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“Cash is not king in every country” - The effect of cultures on compensation systems

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Abstract

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Title: *“Cash is not king in every country” – The effect of cultures on compensation systems*

Background and problem: Companies encounter problems when they try to structure reward systems, which is capable to improve both individual and collective efforts. One problem is to be able to create a mixture of monetary and non-monetary rewards that has a positive effect on employees on different levels of the company. There is also a cultural aspect that can have an effect on a reward system. A Swedish employee might not react to a specific reward in the same way as an Englishman or an American. Their independent nationality and culture might create effects that differ greatly. The questions we would like to answer in order to fulfill the purpose of the thesis are: (1) What are the key constitutive elements of a reward system? And (2) What effects does the cultural heritage of employees have on the constitution of the reward system?

Purpose: The purpose of this thesis is to examine and analyze the reward systems of companies from a practical perspective. A special weight will be put on the cultural differences based on the nationality of the employees and how these differences affect the creation of the reward system.

Limitations: The emphasis of the study is the specific cultural influences of USA and Sweden, and in one study the British culture. Any other cultural influences are left outside the study. We have decided to limit our perspective to a system view in interaction with actor views. Any other perspectives are left outside of the thesis. We have limited our cultural conceptions to focus only on collectivism versus individualism, as well as equality versus inequality.

Method: We have gathered information from many different sources in order to conduct the study of this thesis. The information that we use as our theoretical base has been chosen so that we can cover conventional as well as practical theories. Our empirical data consists of articles and data from our questionnaire.

Conclusions: We have in this thesis clearly defined the key elements of a reward system and the possibilities of combinations that can be used. The reward systems' critical components are the combination of individual and collective base for rewards and the combination of monetary and non-monetary rewards given in order to reduce the employee turnover and create motivation among the employees. Regarding the cultural heritage of an employee, we have found relatively strong correlation between the theories covering cultural aspects, and the empirical data used in this thesis. There is especially a strong correlation between the empirical data and Hofstede's studies regarding individualism in different cultures.

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Peter and David

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Chapter 1: Introduction

1.1 Background

We live in a reality that grows more and more global each day. This affects today's companies in a way that forces them to reorganize their business structure and direct their operations towards the international markets to a larger extent than before. To be truly successful it is no longer enough to be a leading company in just one nation, but to be an actor on the international market. This can lead to many subsidiaries in many different countries. A result of this will be that employees of widely different nationalities will work for the same company. Another aspect of the success of firms of today is the growing emphasis of the human resources of the company. This creates demand for new ways to keep this human capital within the company as well as to be able to motivate them. The goal is to create a bond between the company and the employee and to establish an incentive for the staff to always try to better themselves. With a satisfied staff of employees the company will reduce their staff turnover and lower the risk of losing experienced personnel. One tool a company applies to create these motivating effects are reward systems, also called incentive systems. According to Anthony and Govindarajan incentive compensation is "an important mechanism that encourages and motivates managers to achieve organizational objectives."¹ These are built up of a mixture between financial and non-financial rewards that can be assumed to work as "carrots" for the employees. Examples of financial rewards are monetary bonuses, salary increases and stock option programs. Non-financial rewards can be a decrease in office hours, non-monetary benefits and promotions. The reward systems can be on an individual level as well as a collective level. When a reward system is on an individual level it is important for the company to be able to sort out the individual contributions so that no unfair rewards are handed out. Otherwise there is a danger of free riders in the system. Reward systems can be found on all levels of a company, from the CEO down to the blue collar

¹ Management Control Systems, Anthony & Govindarajan page 505

workers. Motivation to do the best you can do is important on every single level in a company to maximize the productivity and profit of the company.

1.2 Problem discussion

Companies encounter problems when they try to structure reward systems, which is capable to improve both individual and collective efforts. One problem is to be able to create a mixture of monetary and non-monetary rewards that has a positive effect on employees on different levels of the company. There is also a cultural aspect that can have an effect on a reward system. A Swedish employee might not react to a specific reward in the same way as an Englishman or an American. Their independent nationality and culture might create effects that differ greatly. On another level the mixture between individual and collective reward systems can be paradoxical, for example the system might create problems instead of wanted synergies. A reward system that is poorly designed can lead to sub-optimizing effects between divisions as well as between different employees. But a well designed reward system can have a synergic effect instead, which means that the overall effect of independent performances will be greater than the sum of each individual performance.

There is always a debate whether to put theory before practice or vice versa. We have in this thesis handled the problem from a practical reasoning viewpoint. This means that we first examine with practical reasoning, and then try to apply the theoretical base to fit the former.

1.3 Thesis question

The questions we would like to answer in order to fulfill the purpose of the thesis are:

- (1) What are the key constitutive elements of a reward system?
- (2) What effects does the cultural heritage of employees have on the constitution of the reward system?

1.4 Purpose

The purpose of this thesis is to examine and analyze the reward systems of companies from a practical perspective. A special weight will be put on the cultural differences based on the nationality of the employees and how these differences affect the creation of the reward system.

1.5 Definitions

1.5.1 Reward, incentive, bonus

We use the term reward as a synonym to incentive and bonus. Oxford dictionary defines reward as: “a thing given in recognition of service, effort, or achievement. A fair return for good or bad behaviour. A sum offered for the detection of a criminal, the restoration of lost property, etc.”² Oxford dictionary also use the synonyms: “recompense, prize, award, honour, decoration, bonus, premium, bounty, present, gift, payment; informal pay-off, perk; formal perquisite.”³

²http://www.oxfordreference.com/views/SEARCH_RESULTS.html?q=reward&ssid=218120402&time=0.787836926096258,040527

³http://www.oxfordreference.com/views/SEARCH_RESULTS.html?q=reward&ssid=218120402&time=0.787836926096258,040527

1.5.2 Compensation

We use compensation as an overall expression for payment to an employee. This includes base pay as well as incentive pay. This also means any kind of reward to the employee, non-monetary as well as monetary ones.

1.5.3 System

We use the term system to describe an overall view of a company's strategic framework regarding rewards to its employees. Oxford Dictionary defines a system as: "a complex whole; a set of things working together as a mechanism or interconnecting network."⁴

1.5.4 Program

We use the term program as a component of a company's incentive system. Oxford Dictionary spells the word "programme" and defines it as: "a planned series of events. A set of related measures or activities with a long-term aim."⁵

1.6 Limitations

The emphasis of the study is the specific cultural influences of USA and Sweden, and in one study the British culture. Any other cultural influences are left outside the study. We have decided to limit our perspective to a system view in interaction with actor views. Any other perspectives are left outside of the thesis. We have limited our cultural conceptions to focus only on collectivism versus individualism, as well as equality versus inequality, according to studies by Hofstede. (See chapter 3)

⁴http://www.oxfordreference.com/views/SEARCH_RESULTS.html?q=system&ssid=254502838&time=0.78000361998269, 040527

⁵http://www.oxfordreference.com/views/SEARCH_RESULTS.html?q=programme&ssid=684902635&time=0.950700886014371, 040527

1.7 Disposition

In the following chapter, chapter 2, we will discuss the methodology used when conducting our thesis analysis. Chapter three is dedicated to the theoretical frame of reference. This includes theories regarding reward systems, motivation theories, and system theories. Chapter four presents our empirical study. In chapter five we will make an analysis in which we apply our frame of reference on the empiric situations. Chapter six is a conclusion of the whole thesis.

Chapter 2: Methodology

2.1 Introduction

In this chapter we will discuss the theories surrounding the perspectives involved in our thesis, and the way in which these theories have influenced our perspective of compensation systems. We will also account for the method used in our thesis, and by this we mean the way in which our data has been collected and the reliability and validity of this data.

2.2 Perspectives

This is a description of the theories behind the way of observing compensation systems.

2.2.1 An open system approach

When creating a frame of reference for the analysis of a company's reward system one has to define the method one will use. According to Arbnor & Bjerke, there are three kinds of approaches: an analytical approach, a system approach and an actor approach.⁶ We have chosen to focus on the system approach, with the intention that an incentive program should normally be conducted on a basis of a "system".

The definition of a system derives from a notion that a system, as a whole, is constructed on a basis of a number of components. Although, there are interconnections amongst all components, a system as a "whole" controls the functions of the components. One can say that a system determines its components. Described in another way, a system

⁶ Företagsekonomisk metodlära, Arbnor and Bjerke, page 3pp

determines activities of the actors at the operational level of an organization. This view is in contrast to an actor view in which the actors are assumed to influence the function and structure of a system, meaning that the part (actors) determine the whole (system).

The system approach is not a model in it-self but a reorganization of rational thinking in accordance to the analytical approach. The big difference is that in the analytical approach the emphasis of research is on the cause and effect relations with consideration of a single direction, while in a systematic approach one examines the interaction between different components of the system in a multi-directional way. From this follows that in order to understand the whole system one can not simply examine one component in isolation, but one has to look at the whole in order to see the parts. In a systematic approach the view of the “whole” dominates the analysis of the parts (components).

In a systemic view there are two distinctive approaches often called open or closed systems. The differences between these two are that in an open system one has to study both the interaction within the system as well as the interaction between the system and factors outside of the systems boundaries. Everything outside of the boundaries are called system environment. In a closed system it is only the interactions within the system that is important. In a system approach one separates between objective reality (observing realities) and the copy of the reality (how they should be portrayed). In the system theory the objective reality is called real systems and copies are called system models. To understand the difference better one can make an example. The real system is the underlying reality of a company and the system model is just one aspect out of many in the real system.

In the system approach there is a theory of relativity. The definition of this theory is that every component within a system can be developed into a new system, which is abstract, and that every system is a potential component of a larger system. A highly abstracted system is called a super system. Based on this one often talks of enlargement levels of systems. A high enlargement level might not include many details and may not change

much in many years, while a low enlargement level will include several different details and change a lot between different studying periods.

When describing a real system one has to define the state of the system. One does this by describing the state of every component and relation within the system at a specific place in time. Describing a system in this way, based on characteristics of the present state, is called a structural view. The structural view gives a static view of the system. If one instead describes the real system as the changes over time of the components and relations one gets a different view, which is called a process view. The process view gives a dynamical view of the system. The structural view and the process view are in no way opposed to each other and a study of a real system is often conducted based on both views. When basing the study on both views one could divide the system into three underlying structures: static structures, dynamic structures and non-reoccurring processes. Non-reoccurring processes are aspects of a system that are non-stable and one-of-a-kind occurrences. When following this definition a structural perspective means focusing on static and dynamic structures while a process perspective means focusing on dynamic structures and non-reoccurring processes in the system.

When using a systemic view the purpose of the study can vary. If one simply wants to create a mirror image of a system this is called a system analysis. If one wants to create an image of an imaginary system this is called system construction, and if one wants to create a model that can be used in more than one real system this is called system theory. There are several recognized system models today. Arbnor & Bjerke points out three in particular: the mechanical model, the biological model and the open and learning system model.

The mechanical model is a closed system which has simple components who are related to each other in a one dimensional way. Much weight is put on the structure of the system. The biological model compares a system in a company to the physiological processes in an organism, for example a human. Special attention is given to the reaching of balanced states in the process, and these are reached by constant exchanges with the surrounding environment. But these exchanges occur without changing the structure of

the system. In the open and learning model the system has exchanges with the surrounding system but can also learn from these transactions and change the structure when needed. A learning system can be said to deal with both negative and positive feedback. The meaning of negative feedback is that when changed by the transactions with the surrounding environment one will automatically revert back to the balanced state. This is the principal of the biological system. The meaning of positive feedback is the ability to be able to change ones structure to be more able to cope with new demands in the environment. So a learning system can both revert back to its original state, if no large changes occur, or change its structure if this is demanded.

2.2.2 Organizations in a systemic view

According to Katz and Kahn organizations are input-output-systems.⁷ All social systems consist of the patterned activities of a number of individuals. These patterned activities are complementary or interdependent. They are repeated, relatively enduring, and bounded in space and time. If the activity would occur only once or at unpredictable intervals, we couldn't speak of an organization.

Open systems have the following common characteristics:

1. The system must import energy from an external environment
2. There is always a through-put, a transformation, in the system
3. The system must always produce an outcome, an output

⁷ The Social Psychology of Organizations, Katz & Kahn, page 16

4. The energy exchange in the system has a cyclic character. The energy reinforcing the cycle of activities can derive from (a) some exchange of the product in the external world or (b) from the activity itself. As an example, an industry acquires supplies such as raw materials and human labor in order to be able to conduct production and deliver products to the customers (a). Also, the voluntary organization can provide expressive satisfaction to its members so that the energy comes directly from the organizational activity itself (b).
5. The system must acquire negative entropy. The entropic process, as Katz and Kahn describes it, is a universal law of nature in which all forms of organizations move toward disorganization or death. The open system however, imports more energy from the external environment than it consumes. By doing this over importation of energy, it acquires negative entropy.
6. The system must receive information input, negative feedback and must have a coding process. In order to keep the system “on course” the system needs information and feedback from its performances. The information is brought to the system as information input, and the feedback as negative feedback. The feedback is negative since it points out the deviation from the planned course. The input reception in the system is selective. Not all input will or can be absorbed into the system, only input that the system is adapted to. The coding process is the mechanism that is responsible for selecting whether an input will be absorbed or not. The coding process itself is determined by the nature of the functions that the system performs.
7. Steady state and dynamic homeostasis. Open systems must acquire negative entropy as described above. The importation of energy to arrest entropy operates to maintain some constancy in energy exchange, so that open systems which survive are characterized by a steady state. This steady state is neither motionless nor a true equilibrium. There is a continuous flow of energy to and from the

system, but the character of the system, the relation between parts and the ratio of the energy exchanges remains the same.

8. Open systems always tend to develop towards more differentiation and specialization.
9. Equifinality. Open systems can reach the same final state from differing initial conditions and by a variety of paths.

One aspect that is connected to Katz and Kahn's theories is the growing interest of global companies in finding a common reward system for one company that will be the same for all employees around the world. This way of thinking stands in direct contrast to the cultural aspects of the employees. To truly have an open system one has to acknowledge the culture as a system environment actor.

2.2.3 Our perspective

As we mentioned earlier, we have a cultural view when considering the construction of a compensation program. We believe that an "open system" perspective is relevant for the analysis of the incentive system that should provide motivational incentives. We use a systemic view although we acknowledge the influences of an actor view when one deals with "open systems". We base this on the aspects that companies develop strategies for incentives by considering the systemic view (the general structure) as well as cultural and actor views. Both the general structure (the system) and the organizational context (actors and cultures) have effects on the constitution of the reward systems.

2.3 Method

We have gathered information from many different sources in order to conduct the study of this thesis. The information that we use as our theoretical base has been chosen so that we can cover conventional as well as practical theories. Our empirical data consists of articles and data from our questionnaire. We have gathered and selected the data according to four different aspects. First of all, we chose data to be able to improve our practical reasoning of the subject. Second, we selected data that showed cultural distinctions. Third, we wanted to highlight variation in practicing incentives as well as variations in management perspectives. Finally we wanted to be able to analyze the relationship between the systemic approach and the practical application.

2.3.1 Primary data gathering

Our primary data has been collected through a questionnaire sent to eight major truck companies around the world. We sent the questionnaire to Volvo Trucks and Scania in Sweden, DaimlerChrysler and MAN in Germany, Navistar and Paccar in USA and Isuzu and Hino in Japan. In the case of Volvo we tried to establish contact by telephone. We got evasive answers and continued by email. The rest of the companies were contacted by email and we established contact only with Scania, Paccar and DaimlerChrysler. The rest did not answer our emails even though we repeatedly sent emails to them. Paccar answered immediately and answered our questionnaire. We sent the questionnaire to Scania and DaimlerChrysler but by this date we have not yet received answers even though we have sent messages about the urgency of us receiving their answers. The questionnaire has been a mixture between qualitative and quantitative questions in order to receive a wide and correct view of the company's incentive programs. This primary data source is only a minor part of the total data collected. This is the unfortunate result of many companies' unwillingness to share information about their incentive programs. We deduce this from the fact that out of eight truck manufacturers that were included in the survey only one was willing to answer.

2.3.2 Secondary data gathering

The secondary data consists of books and articles. The data ranges from theories of conventional scientists to articles taken from the daily press. When searching and choosing the empirical data we used the key words: Incentive/Reward/Bonus, System, and Motivation. We then chose articles that could also give us indications of how the cultural background had influenced the companies.

2.3.3 Validity

The term validity can be defined as the measuring devices' capability to measure what the research is supposed to measure.⁸ The validity of the primary data is high, since we chose the questions that we wanted to have answered. The validity of the secondary data is also high, since we only chose the articles that had any meaning for our research. The validity for the authors of the articles is hard to define since we don't have access to their data.

2.3.4 Reliability

The reliability of a study can be described as a degree to which a repeated study would deliver the same results. When examining our primary data, it has a relatively low degree of reliability since the questionnaire is answered only by one person at the company. One can also discuss whether some of the questions were too delicate, which could result in answers that are not totally accurate. But due to the openness of the company that answered the questionnaire, our opinion is that the answers give an accurate view of the incentive systems of the companies.

⁸ Att utreda, forska och rapportera, Eriksson and Wiedersheim-Paul, page 38

2.4 Criticism of the sources

To give an accurate view of the data sources one has to criticize them as well. The articles that were used differ in credibility since some are from the daily press. This is something we are aware of but have the opinion that these articles give a valuable insight into the incentive programs of the companies described. The primary data can be criticized as being too thin in scope since only one company answered. We still incorporated this into the thesis since we thought that this would give a depth to the overall analysis.

2.5 Summary

We have in this chapter discussed the theories regarding the perspective that we have used when writing this thesis. We have described what a systemic view means and discussed an open system versus a closed system. In the second part of the chapter we have described the method used for collection of data. We have also discussed the reliability and validity of the data and we have found that overall, the reliability and validity are of a reasonable degree.

Chapter 3: Theoretical frame of reference

3.1 Introduction

In the previous chapter we discussed the perspective surrounding the way in which we observe and analyze a compensation program. In this chapter we will examine the theories about reward systems as well as the theories regarding compensation programs in companies from different parts of the world. We also present theories regarding motivation in human beings. In order to sharpen the distinctions between the theories, we have divided the theories as being conventional or practical theories. This is done to enlighten the fact that several of the conventional theories that are highly regarded, lack empirical evidence.

3.2 Reward systems in general

A reward system, also called an incentive program, can be a powerful motivation tool for a company. Anthony and Govindarajan, as we cited in 1.1 Background, describes incentive compensation as “an important mechanism that encourages and motivates managers to achieve organizational objectives.”⁹ The two authors also describe a compensation package to consist of three components: salary, benefits (principally retirement and health care) and incentive compensation. These are interdependent, but incentive compensation is, according to the authors, the one most related to the management control function. Incentive compensation plans often consist of short-term and long-term plans. Short term plans are usually based on the performance in one year while long term plans are related to stock prices of the company.

⁹ Management Control Systems, Anthony & Govindarajan page 505

The short term plans are based on a total bonus pool which is often calculated from a certain percentage of the company, or the business units, profit. This amount is either handed out in full or in parts, in which case it is called a carry over system. In such a system the board of directors may decide to hand out only a part of the bonus pool this year and let the remaining pool carry over into next year. The positive side of this system is that you even out the rewards over a couple of years, but the negative side is that the bonuses do not relate to the current performance of the company. There is also a system called a deferred compensation system in which the bonus of the current year is split up into payments over a couple of years. This means that an employee's bonus this year can be related partly to the performance of last year, as well as the performance this year. This system has the same positive and negative aspects as the carry over system.

Long term plans are based on the growth in stock value of the company. There are a number of variations and examples of these are stock options, phantom shares and performance shares. A stock option is the right to buy an amount of stock to a certain price at a given date in the future. Phantom shares gives the manager an amount of fictional stocks and at the end of a specified period of time the manager receives a reward based upon the increase of the stock value times the amount of phantom shares. The difference between a stock option and a phantom stock plan is that in a phantom stock plan there is no actual transaction of stocks. A performance share plan is a plan that gives the recipient an amount of stocks when one has reached one's long-term performance goals. This plan stands out from the other long term plans in the way that it in no way relates to increases in stock values. This is a way to reward achievements of non-monetary goals among the otherwise monetary oriented performance measurements.

Incentive compensation plans often consist of financial, psychological and social incentives. Examples of financial incentives are salary increases, bonuses and other incentives that include monetary factors. Examples of psychological and social incentives are promotions, increased responsibility and recognition. These incentives have more to do with the employees' self-esteem than with their monetary needs. When setting up a compensation program there are two major methods that companies use. These methods

are the fixed pay model and the performance-based pay model. The fixed pay model is based on a large initial salary and few variable benefits. The employees are expected to be motivated by their high level salary and one can say that in a fixed pay model the “carrot” is given before the performance. In a performance-based model the employees are supposed to be performing well and are rewarded based on the outcome of their work. In this model the “carrot” is in front of the employee and received after the performance. These models can be compared to theories written by Wolf, in which he divides compensation programs as paying for jobs versus paying for people.¹⁰ He also states that when looking at the last decades of incentive program history one sees a trend in the fact that the programs started out with being individual, followed by being job based to a recent return to individualization.

Paying for people means that one pays for the person’s skills more than for his performance. The pay is based on what the employee is capable of doing, instead of what he performs. This can be compared to the fixed pay system of Anthony and Govindarajan. Wolf cites Risher in writing that “From a different perspective, the new work paradigm, in which jobs are more flexible and duties change as required, undermines the traditional focus on jobs...”¹¹ Risher means that through newer concepts there is a shift from the value of the job to the value of the individual.

Two examples of newer concepts of incentive programs that Wolf writes about are Broadbanding and Skill-competency-based pay. Skill-competency-based pay simply means that the company pays their employees based on what they know, what they do and what they have to put up with.

Broadbanding means that the traditional numerous positions that are covered by separate pay ranges are tucked into a few, wide job bands. This means that differences between functional specialties are eliminated. The American Federation of State, County and Municipal Employees defines a broadbanding plan as a plan in which: “jobs are grouped into broad occupational families, based on similarities in attributes such as the tasks

¹⁰ The Compensation Handbook, Berger & Berger et Al, page 45

¹¹ Ibid

performed, required skills, career progression, and the work process.”¹² The AFSCME defines the advantages with broadbanding as giving the employer more flexibility in assigning work and getting work done. They base this assumption on the fact that since the jobs are defined more broadly, the workers can be redeployed to meet changing needs without constant attention to classification issues.

According to Wolf broadbanding simplifies administration and enhances a sense of common purpose and a single-team atmosphere. He cites Abosch in describing broadbanding as “taking the rungs out of hierarchical career ladders and tells employees that development is more important than jockeying for promotion.”¹³ However, Wolf also points out the problems with broadbanding. He refers to a survey in which 69% of the questioned companies admitted to having no mechanisms for tracking the effectiveness of broadbanding. On top of this only 67% of the executives and 56% of the managers questioned understood broadbanding as practiced by their organization. At the same time 70% of the executives and 68% of the managers rated broadbanding as effective. This means that there were more people that thought that the usage was effective than there were people that understood what broadbanding actually meant. Wolf also points out that the broad bands of broadbanding tends to be much less broad in real practice.

Paying for performance is based on what the employee does for the company. This can be compared to the performance-based pay model of Anthony and Govindarajan. Wolf states that this is the holy grail of modern compensation administration, but that it is very difficult to achieve. The problem lies in defining performance in a correct way, so that the company pays for result and not for effort. One of the main problems that Wolf refers to are that the difference between the reward for adequate performance and the reward for extraordinary performance is too small. When this occurs the system becomes inefficient.

Most companies of today use the performance-based model since an emphasis on incentive bonus tends to encourage employees to put in their maximum effort. An incentive program usually has cutoff levels to establish the boundaries of performance

¹² http://www.afscme.org/wrkplace/cbr297_1.htm, 2004-05-13

¹³ The Compensation Handbook, Berger & Berger et Al, page 45

achievements. An example is a company with a lower cutoff level of 2% and a upper cutoff level of 10%. If a business unit perform a profit of 1% they will not be rewarded any bonus and if they perform above 10% they will receive the maximum bonus of 10%. The lower cutoff level can be a tool for the management to set a minimum performance level of the whole company. If you perform on or above the average performance of the company one will be rewarded, otherwise one will not be rewarded at all. The cutoff levels are helpful for the management since they articulate their ideas and goals. However there are side effects that can arise due to the cutoff levels. For instance, if an employee realizes that either the lower cutoff level can't be reached or that the upper cutoff level is already achieved, there is an obvious risk that the employee will lose the incentive to continue maximizing his performance. One way to cope with this side effect can be to let excess or deficiency in the performance carry over into next period. The downside with this is that an incentive one year might not be related to the existing period and might therefore not be fair. When looking at the basis of the incentive program one can see a mixture between total corporate profits and business unit profits. There is also a mixture between financial profits and achievements of non-monetary goals. One important aspect of the performance criteria is to adjust the measurement in accordance to uncontrollable factors, like expenses that are a result of decisions made on an overhead level. If a company base their incentive program solely on financial criteria, they might create a short-term mentality in their employees. It is important to find an ultimate mix between financial and non-financial criteria. One method of determining important key factors for the company is to use a balanced scorecard. When producing a balanced scorecard the management decides on the most important factors of the company. These are both financial, like return on investment, and non-financial, such as sales growth. Out of these key factors the incentive program can be formed. It is important though that not too many factor are used and that the factors are weighted according to importance.

Incentive programs as a motivating tool can be hard to understand. The Agency theory can help to understand the motivating effects. The concept of the agency theory is that a company is built up of principals (the shareholders) and agents (the employees of the company). The key factor in the theory is that the principals and the agents have

divergent objectives and that monitoring or incentives can make the agents reach the principals objectives. The goal is to make the agents feel that they have the same incentive as if they were principles. The agency theory explains a lot on the theoretical level but as Anthony and Govindarajan points out the theory lacks empirical support.

Since most companies have to have a specific form of reward system based on the conditions at their company it is difficult to set up a general model that suits every company. But Wolf outlines five steps to designing an effective compensation system.

First, recognize that monetary rewards do change employee behaviour. Money is valued by what you can get for it, as well as serving as a communicational tool.

Second, one should stick to the basics. This means that you should pay people at a reasonable market level.

Third, use variable pay everywhere. This means that all stages of the career ladder should have one part of their salary as variable. If the positions cannot be individually measured, one should use group measures. If they can be measured, use a mixture of individual and group measures.

Fourth, keep the performance measures as simple as possible. The number of measures should preferably be kept at two or three.

Fifth, Communicate. The only way a compensation program is going to be effective is if the employees fully understands what they will be rewarded for.

3.3 Compensation strategies in different countries

It is a difficult task to create a successful compensation program for a company on a national level. But when expanding the company globally several additional problems arise. Robertson, in an article in the Compensation Handbook, discusses the compensation strategies of global companies and points out three tiers of a global compensation program.¹⁴ One is global compensation strategy, one is strategy for paying people working outside their home countries, and the last one is local national compensation. Robertson also puts focus on four key elements in the developing of global compensation strategies.

First, the company must try to avoid spreading the confines of its home country perspective. This is a common problem in global companies at an early stage of corporate evolution. Since the company headquarter dominates the business philosophy of the whole company there is a great risk that this is exported to affiliates overseas. The risk is that the company won't pay attention to the ways of the affiliate's national culture. Robertson cites "headquarters' cultural dominance as the biggest impediment to integrating and developing a global enterprise."

Second, the company must align the compensation strategies with the business strategy, so that the incentive one is trying to create is directed to the right goal. If this is not achieved the compensation program can do more harm than good. It might lead the operations away from the goals that have been set up.

Third, the compensation must be aligned with all the other human resources processes within the company. For example, cultural differences should be considered when designing a compensation strategy. Robertson states five cultural parameters that differ among the worlds nations: language, context, utilization of time, manner in which equality and/or power are integrated into cultural processes and interrelationships, and manner in which information flows. Robertson also states that these cultural components

¹⁴ The Compensation Handbook, Berger & Berger et Al, page 604

determine the way motivation, personal behavior, ethics and other relevant human aspects play themselves out in the company. It is of the highest importance that the company analyzes the local culture so that it doesn't design a compensation program that offends an employee but motivates the employees in the right way and operates with regards to the traditions of the local culture. One should pay special attention to if the culture is an individualist culture or a consensus or collective culture. Robertson claims that in an individualist culture, individual rewards are highly valued, while in a consensus or collective culture such rewards are perceived as disruptive and inconsistent with the way work is accomplished. A typical example of an individualist culture is the American culture, while an example of a collective culture is the Japanese culture.

Fourth, the company must have a clear understanding for the role and value of human capital. Robertson describes four key roles individuals play in leveraging and driving the business: "Cutting edge, Critical, Core and Complimentary"¹⁵. Cutting edge people are employees with key competencies that will be important now and in the company's future. They can be looked at as the source of tomorrow's competitive advantage. Critical people are the price of admission for today's competitive advantage. Core people have competencies that are common to most companies in the particular business. Complimentary people are employees that provide supporting services that allows the company to do business with itself. Robertson claims that "an understanding of the profiles of the employees within the four categories identifies the pay strategies that need to be adopted for the global enterprise." Understanding the value of each group can be used when designing the global compensation program.

Every person carries within him or herself patterns of thinking, feeling and potential acting which were learned throughout their lifetime.¹⁶ This is one part of the first section of Hofstede's description of "Culture as mental Programming". The term culture itself and other central terms closely linked to it, are rather complex. Without digging too deep into terminology and the scientific background of the culture concept, a brief description

¹⁵ The Compensation Handbook, Berger & Berger et Al page 607

¹⁶ Cultures and Organizations, Hofstede page 4

covering cultural differences will follow. In this paper one aspect of the main theme is cultural differences and their impact on designing incentive programs. So, what are cultural differences? First, according to Hofstede, cultural differences, or “National Cultural Differences” as he labels them, should be handled with care. Nations should not be equated to societies. Sometimes nations actually qualify as societies, but not in all cases. Most countries or nations (also the term nation itself can be analyzed more deeply) in the world consist of fragmented societies or sometimes even many societies. With this brief terminology background in mind, the term “National Cultural Differences” will be applied carefully. When using the term National, it will correspond to countries in order to simplify the upcoming analysis. So what are the typical cultural characteristics for different countries around the world the way Hofstede describes them?

By using a power distance index, Hofstede measures equality and inequality in countries. According to this index, Nordic countries, such as Sweden, have a relatively high rate of equality (low index). Germany was not far behind on place 42, and the USA was ranked at place 38. Japan was somewhat closer to the middle (place 33) and the lowest equality rate was observed in Malaysia and several other Asian countries, countries in Latin America and also African countries. In high equality-rate countries, equality can be observed at all levels. This applies on everything from income differences to relations between people.

Another index, Individualism index, ranks 50 countries, and a low place means high rate of individualism. USA is the most individualized country. The Nordic Countries are located from place 9 (Denmark) to place 17 (Finland). Japan is on place 22 and at the other end of the ranking with low individualism rates, countries from Asia, Africa and Latin America dominates the picture.

3.4 Conventional theories

Motivation can drive an employee into performing at a higher level than average. One of the major tools in driving motivation is the company's incentive system. A person's motivation is dependent on which need is satisfied by the work one performs, according to Samuelsson.¹⁷ There are several theories regarding these needs, but the most famous one is Maslow's theory about the hierarchy of needs.¹⁸

3.4.1 Maslow

In the theory about the hierarchy of needs there is division and ranking of the human motives into a ladder of needs (see appendix 1). At the bottom of the ladder the most fundamental of all needs are located, the physiological needs. These deal with the need for food, water, shelter, warmth and other needs that are essential for a human being. According to the theory, when one has acquired these needs one looks upwards on the ladder towards the safety needs. These are for example the feeling of security, stability and the freedom from fear. When one feels completely safe one wants to reach the next step on the ladder and this is the need for belonging and the need for love. These needs are based on the need for positive and loving relations with other human beings. The next step of the ladder is the need for self-esteem. This is the need for feeling appreciated and being able to look at oneself in a positive way. The last step on the ladder is the need for self-actualization. This need is based on the human character's need to evolve and pursue its inner talent. It is also about the human need for fulfilment and making full use of ones inner resources.

The two lowest steps, those of physical wellbeing and safety, are according to Maslow the ones that have to be reached first. After these have been reached the other levels will evolve. According to Arvidsson in *Controllerhandboken*¹⁹, the needs of the hierarchy can be found in all people, but it is only the unsatisfied needs that, when satisfied, are

¹⁷ *Controllerhandboken*, Samuelsson red, page 103

¹⁸ *Motivation and personality*, Maslow, page 35pp

¹⁹ *Controllerhandboken*, Samuelsson red, page 114

motivating, Sickness can be the result, if the needs are not fulfilled. If transferring these theories to the business world, one sees that the three lower steps of physiological wellbeing, safety and contact are already met by the societies of the modern world, but the ones a company can use to motivate their employees are the three top levels. Samuelsson states that the need for self-esteem can be met by the company's reward system, by satisfying the employees need for appreciation and status. These needs are usually met by monetary rewards. But the need for self-actualization can be met through non-monetary rewards, which can also be a part of a reward system. Samuelsson states that many people feel that this need is satisfied when they are rewarded with a high level of independence and the possibility of free disposition of resources. These are typical examples of non-monetary reward that a company can give to its employees. Samuelsson puts in a word of caution about the step of self-actualization. He underlines the importance of the individual's self-actualization to be in line with the frame of the company's strategy and goals. Otherwise the individual's goal might be different from the company's goal and this can create a problem.

Maslow's theories have been criticized for having problems of correspondence. This means that when examining a situation, one does not fit the theory to the practical situation, but fits the practical situation to the theory. There has also been questions asked whether the hierarchy of needs can be used when comparing different cultures to each other. In our opinion, the largest difference lies when examining the hierarchy of Asian cultures to Western cultures. These differ in the fact that one can often see that the two top levels of the pyramid switch places. Since our study consists of only western cultures in which the differences of the hierarchies lie within the same steps, we believe that we can apply Maslow's theories in our study.

3.4.2 Herzberg

Another motivation theory is Herzberg's two factor theory.²⁰ This is based on Maslow's theory of needs but is specialized for the working environment. Herzberg makes a distinction between two working factors: hygiene factors and motivation factors. Hygiene factors are the needs that have to be satisfied in the working environment, to prevent the employee to feel discomfort. Examples of these are salary and working conditions. Motivation factors are certain conditions in the working assignment that when met makes the employee feel a motivation for an assignment.

3.4.3 Cognitive theories

If one wants to go deeper into the driving forces of a human being there are certain cognitive theories regarding the individual's thoughts about himself and the individual's thought about the surrounding environment. Arvidsson writes about the attribute theory which states that human beings are controlled by either external factors or internal factors.²¹ A person controlled by external factors seeks external rewards like salary and status, while a person controlled by internal factors seeks internal rewards that will enrich the person on an inner level. Arvidsson states that a company's incentive program can have negative effects on the employees if the program is too standardized. This is because too many monetary rewards and too much external supervision can inhibit the inner motivation.

When studying behavior science one sees that it is divided into two camps about the question of how desired behaviors are best reinforced. One camp thinks that the behaviors are reinforced by the work itself, so called intrinsic reinforcement, and that rewards only result in lowering self-esteem and creativity. They base this assumption on research that states that rewards condition people to do only what is needed to get the

²⁰ Controllerhandboken, Samuelsson red, page 114

²¹ Controllerhandboken, Samuelsson red, page 115

reward and thereby creating compliance that can turn into resentment when the company withdraws the rewards. The other side believes that rewards and recognition are necessary factors in achieving desired behaviors. This is called extrinsic reinforcement. They base their assumption on research that supports the idea that behavior is a function of its consequences. According to Wilson in "Innovative reward systems" the extrinsic rewards proponents argue that if an individual is rewarded for taking certain actions, then he is likely to continue to demonstrate that behavior.²² Wilson also states that habits are developed when a behavior is repeated, and therefore success will lead the individual to conclude that his actions are effective and should be continued.

The way of differentiating between extrinsic factors and intrinsic factors can be seen in McGregor's theory about work motivation. Bolman & Deal refers to McGregor's theories in "Nya perspektiv på organization och ledarskap" and states that there are certain humans that are driven only by extrinsic factors.²³ This is called Theory X. Others are driven by fulfillment and satisfaction in their work. This is called Theory Y. McGregor was promoting the concept of Theory Y as the appropriate view of work motivation, according to Bolman & Deal.

Jung discusses several expectancy theories in "Understanding human motivation".²⁴ Examples of these are Atkinson, Lewin, Rotter etc. Common to all of these are that behavior is assumed to depend on two factors:

- 1) Expectancy or probability of occurrence of an outcome, such as money
- 2) The value or valence of that outcome

Some of the theories assume that motivation will be higher, the greater the expectancy of receiving pay and the greater the valence of the pay.

Another theory that Jung discusses is Adams equity theory. In this, Adams proposes that a person may decide to give in proportion to what he or she receives from the other party in order to maintain harmonious and equitable relationships. This means that a person

²² Innovative reward systems for the changing workplace, Wilson, page 22

²³ Nya perspektiv på organization och ledarskap, Bolman & Deal, page 130p

²⁴ Understanding human motivation, Jung, page 170pp

that feels that he is overpaid will put in an even greater effort. But a person that feels that he is underpaid will work less efficiently.

There have been several empirical studies about work motivation. These studies show that conventional theories are not often practical. Arvidsson turns his attention to Schou's thesis about engineers in Sweden.²⁵ Motivation is a consequence of the level of agreement between what the employee wants to achieve with his work and what the work has to offer in real life. High levels of motivation are reached when the employee has interesting assignments, and the incentive program should be created in a way that makes the employee feel that he is rewarded for the right things. Schou's empirical study also shows that you cannot make the assumption that monetary rewards will always give motivation results. The study confirms that working environment, leadership, customer contact, ownership and the possibility of evolving is just as important as motivating factors.

3.5 Practical theories

A great number of studies have been conducted that examines pay determination. The variables were dependent ones as well as independent ones. Examples of dependent variables are pay level, pay increase, job pay, job evaluation points, while examples of independent variables are managerial and employee characteristics. The results from these studies have varied.

Rynes and Bono, Bartol & Martin found some support for the notion that managers give larger increases to subordinates on whom they are dependent, but only under certain conditions²⁶.

²⁵ Controllerhandboken, Samuelsson red, page 117pp

²⁶ Compensation in organizations, Rynes, Gerhart ed., page 5

Singh made a survey where Indian male college students were asked to assign pay to a hypothetical target worker, based on information about that employee's inputs relative to the inputs and pay of a comparison employee. The results from this study suggested that subjects used nonlinear functions to assign pay, consistent with the notions of fair pay ranges (floor and ceiling effects).²⁷

3.6 Findings and conclusions from historical studies

In a Psychological pay determination research covering 1986-1998, Rynes & Bono concluded that individual pay is influenced by factors other than individual performance. Also, decision makers show individual differences in pay decisions. Finally, field surveys of actual pay suggest racial and gender-based pay discrimination; experiments suggest little or no discrimination.²⁸

Barber & Bretz studied the effects of pay on employee attraction and retention. They found that apparent importance of pay depends on the method used to investigate it. Also, there is more evidence of gender differences in pay expectations than in pay importance. Furthermore, they found that pay importance declines with increasing age and work experience. And last, organization-level research shows negative relationships between pay level and turnover and between benefits and turnover²⁹.

Gerhart studied pay strategy and firm performance, and the results from the studies were numerous. Organizations exhibit stable differences in pay strategies. Managers have varying amounts of discretion in determining pay strategy. Differences in pay strategy, especially how pay is delivered, have an effect on firm performance. Organizational performance appears to be positively associated with the proportion of employees receiving variable compensation. Gerhart found evidence for best practices with respect

²⁷ Compensation in organizations, Rynes, Gerhart ed., page 8

²⁸ Compensation in organizations, Rynes, Gerhart ed., page 354

²⁹ Ibid

to proportion of employees on variable pay. Gerhart also found some evidence that pay strategy fit (with business strategy, amount of business risk, and so on) is important.³⁰

Rousseau & Ho studied psychological contract issues in compensation, and found that compensation and benefits are major aspects of the psychological contract (PC) between employers and employees. The characteristics of PCs (core versus peripheral, particularistic versus universal) are useful for predicting employee responses to compensation changes. In the United States, the trend has been toward transactional or balanced (mixed transactional-relational) contracts. The meaning of pay systems, according to Rousseau & Ho, extends far beyond economic factors in signaling the relationship between worker and firm.³¹

3.7 Summary

In this chapter we have discussed several different theories regarding reward systems and their use as a motivation tool. We have discussed the difference between paying-for-people and paying-for-performance. We have also presented some theories and studies regarding the difference in reward systems in different countries. Especially Hofstede's studies have been explained because of their valuable findings. There has also been a presentation of the conventional theories regarding motivation, for example Maslow's hierarchy of needs and Herzberg's factor theory. We have also described the practical theories regarding payments with several findings from performed studies.

³⁰ Compensation in organizations, Rynes, Gerhart ed., page 356

³¹ Compensation in organizations, Rynes, Gerhart ed., page 358

Chapter 4: Empiric Situations

4.1 Introduction

In this chapter we present the data that we have gathered from different empiric situations. These situations consist of a mixture of empirically conducted case studies with emphasis on the cultural differences between companies. The presentation of these studies is outlined according to the way in which the company wants to create an incentive for their employees. Our own study will be presented in a separate section.

4.2 Data from case studies

These studies are a collection of cases concerning companies and their reward systems.

4.2.1 North-American and British cases

In an article in Nation's Restaurant News Dina Berta writes about Peter Piper Inc's incentive program.³² Peter Piper is a franchise pizza chain in USA. The company has seen employee turnover drop and seen employee satisfaction scores incline ever since the company launched their recognition-and-rewards program in the year 2000. The article cites Kenny Holmes, senior director of human resources at Peter Piper, who says that the key to having an effective employee incentive-an-rewards program is that they "Do employee satisfaction surveys every other quarter." It is a short survey that only takes 2 to 4 minutes but ask questions as "Do you feel you were recognized?" or "Are you treated fairly?" This has lead to a reinstatement of an "employee of the month" award and one of the things that stands out most clearly is that the employees wants the company to

³²Holmes: Satisfaction the best incentive, Dina Berta

“recognize me on the spot”. Kenny Holmes also points out the importance of communication and says that “There’s the same emphasis and the same training techniques we use to make sure the importance is there, just like we do for new products.” He also points out that “you don’t just hand an award to someone and say, “Here you go.” Make it public. Be sincere, be immediate with the praise, and be very specific and meaningful.”

In an article by Bob Nelson in *Incentive*, the author discusses Herbalife’s employee recognition program.³³ The program was based on a system that used two-part “WOW!” cards to provide employees with means to write thank-you notes or other recognitions to fellow employees. One part of the card went straight to the employee and the other part to a recognition box. This box was then reviewed monthly by a recognition committee. This committee then selected a person that got the most cards and the person’s name was put up on a bulletin board. The person received points toward merchandise awards as well as tickets for a drawing for a cruise. The person was also submitted to an “All star program” which earned them additional recognition and visibility.

In another article by Bob Nelson in *Incentive*, the author discusses the recognition program of Syncrude Ltd.³⁴ Syncrude is a Canadian energy company. The author mentions John Thomas, manager of operations at Syncrude and his influence on the company’s recognitions program. One of his ideas is “the Pay it Forward Award”, that is presented to someone on his senior staff for exemplary work. The award can be given to someone else in the next stage at the discretion of the current holder. Thomas also reviews the performance appraisals of the company’s employees and writes personal letters to high performers. He also asks team leaders to point out certain team members that they value and then goes straight out and give those members rewards. The article also states that Thomas schedules four hours a week to go out amongst the 600 employees and ask them directly if they feel that they get positive feedback on their work performance.

³³ Bigger Doesn’t always Mean Better, Bob Nelson

³⁴ To Motivate, Keep Innovating, Bob Nelson

Motorola's new incentive program is discussed in an article in *Meetings & Conversations*.³⁵ The program was launched in January 2002 and is based on cash rewards. The article consists of an interview with Jim Foote, vice president and director of global rewards at Motorola. He states that Motorola previously had many different incentive plans that focused on goals specific to the sectors and functional departments, but that the new plan merges all the different plans into one consistent framework. He states that the program focuses employees on business performance, measured through the company's annual profits and cash flow, and individual performance, which shapes the size of awards. The employees are paid cash bonuses according to how the company does. Every employee from a high-ranking executive to an entry-level worker is eligible for the annual program, according to Foote. He also points out that the plan is software-administered which makes communication and tracking more efficient.

In an article by Steve Hamm in *Business Week*, the author examines IBM's reward plan for executives and shareholders.³⁶ The plan is based on two stock-option programs. One of the programs grants the executive options at the current market price, which vest over four years. The stock price has to increase by at least 10% from their grant prices before executives are allowed to exercise options. So if the stock price rises with 20% the executive will collect a 10% reward while shareholders will pocket 20%. The other program allows the executive to allocate 10% of their annual cash bonus toward buying options. IBM then grants an option to buy shares with a target value that is twice as high as those the executive purchased. After three years the executive can exercise the options. So if an executive wants to qualify for options with a target value of \$18,000 they would have to buy \$9,000 worth of stock. This program is spread to all 5000 executives of the company.

In an article by Libby Estell in *Incentive*, the author examines Oxford Health Plans reward system.³⁷ The insurance company has a non-sales-recognition program which has the purpose of rewarding and recognizing employees for their contributions. They have

³⁵ Motorola Ties Rewards to Profits, *Meetings & Conversations*

³⁶ Stock Options, As Goes IBM..., Steve Hamm

³⁷ Driven to succeed, Libby Estell

regular appreciation events and several employee and peer-to-peer recognition programs that reward hard-workers with prizes. One of the rewards is the chance of being in the annual employee recognition drawing, in which one employee wins a brand new luxury car. There is also a quarterly employee award, which rewards the employees with luxury gifts like digital cameras and plasma TVs. Every employee receives 4 tickets per year and can enter any of the quarterly drawings as they see fit. The company also has an “employee of the quarter” program that recognizes one member of each department with a crystal award, a certificate, and 500 Oxford stock options. The result of this reward system as a whole is, according to the author, a decrease of the employee turnover rate to 9%, compared to the industry average of 24%.

The Cosmos Group’s staff incentive program, “Just The Ticket”, is the topic for an article written by Lisa James in *Travel Weekly*.³⁸ This program has helped to improve the morale of the employees and increased communication between directors and staff at Cosmos, according to the article. The incentive program simultaneously rewards staff who put in extra effort, lets them know they are appreciated by the directors and encourages them to take a keen interest in how the company is performing. The system works as follows. Every month members of staff can earn a raffle ticket for “going the extra mile” and doing something out of the ordinary in their job. They qualify by being recommended by a colleague or a boss. The ticket gives the employee a chance to win in a monthly draw where five winners from each department receive a prize. The employees can also win tickets by guessing the number of bookings that have been made in a particular day, this to encourage members of staff to take more of an interest in the overall performance of the company.

In the article “Reaping rewards” by Gregg McQueen in *Industrial Maintenance & Plant Operation*, the author discusses how incentive programs can help companies to ensure that their best employees stay with them.³⁹ The author starts off by describing bonus systems that pay workers extra money as a percentage of company profits or earnings.

³⁸ Staff are in it to win it, Lisa James

³⁹ Reaping rewards, Gregg McQueen

One example is Warn Industries, where employees get a share of the company profits if production goals are met. This is determined on a once-per-quarter basis. This, according to the article, has increased morale among long-term staff members and in attracting new hires. Another example is given in Honeywell Inc. At their Home and Building Controls plant in Golden Valley they have created a Rewards Opportunity program. The program focuses on attainable business goals for each work cell and is set up around four critical success factors: ability to ship to customer request, labor productivity, scrap and process yield. The employees receive a monetary bonus if criteria for these four items are met. Each goal is based on the company's previous best annual performance. According to the article, an incentive program may or may not work, depending on the size of the company. The author refers to Bill Siegl who feels that smaller companies can create more original incentive programs. He mentions The Counting House as an example. This company had 30 employees, and many of the 25 factory workers were paid on a direct incentive basis. There was a base salary rate and a base rate necessary for production. The company never changed the target number of the production quota from year to year, because they thought that this could be discouraging for the workers. The article also mentions another small firm, Rexam Medical Packaging. The company has an innovative incentive program called Achieve & Receive. It rewards employees for contributing suggestions to management that could benefit production, quality, safety or any other aspect of Rexam's work environment. Each suggestion an employee submits is worth one Achieve & Receive sticker and these can be accumulated and redeemed for prizes. The author also points out that money is not the only reward that workers care about. McQueen highlights the fostering of better communication among plant employees as serving as a good morale booster. He also points out that some companies use training as an incentive in itself. He exemplifies this with Burlington Industries Inc, a textile manufacturer in Greensboro. They have a company-wide pay-for-skills program called The Maintenance Proficiency and Achievement Through Craft Training (MPACT). This program serves as a catalyst for an earned progression scheme that keeps workers rising through the ranks, and give the workers incentive for improvement. The author rounds off the article by pointing out that the most effective motivation program can be the simplest. He quotes Joel Leonard, president of PulsePointe Technologies, in saying

”create an environment where employees are having some element of fun. Don’t be afraid to joke around with workers and keep things loose. If you treat people like robots, they will quit caring.”

In the magazine “Hotels” an article describes a special form of compensation system applied by Tamar Inns.⁴⁰ Tamar Inns Inc. of Orlando launched “Shares of Success”, a program which was supposed to distribute no less than US\$1.5 million each year to full-time employees not covered by year-end bonus or incentive plans. The main targets for the program were the frontline employees. Full-time associates who had been employed for at least one year were eligible to receive one fifth of one “share”, estimated to be worth approximately US\$1000, for each year of service. The President of the company, Mr Rosen, was very specific in explaining the fact that the program wasn’t profit sharing. Since profits may decline, Mr. Rosen thought it to be fairer for the employees to receive a non-profit based compensation. Mr. Rosen pointed out the main benefits of the program to be increased company loyalty and reduced attrition on the frontlines.

According to Rosen By, the relatively high turnover rate was expected to go down from around 40-50% to 30-35% if the benefits from the program could be achieved. Rosen finally concluded that he would like to see more small companies revisit the concept of lifetime employment, where more incentives in the long run could lead to greater stability.

Strategic HR Review published an article in which a new reward program for BP Retail is described.⁴¹ BP Retail addressed a reward strategy in 2001. BP Retail had chosen growth as a business goal in the convenience store market. In order to reach this goal the company strived to achieve excellent customer service. The key factor to success was therefore the employees of the company. Earlier BP Retail focused solely on “mystery customer” activity to gather information on each store. Profit and loss was used to monitor performance and provide rewards. This system had a negative impact on the staff members. The employees often felt they had little impact over elements of the profit and

⁴⁰ Florida Firm Shares Its Success, Hotels

⁴¹ How BP aligns rewards and business strategy, Strategic HR review

loss accounts, and that overall performance was out of their control. Rewards were distributed at the year-end and little information was communicated during the assessment period. Numerous stores did not understand what they were receiving and why. A few of the goals to be achieved with the new business strategy were: 1) Provide a wide performance framework for measurement, and not focus solely on profit/loss activity, 2) Focus on “key performance areas” of the retail business and enable BP to achieve high performance and 3) Motivate all staff in their day-to-day work and increase teamwork. BP introduced a new vision, including a new logo, and a strong focus on “FFAC” (fast, friendly, available and clean). In order to achieve excellence in the FFAC and also meeting financial targets, a reward strategy was devised in which performance of BP Retail employees was linked to achieving excellence in the FFAC, as well as meeting financial targets. BP then defined how FFAC could be translated into customer needs and in which ways it should be implemented. The result was the “Benefiting People” program. In the newly devised program, employees’ performance in meeting FFAC goals and financial targets were measured monthly. The methods to monitor the performance levels were: interviews, surveys and internal technical measures. The mystery customer activity continued, but the measures were now more specific and directly related to the FFAC goals. Performance results were reported in a balanced scorecard every month. Each performance area was weighted depending on its placing within the business strategy and scores were fed back in terms of territory, district and nationwide. Employees had the possibility to see their ranking on store leagues tables.

Yet another article that was focused on rewards was presented in *Journal of Organizational Excellence*. Authors Fischer, Gross and Friedman analyzed Marriott.⁴² The authors started off by pointing out the importance of having a systematic, fact-based and well designed compensation program. Far too many companies play a “rewards roulette” game, in which the outcome is highly uncertain. The largest single line item in Marriott’s budget is the annual payroll. Even a small saving could have a dramatic impact on the bottom line. A high rate of employee turnover can be very costly for large companies and by putting an emphasis on retention and attraction, the rate of employee

⁴² Marriott makes the business case for an innovative total rewards strategy, Fischer, Gross and Friedman

turnover can be minimized. Marriott launched a “Value Proposition Project”. This proposition included a number of components and two examples were: Enhancing productivity and Improving attraction and retention. Interviews were made, as well as other surveys and studies in order to gather the information needed. Marriott’s process for developing its new rewards strategy differed from the typical approach to such projects. Most significantly, the approach was unique in that it: 1) emphasized the value to both the company and its associates 2) analyzed HRIS, operational, and financial data to identify the key people factors driving retention, associate performance, and actual business results at Marriott 3) produced a new rewards strategy that maximized Marriott’s return on investment 4) enabled HR managers to quantitatively demonstrate the bottom-line impact of the proposed strategy to senior management. Marriott had a five-year database of its own employment history, and this contained enormous amounts of vital information. By consulting Mercer to make a statistical analysis from the material in the database, Marriott could conclude their overall analysis and thus create a Total Rewards Strategy. Marriott did it by combining quantitative data analysis from Mercer with associate opinion surveys and thereby developing a profile of its workforce that identified both the consistencies between what people said and what they did. Base pay ranked at the top in their list of preferences, but the associates also expressed a desire for such lifestyle benefits as assistance with the home buying, childcare and transportation. The authors point out the large impact the analysis had for Marriott and also that importance in general for any company in questions of reward systems and compensation programs. Without having a solid base for what preferences the workforce have, companies often base reward systems on “anecdotal information”. The outcome of the analysis was a breakthrough in theory, but economic difficulties forced Marriott to postpone the implementation of the program. However, some vital parts of the overall program were introduced, and the full implementation will be done as soon as the economic situation in the hospitality industry improves. Also, there will be further improvements. One idea that might be interesting for the upcoming future is the introduction of “signature accounts”, an idea that is under investigation in Marriott.

4.2.2 Swedish cases

In a number of articles, authors and journalists in Sweden discuss whether to use reward programs or not.

Almgren, Sunden, Wahlberg wrote an article in SvD in which they discuss why several large companies don't have general incentive programs.⁴³ In a survey that involves 30 larger Swedish companies only 1/3 had general incentive programs. Some examples of larger companies which do not apply general incentive programs are: Telia Sonera, SKF, Trelleborg and Skanska. Per Arvidsson, a researcher at Stockholm School of Economics, who has specialized in incentive programs, was surprised and said: "Our research shows that general compensation programs in use can show very positive effects. In fact, they can be more effective than if only applied on people in the top management". Lars Milberg, who is the chief of law at Aktiespararna, doesn't understand why companies are so ignorant towards incentive systems since the programs have been very successful. He suspects that the top executives have been more interested in rewarding themselves.

Öberg is quite negative towards incentive programs in his approach in an article.⁴⁴ According to Öberg, there is no scientific evidence that incentive programs as such, enhance the work effort. He writes that decision makers in the Swedish business world are too enthusiastic about reward systems. Öberg means that according to behavioral research, there are other factors than reward systems that motivate staff members and employees to be creative, motivated for work and to cooperate. He cites Alfie Kohn from an article in Harvard Business Review, and concludes that higher rewards do not result in higher performance. Also he claims that according to Herzberg, a higher salary doesn't motivate people to perform better. He also writes that reward systems can be counterproductive according to the professors Richard Ruyan, Edward Deci, Robert W Baird from University of Rochester. He then sums up the article by asking the question whether a reward system should exist at all.

⁴³ Elva börsjättar låter de anställda dela vinsten, Almgren, Sunden, Wahlberg

⁴⁴ APROPÅ: Belöningssystem - Inte givet att bonusar förhöjer arbetsinsatsen, Öberg

In an article by Hufvudstadsbladet, that presents results from ten surveys, the general conclusion is that investing in the workplace area actually pays off.⁴⁵ One part of the article focuses on reward systems. In this part a study made by researcher Kirsi Nurmela at LTT-tutkimus in Helsinki Finnish School of Economics, Helsinki, is presented. Nurmela found that the most important part of the total compensation was the base pay (the salary). Second was continuity, which means the possibility for the employee to remain at his present position. On third place was flexibility. Other important parts were personal development and direct feedback from managers and customers. On a relatively low position was result based pay and other rewards. On the question how a reward system functions in practice, a majority of the people asked answered that if they would perform well they would be given more work but get positive feedback. Very few thought it to be likely that they would get a raise.

4.2.3 Culture related case

In an article Åberg describes the situation in the quite recently merged company of AstraZeneca.⁴⁶ AstraZeneca introduced a new HR organization in Sweden in order to coordinate the new company. The major changes were increased targeting management and increased connection between work and salary. Lars Degerman, chief of staff of salaries and benefits in AstraZeneca in Sweden, was pleased with the changes from the merge. He said that the management of today is more focused and consequent. He is positive towards increasing target management. He was also very positive towards the strong bond between effort and compensation. The new global HR-organization was divided into central and local units. The central unit was divided into four skill centers. These are responsible for different parts of compensation areas. The local centers were called HR-business partners. In these units, the HR staff members work together with managers and assist them with HR skills. There were cultural differences between the British and the Swedish counterparts that created problems. Zeneca was highly

⁴⁵ Avlöning och belöning, Hufvudstadsbladet

⁴⁶ AstraZeneca: tätare koppling arbete och lön, Åberg

bureaucratic while Astra was considered far more decentralized. After a thorough evaluation of the cultures of the two companies, a new common culture was formed and introduced to all employees. The first year was a minor setback but after this period the company did show much progress and in spite of cultural differences, there are some strong characteristics that the two cultures share: Successful business, Growth, and complementary products. The new company has an individually based salary system but also a bonus system. The system is extensively transparent and it is totally clear which effort that constitutes certain compensation. This is strongly influenced by the systems used in the USA. One special part of the compensation program is the flexible benefit package in which the employees can purchase benefits via a web based system. In this system they can choose whether to spend earned bonus credits or after tax salary to purchase various benefits.

4.3 Data from questionnaire study

We will here present the answers from our questionnaire sent to Paccar, USA. The questionnaire can be found in appendix 2.

The answers collected from Paccar's Compensation Manager Paavo Liekkiö will here be reported as they were collected. The analysis of these data will be conducted in the next chapter:

According to Mr. Liekkiö the need for an incentive program is rated 10 out of 10. He states that "in large companies it is critical to have a framework for compensation to enable equitable delivery of monies across the company and ensure budgets are adhered to." He also states that "you are also competing with companies for human capital, so you need to have a system in place to attract and retain your talent". The aim with Paccar's compensation program is, according to Mr. Liekkiö, to "Attract and retain employees". On the question of how Paccar's compensation program differs from region to region Mr. Liekkiö answered "In general, there is very little difference. We have some union

representation and globally we are bound to different laws/regulations regarding compensation, but essentially we have a pretty consistent approach.” When asked about how Paccar differs from other companies in the trucking industry, when discussing compensation programs, Mr. Liekkiö answered “We are probably more conservative in our approach than most companies.” We asked if there were any problems with Paccar’s compensation program, and got the answer “The program is too reactionary and not flexible enough to handle unusual situations. Could also use technology more”. When asked about the biggest problem, and what efforts Paccar make to solve the problem, Mr. Liekkiö responded “There is not a lot you can do about the reactionary approach we take because of how conservative we are and the process you have to go through for approvals. I am working on various ways to increase the use of technology to better administer the program.” The next question asked was what percentage of Paccar’s total profit that is available for the total bonus pool. Mr. Liekkiö answered “The pool is not determined by profit, but we spent over 20M on bonuses last year and have had \$1,622,300,000 in gross profit (\$597,900,000 net) over the past 4 quarters.” When asked if Paccar use gain sharing, goal sharing, profit sharing, spot bonus programs or team-based pay, Mr. Liekkiö answered no, and on the question of how he would rate the effectiveness of Paccar’s compensation program Mr. Liekkiö answered 7 on a scale from 1 to 10. The next question asked Mr. Liekkiö about what his opinion about carry-over systems was, and he answered: “I believe it is important to deliver bonuses as close to the time of the applicable event as possible (e.g. if it is a sales position, pay them as soon as possible after a sale). Unless there is an upside for carrying over the bonus, I am not a big fan of carry-over systems.” When asked what he thought the effects of a carry-over system could be, Mr. Liekkiö answered: retention. We asked Mr. Liekkiö about his opinion about a deferred compensation system (in which the bonus of the current year is split up into payments over a couple of years). He answered: “Again, not a fan unless it was voluntary and the employee could potentially earn more than the original award. Otherwise, the company continues to make money off of the employee.” When asked what he thought the effects of a deferred compensation system could be, he answered: “No significant affect besides retention if the award is large enough.” The next question asked which part of an employee’s salary that Mr. Liekkiö found most important, basic

pay or incentive pay. The answer was: “Depends on the role. If you are in a sales role with a direct line of sight, I would want a larger portion of their pay to be on the incentive side, so incentive would be more important for that employee. Typically people count on their base pay to pay for essentials and use their incentive awards for luxuries, so in that case, they would find base salary more important.” On the question: if using a variable pay, what percentage of the total compensation do you think should be made up of variable pay compared to fixed pay, Mr. Liekkiö answered: “Again, depends on the role. If it is a pure sales role, up to 100% should be incentive (more typically 50-60%), otherwise a safe percentage would be around 25-30%.” We asked if Paccar had stock option programs at intermediate levels or only on strategic levels. The answer was: “only on strategic levels (Senior Managers and above)”. Mr. Liekkiö informed us that Paccar does not use broadbanding and when asked which performance Paccar rewards the most, individual performance or group performance, Mr. Liekkiö answered individual. We asked Mr. Liekkiö of his opinion of which is the key factor in compensation programs for workers in the truck business. He answered reward for quality. The next question asked how Paccar measure performance. The answer was: “It is different for every employee. Generally via and MBO plan (Management by Objectives), where the manager sits down and develops criteria that each of their employees must meet during the performance period. At the end of the period, the manager assesses how the employee did versus their goal and assigns them a merit rating. Then Increases are given on a common review date, typically 12-16 months apart. Here is a list of examples that were actually used last year for IC purposes: (JD Power Rankings, Truck Invoicing %, Warranty reduction per truck, Gross Margin, Marketing position - 400 units, Invoicing through our leasing Arm (700+ units), Gross Margin per unit, GM %, Units 14,000+, Net Profit per truck, parts 20M+, Market Share)”. When asked which measure he finds most important, Mr. Liekkiö answered: “Employees really are focused on the Quality measures (JD Power, etc).” We asked how Paccar sort out the overachievers from the underachievers, and got the answer: “Difficult when there are not objective criteria, but when there is, the numbers are what determine the poor versus excellent performers.” Another question asked to Mr. Liekkiö was: How does Paccar pass the idea of Paccar’s compensation program out to the employees? Mr Liekkiö’s answer was: “If they are global announcements, they come

from me, if they are local issues; they are handled at the plant level by the local HR manager. There is also a lot of information on the intranet.” When asked if one looks at Paccar as an international company, what Mr Liekkiö finds is the largest differences in the compensation programs based on cultural divergences, Mr Liekkiö answered that “some of the non-cash perquisites (i.e. cars, vacation, food vouchers in Mexico, etc)”. We asked if Mr Liekkiö would place Paccar’s culture as individualism or collectivism, which it would be. Mr Liekkiö answered: “Collectivism....very team oriented, even amongst our different brands (DAF, Kenworth, Peterbilt)”. On a scale from 1 to 10, with 1 being worthless and 10 being excellent, Mr Liekkiö rated monetary rewards as a motivating tool as a 10. On a scale from 1 to 10, with 1 being worthless and 10 being excellent, Mr Liekkiö rated non-monetary rewards, like promotions, as a motivating tool as an 8.

4.4 Summary

We have in this chapter presented the data used in this thesis. The data consists of articles regarding American, British and Swedish companies as well as a questionnaire answered by Paccar Inc of USA.

Chapter 5: Analysis of the empirical cases

5.1 Introduction

In chapter three we described the underlying frame of reference of our thesis, and in chapter four we presented the empirical situations. In this chapter we use the frame of reference to analyze the empirical situations. We have divided the cases into three groups. One is north-American and British companies and another is Swedish companies. The third group focuses exclusively on the situation when two companies from two different cultures merge. The questionnaire analysis will be presented in a fourth group.

5.2 North-American and British findings

We divided the articles belonging to this group into three subgroups. These are:

- 1) Reward systems with a focus on recognition
- 2) Reward systems with a focus on monetary incentives
- 3) “Pay for people” companies

5.2.1 Reward systems with a focus on recognition

A main theme in all of the articles within this subgroup is that they focus on recognition. They all have typical signs of an open system with traces of actor involvement. There is also a clear focus on reward systems which can be related to McGregor’s theory X and the extrinsic theories discussed in the frame of reference.

In the article about Peter Piper Inc, we find an example of this open system since the employee satisfaction surveys give the employees possibility to influence the way that their incentive program will evolve. In this article we also find a textbook example of the need for recognition in the employee. This can be related to Maslow's hierarchy of needs in the way that this fulfills the employee's need for self-esteem. Through the "employee of the month" program, the employee receives recognition, a feeling of achievement and, hopefully, respect from fellow employees. This is also an example of Herzberg's motivation factor, in that an employee will still perform his work without the recognition program but will be motivated to perform at a higher level with the program.

A similar case can be found in the article about Herbalife. This program is also built around the recognition need of the employee but puts a little more focus on the possibility of a monetary reward than in Peter Piper Inc's program. A special part of Herbalife's program is that it is based on fellow employees nominating the receiver and not management that decides who will get the reward. This can be seen as a way of building team spirit and will eliminate the influences that Rynes, Bono, Bartol and Martin stated in their study. They stated that managers gave larger incentives to subordinates that they were dependent on. This can also be connected to Sing's study in which regular people wanted a non-linear function to assign pay in order to create a feeling of fair play.

Yet another article regarding the need for recognition can be found in the article about Syncrude Ltd. Here is a typical example of a leader that puts the employee in focus and builds on the employees' need for attention and recognition. This can once again be related to the theories of Maslow and Herzberg.

One company that puts full focus on the recognition and reward of employees is Oxford Health Plan. This program's main purpose is giving the employees recognition through monetary rewards in the form of gifts. The company spends huge sums of money on making the employees feel spoiled and give them incentives to work harder. There are clear connections to Jung's motivation theory in that the company, through the spoiling and its overcompensation of the employees, creates a feeling of being overpaid in the

employees and that they therefore will work harder to stand up to the company's expectations. One can also see a resemblance to the studies of Rousseau & Ho. They discuss the importance of compensation and benefits to the psychological contract between employer and employee. When the employees of Oxford Health Plan receive the amount of recognition and rewards that they do, a bond is created between the company and the employees. This also shown in the decrease of the employee turnover rate down to 9%. This can be related to Barber & Bretz studies in which a negative relationship between benefits and employee turnover can be found.

The Cosmos Group incentive program is a program that has the intention of raising the recognition level of the employees in almost the same way as Syncrude and Herbalife. Both fellow employees and managers can recommend a colleague. The reward is of a monetary kind. The theory base is the same as in the above mentioned cases.

The article that describes BP's transformation from a reward system of a closed kind to an open system in which the employees were able to understand what was demanded of them. This was done through surveys and interviews. The recognition factor was also high lightened in the system since the employees had the possibility to see their ranking on store leagues tables. The reward system was based on both qualitative and quantitative results and therefore made it easier for the employees to understand what was needed. One can draw conclusions from this example that reinforces Gerhart's opinion that pay strategy fit with business strategy is of the utter most importance. The theory base in this case is quite the same as in the cases above.

5.2.2 Reward systems with a focus on monetary incentives

The common theme in this subgroup is that the companies' main focuses have been on the motivation factor of monetary rewards.

In the case of Motorola there was a distinct focus on the cash rewards program. The new system was focused on business performance of the whole company and in individual performance, which shaped the size of awards. Cash bonuses were handed out according to company profits. Although an individual performance measurement was included in the overall performance judgment, this seems to be a closed system in which the top management hands out money without being able to see to whom the profit can be traced to. This can be related to the studies of Rynes & Bono which stated that individual pay is often influenced by factors other than individual performance. Apart from this, the program is a typical case of extrinsic motivation, and thereby a case of Herzberg's theory X. This is an example of a short term plan in which the bonus is based on the performance in one year.

A similar case, but with the big difference of an open system instead of a close system, is the case of IBM's new reward plan for executives. This is a case of an extrinsic motivation program with solely monetary rewards, and the theories of extrinsic motivation, like Maslow, Herzberg etc, will therefore be relevant. This program can be describes as an open system since the recipients have the option to use or not use the program and that their actions can be easily related to the outcome of the program. This is also an example of a long term plan since it is related to the stock price of the company.

The article "reaping rewards" gives many examples of companies where the monetary reward systems play a great part in the motivation process. Companies like Honeywell Inc and their "rewards Opportunity Program" have similarities with BP's program but with the difference that there is a focus on a monetary bonus if the goal criteria are met.

5.2.3 “Pay for people” companies

This last subgroup contains examples of companies that believe in the paying for the person instead of paying for the performance. This means that instead of measuring the performance and use rewards as an increased performance tool, they believe in paying a greater base salary or pay a person for its abilities.

One example can be found in “reaping rewards” and the Burlington Industries Inc. They have a pay-for-skills program that they believe will create an earned progression scheme that keeps workers rising through the ranks, and by this give them incentive for improvement. This can be correlated with McGregor’s Theory Y and the theories regarding intrinsic motivation. These state that an employee can be motivated strictly by the work itself. This can also be related to Maslow’s hierarchy of needs, in which one can assume that the employee has reached such a high level of satisfaction that the only motivation is in reaching the step of self-actualization. At this step the pursuit of inner talent is the most motivation factor of all.

Another example of pay for people can be found in Tamar Inns. The “Shares of success” program can be seen as a fixed pay program since the payment scheme to the employees is not dependent on performance but is a non-profit based compensation. This is an example of a closed system, and once again an example of Rynes & Bono in showing that individual pay is influenced by factors other than individual performance. We also see a case of Barber & Bretz’s statement that there is a negative relationship between benefits and turnover. According to the author of the article the high turnover rate of the company is expected to go down.

Finally the example of Marriot shows similarities with the above stated cases. Marriot’s survey concluded that amongst employees, base pay ranked highest of their preferences. This can be interpreted as an indication of the need for pay-for-people strategies for employees on this level. Beside this the theory base is the same as in the two cases stated above.

5.3 Swedish findings

This group contains case studies regarding the way reward systems are perceived in Sweden.

In “Elva börsjättar låter de anställda dela vinsten” we can observe a general view in the Swedish companies in the fact that only one third of the surveyed companies had a general incentive program. This pattern can also be traced in the article by Öberg, who is quite negative towards incentive programs. He cites behavior research and Herzberg amongst some. He also thinks that reward systems can be contra productive according to certain professors. His statements can be connected to McGregor’s Theory Y and Schou’s study that concluded that high motivation will follow if the employee receives interesting assignments. Overall one can say that Öberg advocates the pay-for-people model.

The last article of this group, “Bra arbetsmiljö lönar sig”, also indicates a leaning towards base pay importance compared to incentive pay. In the survey the scientist found that the most important part of the total compensation was the base-pay. There were also results that showed the importance of non-monetary rewards being of high importance. This article can be correlated to McGregor’s Theory Y as well as to Jung, since a high base pay could make the employee feel overpaid and therefore work harder to feel that he or she deserves the high pay.

5.4 Cultural aspects of a merging company

In the article written by Åberg, the compensation system applied by AstraZeneca can be described as an open system that is based on pay-for-performance. Also, the system is more or less a system based on monetary rewards rather than recognition as a motivating tool. One could say that the system is quite similar to the group of companies described above as “Reward systems with a focus on monetary incentives”. The system applied by

AstraZeneca can therefore be related to the same segments of the theoretical frame of reference. It is a case of extrinsic motivation and therefore conventional theories by scholars such as Herzberg and Maslow can be used in order to describe and interpret the findings in the article (For further explanation please read section 5.2.1.2). A very important point of the article is that it puts a focus on cultural aspects. In Åberg's article it is quite clear that cultural differences between the British and Swedish counterparts led to several difficulties. While Astra was considered to have a decentralized organization, Zeneca was considered to be a far more bureaucratic and centralized company. Also, Zeneca had far more experience of using reward systems based on pay-for-performance. These differences can be explained by relating to Hofstede's theory regarding cultures and organization, since Hofstede came to the conclusion that Swedish culture is based on collective values and a high rate of equality. This can be seen when studying the situation of Astra before the merger. The British company Zeneca on the other hand, was typically British, with a more individualistic and relatively unequal viewpoint. It seems that after the merger, the newly founded company has adopted cultural characteristics from both Britain and Sweden. While the compensation system is rather Anglo-American, many other parts of the bureaucracy and company values reflect a more "Swedish" approach with decentralization in several areas and competences. The whole merging problem can be correlated to the findings of Robertson and his four steps. Robertson clearly points out the differences between an individualistic and collectivistic culture and also underlines the importance of trying: "to avoid spreading the confines of its home country perspective".

5.5 Questionnaire results

Paccar believes that having a reward system is of the highest importance. This correlates to the view we received from the north-American companies from the articles. This can also be connected to Hofstede's data gatherings. When looking at monetary versus non-monetary rewards we see that Paccar rates monetary rewards higher than non-monetary rewards. In the case of base pay versus incentive pay, Paccar differs between different

positions in the company. A sales person has a larger part of the total compensation as incentive pay while the employee in general find base salary more important, and will therefore have a larger part of the whole compensation as base pay. This could be related to many different theories, and could point towards a theory that states that different positions demand different motivation factors. Paccar also seem to focus on regular rewards to lower level employees and the stock option programs to employees on a strategic level. Paccar seems to have the opinion that rewards for quality is the key factor and one measures the performance by MBO plans. They sort out the overachievers from the underachievers solely on performance numbers which can be in conflict with the key factor of quality.

When looking at the reward system of Paccar from a cultural angle we can see several aspects of the system that has been influenced by the American culture of the parent company. For example, Paccar has not followed the new trend of using broadbanding in the organization. We believe that this follows from the need for recognition and attention that we have seen in the articles above. When correlating to Maslow's hierarchy of needs, there are certain indications that the American culture seems to be focused on the need for self-esteem. One part of the self-esteem can be the recognition from other people and we believe that a culture that has this focus have certain needs for hierarchies. A company that uses broadbanding diminishes the hierarchy of the company and creates a more decentralized organization. We believe that this can be the explanation to why Paccar does not use broadbanding. We also see a focus on "immediate reward" since Paccar, through Mr. Liekkiö, does not believe in carry-over systems and deferred compensation systems. We believe that this can also be a cultural aspect since all the other studies of American companies seem to indicate a company focus on substantial rewards in direct connection to performance. When looking at the individualism versus collectivism of Paccar's company culture we see a focus on collectivism. But when asked about which performance that was rewarded the most, Mr. Liekkiö answered individual performance. This is quite hard to understand. That Paccar rewards individual performance correlates with Hofstede's data studies that stated that the American culture has the highest ranking of individualism in the world. We can only speculate about

Paccar's reasons for a focusing on collectivism, but we believe that this is a good strategy. Trying to strive for collectivism in an individualist culture can create synergies that can benefit the company as a whole.

5.6 Summary

This chapter presented our analysis of the empirical cases. There were certain similarities between the companies from the same country and the American companies seem to have a tendency for focusing on satisfying the recognition need of the employee, with monetary or non-monetary rewards. Swedish companies seem to have an inclination towards a paying-for-people strategy, but the restrictive amount of articles makes it a questionable statement.

Chapter 6: Conclusion

The purpose of our study was to examine and analyze the reward systems of companies from different parts of the world. We believe that by doing a limited research regarding Swedish versus American and British companies we have at least examined the tip of the iceberg regarding this massive and interesting subject. We have used a very wide base of conventional theories combined with practical theories from studies, which we believe is needed to understand this complex topic.

The questions we wanted to answer in order to fulfill the purpose of the thesis were:

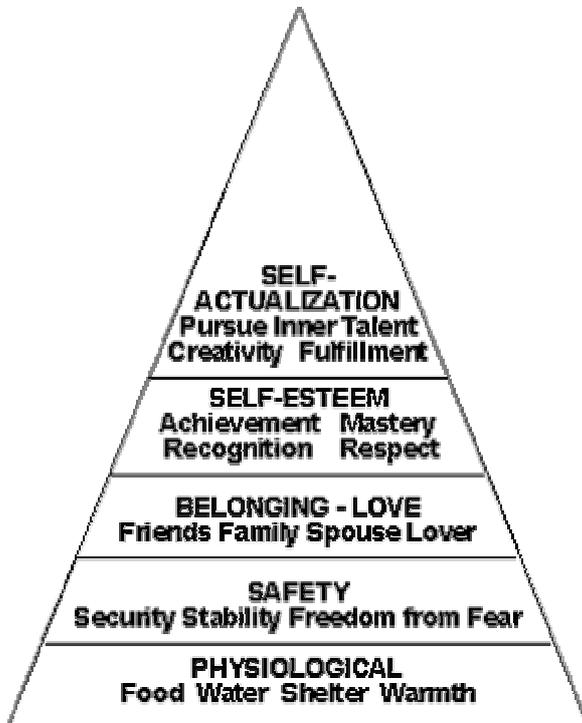
(1) What are the key constitutive elements of a reward system? And (2) What effects does the cultural heritage of employees have on the constitution of the reward system?

We have in this thesis clearly defined the key elements of a reward system and the possibilities of combinations that can be used. The reward systems' critical components are the combination of individual and collective base for rewards and the combination of monetary and non-monetary rewards given in order to reduce the employee turnover and create motivation among the employees. Regarding the cultural heritage of an employee, we have found relatively strong correlation between the theories covering cultural aspects, and the empirical data used in this thesis. There is especially a strong correlation between the empirical data and Hofstede's studies regarding individualism in different cultures.

We will now briefly describe our own opinions and reflections regarding reward systems. We believe strongly in the use of reward systems, but with different designs for different levels of the organization. We believe that Maslow's hierarchy of needs can be related to different levels in the company and therefore the reward system should take into account what the motivation factor of the employee on each level is. The design should also differ with regards to the culture of the recipient. We also believe in an open system with aspects of an actor approach, in which the recipient can participate in the shaping of the system but not have total control over it. We strongly believe that a combination between

collective and individual performance should be used for a base for the rewards. This combination should take into account the recipient's cultural aspects so that synergies can be created. We believe that an individualistic culture needs a counterweight in the shape of a strive for a collectivistic company culture. In the same way, a reward system in a collectivistic culture could need elements of individualistic rewards in order to gain the synergies we have spoken of. One word of caution though. If one creates a reward system that is built on the total opposite of the cultural heritage of the employees, one runs the risk of total setback. The reward system should include both counterweights and likenesses. Overall we think that a reward system can be used in any company in any part of the world, but with different designs according to the culture.

Appendix 1



Appendix 2

Questionnaire

1. On a scale from 1 to 10, with 1 being not important what so ever and 10 being of the utter importance, how would you rate the need for a compensation program?
2. What is the aim with your compensation program?
3. How does the program differ from region to region?
4. What do you think, when talking about compensation programs, differs your company from other companies in the industry?
5. Are there any problems with your compensation program?
6. If so, which is the biggest problem and what efforts do you make to solve the problem?
7. What percentage of your company's total profit is available for the total bonus pool?
8. Does your company use gain sharing, goal sharing, profit sharing, spot bonus programs or team-based pay?
9. If so, do you think that it is effective and why?
10. On a scale from 1 to 10, with 1 being worthless and 10 being excellent, how would you rate the effectiveness of your compensation program?

11. What is your opinion about carry-over systems (where bonuses that are not handed out this year carries over into next year)?
12. What do you think the effects of a carry-over system could be?
13. What is your opinion about a deferred compensation system (in which the bonus of the current year is split up into payments over a couple of years)?
14. What do you think the effects of a deferred compensation system could be?
15. Which part of an employee's salary do you find most important, basic pay or incentive compensation?
16. If using a variable pay, what percentage of the total compensation do you think should be made up of variable pay compared to fixed pay?
17. Do you have stock option programs at intermediate levels or only on strategic levels?
18. Does your company use broadbanding, and if so in what way?
19. Which performance does your company reward the most, individual performance or group performance?
20. What do you think is the key factor in compensation programs for workers in the truck business?
21. How do you measure performance?
22. Which measure do you find most important?

23. How do you sort out the overachievers from the underachievers?
24. How does your company pass the idea of your compensation program out to the employees?
25. As an international company, what do you find is the largest differences in the compensation programs based on cultural divergences?
26. If you would place your company culture as individualism or collectivism, which would it be?
27. On a scale from 1 to 10, with 1 being worthless and 10 being excellent, how would you rate monetary rewards as a motivating tool?
28. On a scale from 1 to 10, with 1 being worthless and 10 being excellent, how would you rate non-monetary rewards, like promotions, as a motivating tool?

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