summary from the case study

The authors have realised through this case study that the most important remuneration is money and promotion. Further, to have a successful career within the company brings both money and power, which is what the employees compete for. On the other hand great colleagues and challenging work assignments are generally perceived as the best stimuli for a good work environment. Before the commencement of this study the authors would not have expected a career model to have such a huge influence on the employees. The career model is the foundation in the organisation and one of the first things introduced to a new recruit. However, the career model requires great time and effort spent on subjective evaluations.

6.2 Suggestions to further studies

There are several possible approaches to form a well functioning reward system. Since this study displayed the rewarding influence of a career model on employees, a future study regarding the behavioural effects of a career model on employees would be highly interesting. Interesting to see would be if the use of an "Up or Out" policy attract certain types of people. Since this was a case study of one company, it would be interesting to study if other companies within the business handle this issue of rewards in another way.

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Appendices

Interview guide with the HR Lead

General questions about the company:

- Name and position within the organisation
- How long have you worked for the company?
- How do you work? (Projects, individual, in groups)
- What type of people work at your company?
- Why do people want to work at your company?
- Do you have a large employee turnover?

Questions about the chosen compensation system:

- How did you deliberate when forming your incentive system?
- Which effects did you seek to accomplish with the chosen system?
- Have you reached them and did you have any problems along the way?
- Was it formed by the Swedish management or internationally?
- If performance dependent pay is important for you, how is it determined?
- Do the consultants participate in setting the performance goals?
- Can the consultants affect their remuneration?
- Do you have individual or group based rewards?
- What do you do to keep your employees working at your company?
(I.e. career steps, increased power, good spirit of community, higher salary)

Questions about the evaluation:

- Who evaluate the consultants' performances?
- Is it implemented subjectively or objectively?
- How is it conducted? Do you have a template?
- Does the client company help with the evaluation of the consult?
- Are there any difficulties in evaluating a consults work at a client company?
- Does it emerge any conflicts between the evaluator and the person being evaluating?
- Does the consultant have trust for the method of evaluation?

Interview guide with the consultants

General questions:

- How long have you worked at the company?
- Why did you choose to work as a consultant?
- Why did you choose this company?
- How long are you planning to remain at this company?
- Do you consider yourself as one in the group when working at the client company?
- Can you choose your missions?

Questions about compensation:

- What is most important to you at a workplace?
- What is it that this company offers you that make you want to stay?
- Can you affect your income?

Are there any special benefits by working at this company?
Is it important for you to be able to affect your income?
Do you feel there is room for personal involvement at this company?
Are there any common activities for the employees at this company?
If yes, are they important for you?

Questions about evaluation:

Who evaluate your performances?
Is it conducted subjectively or objectively?
Do you have trust in it?
Do you see any problems in working at one workplace and having you boss at another?