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Incentive systems

- *an evaluation of the “Motivational Model
for Rewards”*

Bachelor thesis in Management control
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Abstract

Bachelor thesis in Management control

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Title: Incentive systems – an evaluation of the “Motivational model for rewards”.

Background and problem statement: Incentive systems have become widely spread during the last decades and now often include front line workers to larger extent than before. The aim of an incentive system is to motivate the staff to work in line with the organization’s goals but to be effective they need to be designed to fit the different preferences of the staff. Research has shown that evaluation of incentive systems are seldom executed, which can lead to resources being spent on ineffective management control. We have discovered an interesting model for evaluating incentive systems and we intend to test its suitability for that purpose. From that, we have formed our research question:

Is the “Motivational model for rewards” suitable for evaluating an incentive system?

Aim: To, with help from normative theories and research, develop knowledge about how incentive systems should be designed in order to be functional. To answer our research question we are going to evaluate the suitability of the “Motivational model for rewards” with help from normative theories, previous research and the data collected through interviews.

Research method: We have compiled normative theories and research on incentive systems and motivation and also conducted a study of employees’ opinions about their incentive system and what factors they found motivating. The suitability of the “Motivational Model for Rewards” was analyzed based on the gathered results.

Conclusion: We have found evidence that the model is a proper tool for evaluating the incentive system of the investigated organization. The reason for our judgement is the several advantages of the model, such as the simplicity of its form and that it is easy for individuals to understand. Further it covers the most essential variables in an incentive system and connects those to theories about motivation and rewards.

Suggestions for further research:

- Testing the “Motivational Model for Rewards” to evaluate incentive systems in other line of business with a greater number of respondents.
- Studying to what extent are evaluations of incentive systems conducted in Sweden? It would be interesting to compare the result with the result from the study made by Armstrong, Brown and Reilly (2011).
- Investigate what motivates store managers in other retail companies, where monetary incentives are not offered.

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1. INTRODUCTION

The first chapter gives the reader an introduction by presenting a background, a problem statement and our aim with the thesis.

1.1 BACKGROUND

Incentive systems have historically been used traditionally at higher levels in organizations, but during the last decades different forms of programs with the purpose of raising the motivation among regular front line workers have spread (Banker, Lee and Potter 1996). Business leaders have embraced different theories of motivation and principal-agent relationships realizing that motivation and performance can be created given that proper control tools are used (Merchant and van der Steede 2008).

Researchers divide motivation into two categories, intrinsic and extrinsic. Extrinsic motivation comes from external factors such as monetary rewards and needs to be “refilled” at regular intervals not to lose its effect. Intrinsic motivation comes from the “inside” of an individual without rewards being given and is long lasting – the kind of motivation every organization wishes their employees would possess (Mundhra 2010). Researchers have different opinions of what motivates individuals, LeBoeuf (1986) for example claims that the individual mainly acts in a way that creates good for him/her and is convinced that monetary incentives are the very best way of controlling staff. However, it is a safe assumption to state that different individuals are motivated by different factors.

1.2 PROBLEM STATEMENT

A general opinion supported by for example Stewart (1999) is that human resources are crucial to the survival of a business. Lack of direction or lack of motivation will make it difficult for the organization to achieve its objectives. Furthermore, pressure for higher profits and better service has also arisen from customers, investors and other stakeholders, which has made it necessary for organizations to use appropriate management control to secure that employees are working hard to reach the organization’s objectives.

While the organizations are struggling with finding the right incentive systems to motivate staff, research show that when implemented they are seldom evaluated. An investigation completed by Armstrong, Brown and Reilly (2011) suggest that less than half of the investigated organizations carried out a full evaluation of their incentive systems. Incentive systems are difficult to individualize and are therefore often designed in the way “one size fits all”, which together with the fact that the systems seldom are evaluated, raise the question whether the systems are functional (Armstrong, Brown and Reilly 2011).

The retail industry is labor intensive, which makes it even more important to ensure that employees have the same interest as the organization. The retail business employ many part time workers and the employment is often seen as temporary (Leppänen and Sellerberg 2010), which makes it even more difficult for the organization to motivate the staff.

As we discovered that the “Motivational Model for Rewards” by Katz and Kahn (1978) was cited in previous studies by, for example, Gröjer and Gröjer (1986), but never seem to have been actually used for evaluating an incentive system it arouse our interest. We chose to examine the model, and from this we have formed our research question: *Is the “Motivational model for rewards” suitable for evaluating an incentive system?*

1.3 AIM

To, with help from normative theories and research, develop knowledge about how incentive systems should be designed in order to be functional.

To answer our research question we are going to evaluate the suitability of the “Motivational model for rewards” with help from normative theories, previous research and the data collected thru interviews.

1.4 DEFINITIONS

Our definition of an incentive system is one in which rewards, monetary or non monetary, are offered to employees and used in order to stimulate their motivation.

1.5 DISPOSITION

Introduction - The first chapter gives the reader an introduction by presenting a background, a problem statement and our aim with the thesis.

Research method - In the second chapter we present the research method used to gather theoretical framework and our empirical findings. We also describe how we chose subject for the study and present method criticism.

Theoretical framework – The third chapter aims to create theoretical understanding about the scope of the study. We first present normative theories about incentive systems followed by the corresponding for theories of motivation. Finally we present a selection of studies conducted on the subject.

Empirical findings – The fourth chapter summarizes the empirical findings gathered in the case study. We start with the results from the interviews and our suggestions for change of the incentive system. Finally we present the results of the “Motivational Model for Rewards”.

Analysis - In the fifth chapter the company’s incentive system is analyzed according to the “Motivational model for rewards” by Katz and Kahn. Finally, we evaluate the suitability of the model as a way of evaluating incentive systems.

Conclusion – In the last chapter we present the most important conclusions from our theoretical framework, our empirical findings and analysis.

2. RESEARCH METHOD

In the following chapter we present the research method used to gather theoretical framework and our empirical findings. We also describe how we chose subject for the study and present method criticism.

2.1 DISCUSSION OF METHODS

One of many choices we had to make when deciding how to answer our research question was whether to adopt a quantitative or qualitative approach. The quantitative alternative is focused on numbers rather than on words and suits an investigation that can be achieved with help from a questionnaire. According to this method, the respondents are expected to be able to fit their reality and thoughts into answers defined in advance from the researcher, who then analyzes the answers by means of statistical methods (Jacobsen 2002).

The qualitative approach, on the other hand, is more suitable when the aim is to describe, evaluate and understand an organization or a system in its realistic environment (Backman 2008). This method is many times more flexible than the quantitative and here the researchers are able to observe and listen to the subject and gain deeper understanding of the area investigated.

Jacobsen (2002) mentions interviews as one of the ideal ways of accomplishing a qualitative study. In an interview the respondent and the researcher are two components in a conversation and the interviewee is given the opportunity to express his/her opinions by using both words and body language. Jacobsen (2002) claims that in order to thoroughly understand social phenomena one should to the greatest extents possible let individuals act and speak uninterruptedly and undisturbed. Patel and Davidsson (2003) state that one of the aims of a qualitative interview is to discover and identify the interviewee's thoughts and experiences of a certain matter and this requires non-standardized interviews. This means that the starting point is that the interviewer does not know which of his/her prepared questions are important and which are not. This type of interview demands that the interviewer develops questions on the basis of interview subjects' answers of earlier question and the order of the questions is flexible (Svensson and Starrin 1996).

One way of answering a research question is to make a case study. Here researchers are given the opportunity to observe a separate situation from which it hypotheses can be made and theories expected to be applicable to similar environments (Jacobsen 2002). Merriam (1994) defines the case study as an intense description of one single phenomenon and says that it is very important to choose cases properly. The researcher should identify a population and from that randomly choose cases to study that can represent the whole group (Patel and Davidsson 2003).

Another important matter is whether to take a deductive or inductive point of view. The idea of the deductive approach is to start by studying previous theories and research within the area to collect expectations of what the world and reality look like. The next step is to collect data and to make comparisons to see if the collected material corresponds to the expectations made from theory (Jacobsen 2002). The inductive approach is the other way around; one starts without any expectations by collecting data and then analyzes and forms theories.

2.2 OUR CHOICE OF METHOD

We have chosen to base our thesis on accomplishing qualitative interviews and complete those with letting the respondents filling out a quantitative model, the “Motivational Model for Rewards”. With help from existing theories and research we have evaluated the result of the model and the suitability of the model in a qualitative way.

Since the phenomenon of “incentive systems” can be difficult to define and different individuals have their own opinion about what is included in the concept we found it worthwhile to question the respondents face to face in semi structured interviews. The point with letting the respondents filling out the model face to face is that we were able to instruct them and have a discussion about the different questions, making sure that the interviewees were in agreement with the meaning of the issues.

2.3 GATHERING OF THEORETICAL FRAMEWORK

In order to gather a relevant theoretical framework we have used the databases available at the University Library. The databases used were Business Source Premier and Emerald with the following key words: incentive system, motivation, reward system, management control and evaluate. The normative theories have been found in classic and fundamental literature about incentive systems and motivation.

2.4 CHOICE OF SUBJECT

Since one of the authors works on a weekly basis at a company in the retail business, which has tried different designs of incentive programs without reaching the desired effect, we found this an interesting opportunity. The company expressed a wish to be totally anonymous, which we found to be an opportunity to receive more sincere data from the interviewees. For our interviews, we specifically wanted to evaluate incentive systems for store managers and shop assistants in the retailing business since we suspected that their incentive systems had to be designed in different way than for traditional sales staff with provision.

The study included interviews with the human relations manager at the company plus two store managers and two shop assistants from two different grocery stores – one manager and one assistant representing each store. The authors have independently chosen what stores to visit and selection were made due to size and geographical location. Because of time issues it was not possible for us to travel far and we chose stores within a reasonable distance from the city center of Gothenburg, which gave us eight suitable objects.

To receive data from assistants with backgrounds as similar as possible our wish was to interview a shop assistant who had been employed for at least two years and that works 75-100 % per week at the selected store. We asked the store manager to, when possible, ask staff who fit our demands.

2.5 HOW THE STUDY WAS REALIZED

We started by making telephone calls to stores suitable to our requirements to make a first inquiry with the store manager whether he/she would be interested and have the time to let us interview him/her and a shop assistant. If the store manager offered us the possibility to meet with him/her we sent an e-mail shortly after the conversation with further information about us and the aim of our thesis. We also listed a few days and hours when it would be possible for us to conduct the interviews and after that we awaited confirmation from the store manager. In the e-mail we also attached the questions we planned to ask in order for the shop manager to be able to prepare the interviewee for the interview.

In order to get our interviews we contacted eight stores that suited our requirements. Unfortunately only two store managers replied that they were interested in taking part in our study. Some claimed they were too busy to help us and others were either on holiday, signed off or recently appointed as manager, which made us feel it would not be useful to interview them. When we realized that the empirical data would be limited due to too few interviews, we contacted the store managers that had approved of interviews and asked them if we could interview additional employees but without success.

The interviews were conducted at the stores, in the store manager's office. We were permitted to record each conversation and transcribed the recordings the same or following day. We also discussed the answers with each other immediately after the interview. We found the recording very valuable since it allowed us to fully concentrate on the subject and the interviewee's answers during the interview instead of being occupied with writing them down. We had distinct roles on the interview occasions, one of us leading the conversation and the other having a more observing role and asking additional questions. Besides asking the prepared questions we also let the interviewees fill out the "Motivational Model for Rewards", which is presented in detail in chapter 3.2.7. Since it is difficult to isolate one control system from another, and in order to ensure that the respondents stayed on the subject and did not let other factors influence the conversation and the answers we started each interview by presenting our definition of an incentive system.

2.6 METHOD CRITICISM

What could be seen as a reliability problem regarding the interviews, concerns the interviews with the two shop assistants. Since we conducted the interviews at the two grocery stores we fear that the interviewees may not share their honest thoughts about the incentive program because of anxiety that a superior employee may overhear the discussion. To manage this problem we have used anonymous respondents. Furthermore a deeply loyal employee could embellish the situation in order to give a polished picture of the organization, and the fact that the store manager decided which employees we could interview affects the reliability of the thesis in a negative way. This is beyond our control and demands a critical review of the answers.

Svensson and Starrin (1996) imply that in an interview situation the subject could feel that there is an unequal distribution of power. This situation could occur because of the fact that

we as interviewers know more about what questions will appear, and, furthermore in our case there were two interviewers and one interviewee on all occasions. This together with the fact that the authors are highly educated could make the interviewee uncomfortable and affect the answers. We handled this uncertainty by using common language and trying to creating about a cheerful atmosphere by not acting overly formal.

2.7 LIMITATIONS

We have limited our thesis to test the “Motivational Model for Rewards” on one business within retailing. This company is one of the largest grocery chains regarding sales in Sweden and includes two concept stores: a supermarket concept and a convenient store concept. We have focused on the supermarket concept because we would like our interviewees to work in similar environments and therefore represent a more valid basis to our research.

Further we have decided to study two of the positions existing in each store – the store manager and the shop assistant. We found those levels interesting because one is “on the bottom” of the organisation and lacks management responsibilities. The other one is at the top level of the store and controls staff downwards, but is controlled by the organization from above. This results in the two positions being controlled by different incentive systems.

3. THEORETICAL FRAMEWORK

This chapter aims to create theoretical understanding about the scope of the study. We first present normative theories about incentive systems followed by the corresponding theories of motivation. Finally we present a selection of studies conducted on the subject.

3.1 INCENTIVE SYSTEMS

3.1.1 BACKGROUND

Organizations exist to achieve some kind of objectives, which can be stated in financial or non financial terms. When evaluating how an organization's management controls functions there are a couple of questions that are important to address according to Merchant and van der Steede (2008). "Do our employees understand what is expected of them?", "Will they work consistently hard to do what is expected of them?" and "Are they capable of doing a good job?" Employees might not know how to maximize their contributions to the organization, and even if they know how, motivational problems may occur due to the fact that personal objectives and the organization's objectives do not match. Personal limitations in intelligence and knowledge are further examples of reasons why management control might fail (Merchant and van der Steede 2008).

Regardless of what type of objective organizations have, it is of utmost importance for the management to ensure that employees do their best to contribute to achieve the organization's objectives. One way of doing this is to use incentive systems. If it is done well, an incentive system informs the employees what results areas are desired and motivates them to achieve and exceed the performance targets (Merchant and van der Steede 2008). Individuals are more motivated by the chance of a reward than the fear of punishment. This suggests that incentive systems should be reward-oriented. (Anthony and Govindarajan 2003)

According to Merchant and van der Steede (2008), there are a couple of critical factors for a successful incentive system. The rewards must be valued, rewards without value for the individual do not provide motivation. Size of rewards must be large enough to affect employees' behaviour, too little a valued reward will also fail to give motivation. Employees should also understand why a reward is given and the intrinsic value. Rewards given short after performance have a stronger effect than those given a long time after. Therefore they should be given as soon as possible. A reward should be reversible so that mistakes can be corrected (Merchant and van der Steede 2008).

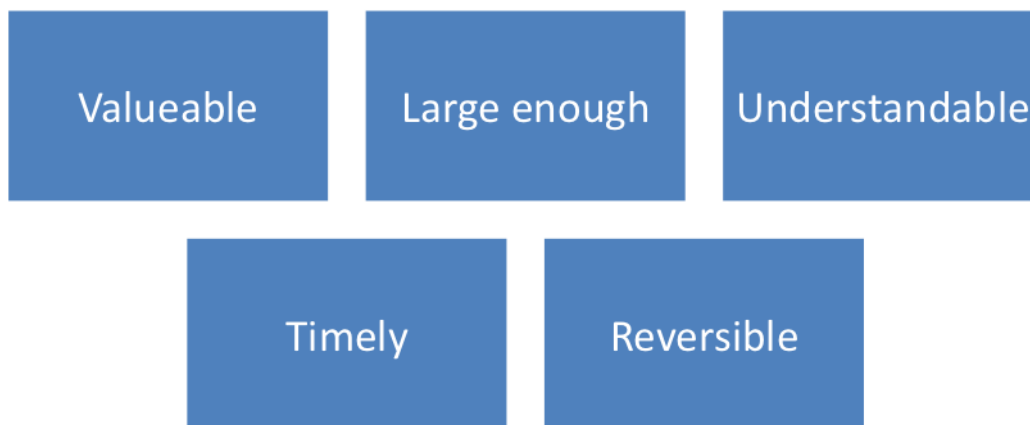


Figure 3.1 Critical factors for a successful incentive system

Source: Merchant and van der Stede (2008)

3.1.2 AIM OF INCENTIVE SYSTEMS

Three important aims of incentive systems are stated by Arvidsson (2004): Management control, motivating employees to desired performance and recruiting and keeping employees. Since employees' objectives often differ from the organization's objectives, the purpose of management control is to secure that there is goal congruence between the employee's personal goals and the organization's goals (Merchant and van der Steede 2008). At the same time, management control aims at high productivity and high efficiency in the organization's activities.

To motivate the employees is the second aim of incentive systems according to Arvidsson (2004) and that is partly achieved when employees value the reward that is given when the desired result has been achieved. Svensson and Wilhelmsson (1988) think that the wage is one part of the incentive system but since it is an obvious effect of work it might not be as important as other types of incentives. Employees expect to receive a wage, and therefore it is not as important when it comes to raising motivation apart from the size of it. Since different individuals respond to different incentives one key factor is to select a reward that is an incentive for as many individuals as possible. The third aim of incentive systems according to Arvidsson (2004) is to recruit and keep employees. He thinks it is sometimes necessary for an organization to offer staff rewards in order to be an attractive employer on the labor market and in the line of business.

The image below shows the conflicts that exist between the organization's objectives, an employee's individual objectives and the performance measurement. A well-designed incentive system affects the individual's performance to better align with the organization's objectives and the performance measurement.

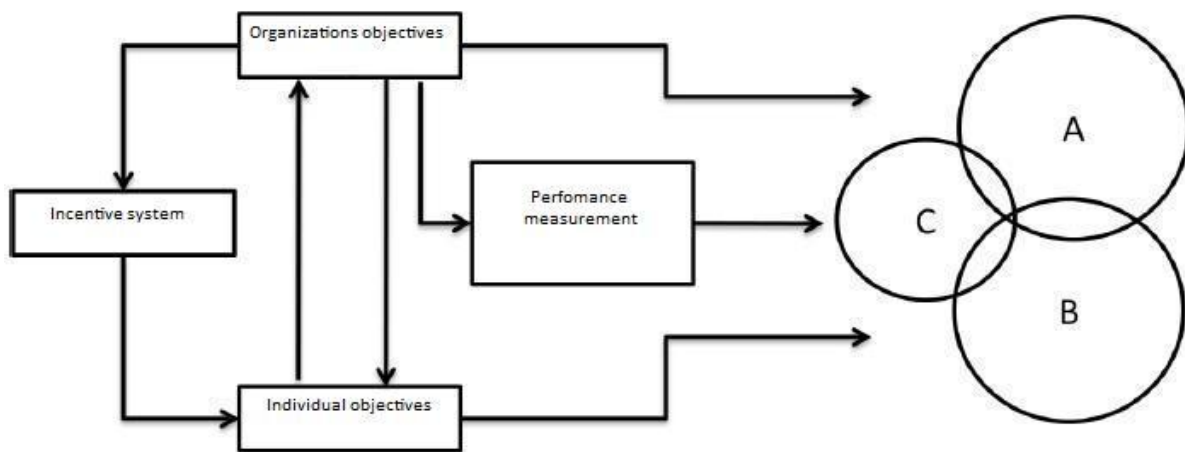


Figure 3.2 Management control for goal congruence

A = Desired performance to reach organizations objectives

B = Individual performance

C = Performance measurement

Source: Arvidsson (2004)

3.1.3 POSSIBLE FORMS OF INCENTIVE SYSTEMS

Rewards can be given on either individual or group level and variations in the methods used can be found between different cultures. Traditionally, Anglo-Saxon literature focuses on individual performance and more seldom on group-based performance. Since a large part of management literature originates in the Anglo-Saxon culture, group-based rewards tend to be devalued. Individual rewards may affect group-oriented behavior since employees may focus on being rewarded themselves. At the same time group rewards may result in lower motivation and less understanding of one's contribution because a person's own performance and group performance may differ. A term that is commonly used when discussing this problem is "free rider". This means an individual who receives a group reward even though the individual performance is below reward level (Arvidsson 2005). Group rewards can on the other hand encourage teamwork and make employees monitor each other's behavior, a type of positive peer pressure (Merchant and van der Steede 2008).

3.1.4 MONETARY REWARDS

A reward can come in many forms, both monetary and non-monetary. Monetary rewards are very common, especially at higher organizational levels. Three types are normally used. A salary increase is partly related to an increased cost of living, and the remaining part is provided for increased performance either now or in the future. An increase in salary is usually 2-3% above inflation but has a large effect over time due to the annuity that is yielded by salaries being raised year after year. Short-term incentives such as bonuses based on performance during one year or less are another type of monetary incentive. It has the advantage for the organization that the costs of incentives become variable with the overall

performance, which is positive. Long-term incentives are measured over longer periods of time and usually aim to keep important talents and encourage them to become partners by giving for example stock options which give them the right to buy shares at a predetermined price (Merchant and van der Steede 2008).

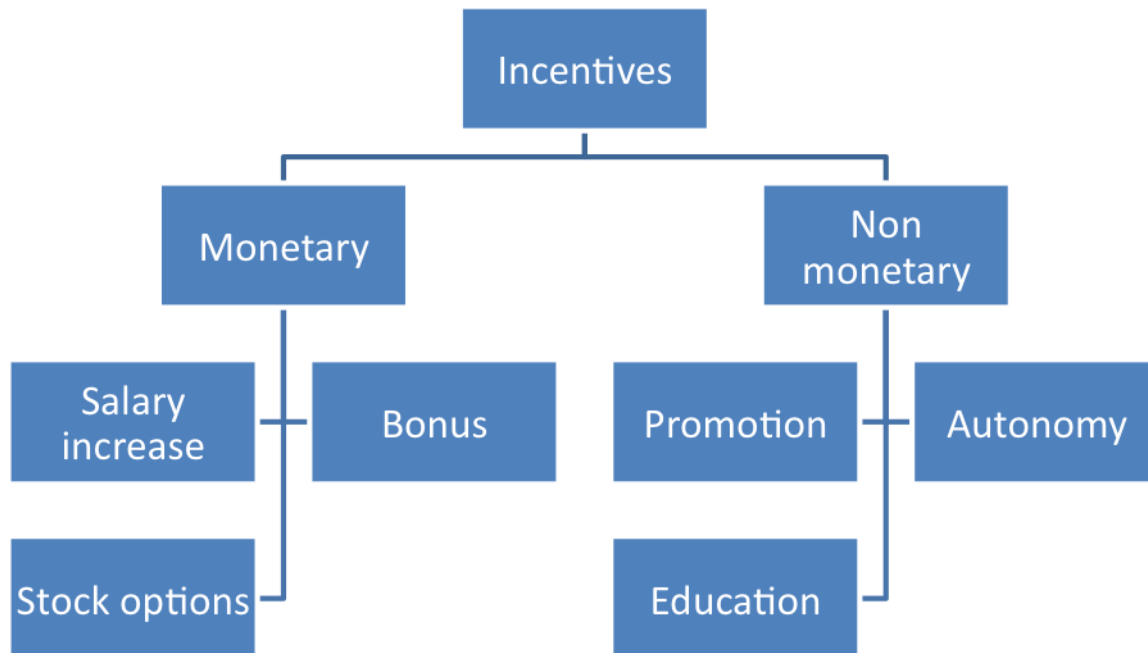


Figure 3.3 Different types of incentives

Source: Merchant and van der Stede (2008)

Almost everyone values money since it can be used to buy whatever one wants and also has a symbolic value of reflecting achievement and success. It may not, however, meet some important criteria according to Merchant and van der Steede (2008). Monetary rewards are sometimes based on judgment from superiors, which can lead to a lower understanding of why a reward is given. Since the time period for most monetary rewards are annual due to the budgetary process it can lead to rewards being given too late after performance for the employees to feel the connection between the two. If rewards are given for longer time periods than one year, the connection between performance and reward will be even smaller. It is also questioned if monetary rewards are lasting over time. A diploma for “Employee of the month” may stay on the desk for years but a bonus is spent on bills or random consumption (Merchant and van der Steede 2008).

According to Anthony and Govindarajan (2003), it is suitable for monetary rewards to have upper and lower levels, even though this may have side effects. They should exist so that, for example, a reward does not challenge the defined structure of salaries within the organization where the chief executive is at the top with highest salary. Unpredicted events with a large positive effect on an employee’s bonus should also have a limited impact. A lower level secures that mediocre performance is not rewarded. On the other hand, an upper level might take away motivation to keep working hard if the maximum reward has already been attained (Anthony and Govindarajan 2003).

3.1.5 NON MONETARY REWARDS

Non-monetary rewards are a good complement to monetary rewards, and usually cost less. Even though money is an incentive for many people, it is far from the only thing that has any value as a reward. Non-monetary rewards are often greatly valued by employees and might even provide higher motivation. Giving an employee greater autonomy and recognition sends a clear message that the employee is going in the right direction and deserves a reward. Further examples of this type of reward are promotions and education (Merchant and van der Steede 2008).

3.1.6 MEASURES

Traditionally, incentive systems based on financial measures have been the most common type. Mainly return on equity, return on capital employed or different profit measures have been used (Arvidsson 2004). To base incentives on financial measures has the advantage of using numbers already existing in the firm's accounting, which makes the method easy and inexpensive, but on the other hand it has to be taken into account that accounting values are regulated and often differ from real values (Merchant and van der Steede 2008). Arvidsson (2004) states that to solely rely on financial measures is a method that has been criticized during many years. The main criticism has been that there is a tendency for financial measures to encourage short-term actions, which damages the long-term performance of the organization.

Ax, Johansson and Kullvén (2005) also think that financial measures have too much focus on events in the past and that they include too much information to enable interpreting. Complementing the financial measures with non-financial measures is often carried out to handle this problem. Arvidsson (2004) thinks that by doing so, an organization can focus on other areas such as customer satisfaction, markets shares and employee satisfaction, which has become more important for corporations. An empirical study of a hotel chain by Banker, Potter and Srinivasan (2000) proved that customer satisfaction was just as effective as a complex measure in predicting financial performance.

Organizations have searched for solutions to help them balance between short- and long-term incentives and this has led to three different strategies. First, stock options have been given as a reward to senior management. The purpose has been to encourage managers to make decisions which will serve the shareholders well. Bonus points for good performance have also been collected in a type of "bank" which the employee can collect over a longer period of time. Last, but not least, a combination of measures has been gathered in a balanced score card the aim of which is to help organizations combine financial and non-financial measures and at the same time keep focus in their key activities (Arvidsson 2005).

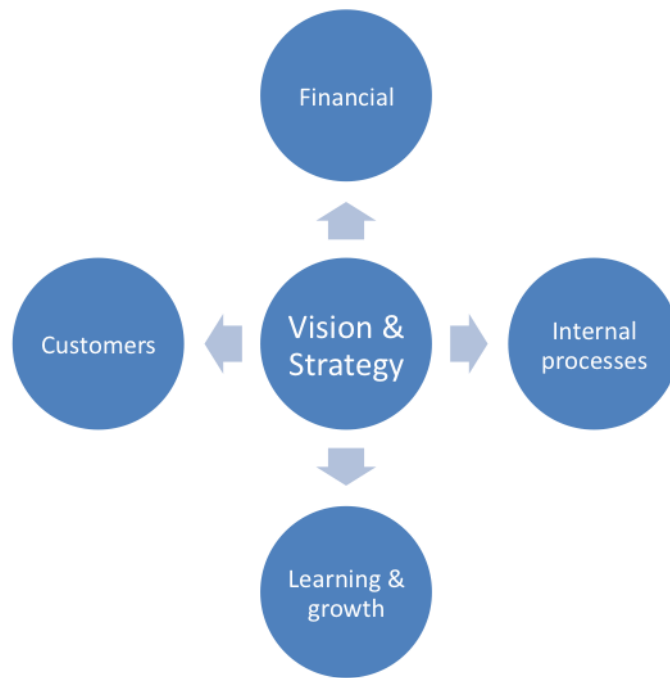


Figure 3.4 Example of a balanced score card

Source: Olve and Petri (2004)

A well-composed incentive system can fail if the performance targets are not set at proper levels; targets have to be both challenging and realistic. If set too low, the motivational effect will be low since rewards are given even though employees do not have to put in any significant effort. The level of motivation increases the harder the targets are set, but up to a certain level. If set too high, over the employees' limit of ability, motivation falls very quickly. Employees will end up discouraged, lose commitment to achieve the target and will put less effort in their work. Just how high targets can be set depends on maturity, experience and self-assurance of the people in focus. Many authors suggest that targets with less than 50% chance of success are suitable (Merchant and van der Steede 2008).

An individual or group as subjects for an incentive system must have the power to affect the performance. The person who is responsible must have the authority to engage actions in order to achieve goals. If a reward is given on parts of performance where employees feel he/she has no power to affect the outcome, there is a great risk that the reward does not provide the desired motivational effect (Arvidsson 2005).

3.1.7 UNCONTROLLABLE FACTORS

Uncontrollable factors that affect a business are divided into three categories: economic and competitive, acts of nature and interdependencies. The first category affects profit since it is affected by many factors that change continuously, for example consumer demand, goods/service prices and factor costs for doing business. Depending on how much the

manager can influence, he/she can adapt the operation through changing purchasing, staff planning and marketing to better suit the new conditions (Merchant and van der Steede 2008).

Acts of nature are, for example, extreme weather conditions, deaths of key employees, fires and accidents not caused by negligence. Events damaging one company through a warehouse that has been burned to the ground can on the other hand benefit for example construction companies. One way of minimizing the damage from acts of nature can be to ensure that good insurance protection exists for the company. Interdependence exists when one organizational unit shares some kind of resource with other units or receives input from them. It can also exist when senior management does not approve lower level managers' decisions (Merchant and van der Steede 2008).

3.1.8 DIFFERENT TYPES OF INCENTIVES

Svensson and Wilhelmsson (1988) think that there are five types of incentives: restraint, physical, incorporated, social and internal. They further think that different incentives encourage individual performance and others promote co-operation. The construction of an incentive system needs to balance between the two in order to reach mutual goals. Too much focus on individual performance might lead to conflict and miss benefits of coordination. On the other hand, there is a risk that too much focus on collective performance leads to employees' competence not being used in an appropriate way.

Restraint is described as a negative incentive which leads to resistance and submission from persons being subjected. It does not fulfill the purpose of an incentive when used to encourage initiative, interest, care or responsibility. Once restraint has been used, only more restraint will lead to obedience. The true physical incentive according to Svensson and Wilhelmsson (1988) is salary based on performance. Physical incentives are most important to employees at low and middle level and can be related to relative amount of salary and social background of the employee. Money itself is also a symbol, which makes it a non-monetary incentive that can represent power and status. As the amount of money increases, the importance of the non-monetary incentives becomes more apparent.

Norms, values and ideals within a group or incorporated in a person as morals is also a powerful incentive. When doing something that does not follow our own or a group's morals we will suffer from feelings of guilt. Social incentives consist of involvement and identification. A person will do the tasks that lead to a positive reaction from the group no matter the task. Only the reaction from the group is important. "Employee of the month" awards are a social incentive with two goals. The publicity is a reward for the winners, but at the same time it creates an incentive for the fellow-workers to earn their own prize (Svensson and Wilhelmsson 1988).

3.2 MOTIVATION

3.2.1 MASLOW'S HIERARCHY OF NEEDS

The probably best known and cited theory on motivation is Maslow's theory from 1954. Maslow (1954) suggests that people have five different levels of needs, which must be satisfied one by one and in a specific order. Each level must be fully satisfied before the individual can move on to the next one. At the first level we find the very basic needs that a human must satisfy for pure survival, *the physiological needs*, such as the need for shelter, food and air to breathe. When these needs are satisfied the human will continue to the next level and search for satisfaction of *the safety needs*. These needs are for example the need for a safe and predictable environment with neither physical nor psychological threats. Once this level is activated we move on to the next, *belongingness and love needs*. Here the central issue is to fulfil the need for giving and receiving affection and to be included in a group.

The three levels above are known as *deficiency needs* and it is according to Maslow (1954) crucial that they are satisfied or else the human may fail to develop into a healthy person. The following two levels are called *growth needs* and Maslow (1954) states that those levels help the human to grow and develop into his/her full potential.

The fourth level in the hierarchy is the *esteem needs* and here the need for self-esteem and respect from others are central. Into this category fall for example the wish to reach success and to be recognized by others (Furnham 1997). The last level is *the self-actualization needs*, which refer to the need for becoming everything that one is capable of becoming, to do what the specific individual is fitted for. This is a broad description and every individual has his/her own thought about what is most desirable, for example the musician makes music and the poet writes poem (Maslow 1954).



Figure 3.5 Maslow's hierarchy of needs

Source: Maslow (1954)

For the organization to meet those needs it would have to start by providing adequate salaries, which in our society today is strongly controlled and close to impossible to escape. The second step is of the same inescapable kind where the organization should provide the employed with health-insurance at work, pensions and secure work conditions. Many companies seek to satisfy the third step by organizing kick-offs, out-of-work hours activities and team building days to enable employees to meet and socialize outside of work. The fourth step could possibly be met by arranging sale competitions where the most successful are awarded. Furnham (1997) suggests that “the inflation of job titles” is an attempt to boost the self-confidence of the employees and thereby meet this need. The last need is probably the most difficult for an employer to meet. Even though jobs created so that the individual can develop his/her true abilities exist, many people do not have the opportunity to choose a profession according to their interests but have to work to survive.

3.2.2 HERZBERG’S TWO-FACTOR THEORY

Herzberg (1968) developed the first version of this theory on the basis of interviews with American engineers and accountants. Later the studies were completed with interviews of more than 1600 people of different age and sex working in different environments. The data collected enabled him to divide the needs of an employee into two categories – hygiene needs and motivation needs. Hygiene needs correspond to Maslow’s three basic needs and are satisfied by hygiene factors such as supervision, salary, benefits, job security and company policies (Furnham 1997). These needs all concern the context and the work environment and when they are satisfied the barriers to job satisfaction are gone. Satisfaction of the hygiene needs alone can never lead to total satisfaction at work; it is just a reduction or elimination of dissatisfaction. Motivation needs are satisfied by the motivation factors and they match Maslow’s fourth and fifth step in the hierarchy of needs. Motivation factors are, for example, achievement, recognition, challenging work and advancement, and they relate to the nature of work (Herzberg 1968).

Interesting here is that Herzberg classifies salary as a hygiene factor, which means the organization should concentrate on finding the right person for the right job to make the employee motivated to perform. The salary should just be sufficient to prevent the employee from being dissatisfied.

3.2.3 MCGREGOR’S THEORY X AND THEORY Y

McGregor (1960) has studied motivation from a management perspective and states that employees will act according to the assumptions made about them from their leaders. The fundamentals in theory X are that the leader assumes that the employed is indolent and passive and that he or she lacks ambitions, does not want to take responsibility and is unwilling to adapt to changes. Further McGregor (1960) claims that it is no use trying to control employees by offering rewards, because since they find work so strongly repulsive they will never let themselves become motivated and therefore they will just ask for higher incentives.

According to the theory there are two versions of Theory X, hard and soft. Leaders who adapt the hard version use threats, hard control and punishment to make the employees work as they wish but this leadership style leads to low productivity, antagonism and sabotage in the long run. In the soft version the organization tries to avoid conflicts and aims to satisfy all

employees' needs, which often leads to everything appearing well on the surface but impassiveness and apathy grow underneath (Bolman and Deal 2005).

The basics of Theory Y are that the management should arrange things so that the employees can satisfy their own needs by performing their work tasks. Followers of this theory believe that people act responsibly and show commitment under the right circumstances. The more the organization is able to adjust the goals of the organization according to the interests of the employees, the more they can rely on Theory Y. If the duties do not give the employees satisfaction at work, the organization will have to trust in Theory X (Bolman and Deal 2005).

3.2.4 THE HAWTHORNE EFFECT

Experiments made at Hawthorne Works aimed to investigate if workers were most productive in higher or lower levels of light. The experiment was divided into three steps, each step trying to eliminate difficulties experienced in the previous one. Against expectations the result failed to show a relation between amount of light and level of productivity. Since productivity rose irrespective of level of light, researchers drew to the conclusion that the central motivator was that the workers felt the organization showed interest for them. The somewhat surprising result of these studies became the starting point for several further studies accomplished in the 1920s and the 1930s (Roethlisberger and Dickson 2003).

It would probably be naive to think that motivation in the long run should originate in attention alone but it is a possible starting point. Many levels in an organization reduce the understanding between lower and higher ones and, for example, letting management get acquainted with relations on low levels could increase the understanding between levels and from that the workers would experience importance.

3.2.5 PRINCIPAL - AGENT THEORY VERSUS STEWARDSHIP THEORY

The principal-agency theory is a classic theory which describes the relationship for example between the shareholders of an organization - the principals - and the managers employed to rule the business - the agents. According to the theory, there are difficulties in aligning the interests of the firm with the interests of the managers because the managers are seen as self-serving rather than working whole-heartedly towards the interests of the organization. This problem is substantial in larger organizations where the principals do not have the possibility to control their agents to the same extent as in smaller corporations. The motivational factors of the agents are measurable, extrinsic and tangible such as monetary rewards, medical insurance and retirement plans (Davis, Schoorman and Donaldson 1997).

The stewardship theory is based on the assumption that the hired manager has interests aligned with the ones of the owners and therefore acts in a way that maximizes the wealth of the corporation. The motivational factors of the steward are of an intrinsic kind such as achievement and self-actualization, corresponding to the higher levels in Maslow's hierarchy of needs (Davis, Schoorman and Donaldson 1997).

Davis, Schoorman and Donaldson (1997) have identified elements that differentiate the agency theory from the stewardship theory. Along those are motivational factors as mentioned above but also the variable "identification", referring to how close the employee identifies with the organization. By identification the authors mean how much the manager sees the

corporation as an extent of himself/herself; the higher the level of identification the more likely it is that he or she becomes a steward. Davis, Schoorman and Donaldson (1997) further claim that the level of power distance and the level of individualism discovered by Hofstede clearly have an impact on whether the individual is more likely to turn into an agent or a steward. With large power distance, the authors claim, there are greater risks for the manager to become self-actualizing and the same applies to the cultures where individualism is widely spread.

3.2.6 CULTURAL DIFFERENCES IN MOTIVATION

Hofstede and Hofstede (2005) have made extensive studies of cultural differences and have discovered national and regional cultural groups whose behaviour at work and in organizations differs at five dimensions. Two of these are uncertainty avoidance and masculinity. Uncertainty avoidance can be defined as to the extent to which individuals in a culture feel threatened by new and unknown situations. This is, for example, how long employees plan to stay at their present job or how bound they are by rules at the work place. Masculinity is described as a person's ambition to achieve success and to perform outside the home. Masculinity is further equal to keeping up with the competition and to "live to work" rather than "work to live". Hofstede and Hofstede (2005) combined research on the two variables and were able to distinguish different motivation patterns among different groups of cultures.



Figure 3.6 Cultural differences in motivation

Source: Hofstede and Hofstede (2005)

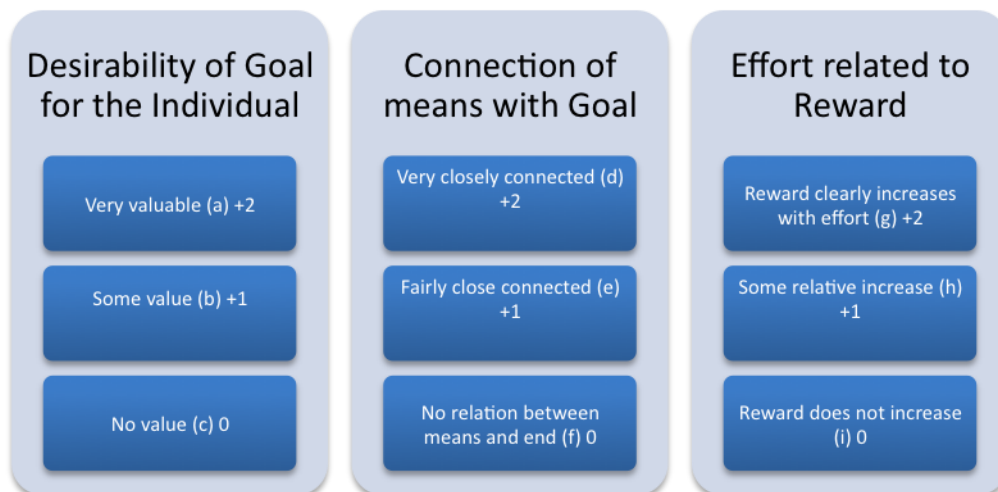
Hofstede and Hofstede (2005) used Maslow's hierarchy of needs as a point of reference for their motivational factors and recognized the motivational pattern presented in the model above. Hofstede and Hofstede state that different individuals are motivated by different factors and that this could be a problem today as we have multinational companies and individuals who tend to work across borders.

A study made by Jansen, Merchant and van der Stede (2009) confirms that there are national differences among motivation. The authors compared the incentive systems of automobile dealers in the US and the Netherlands and found great differences in the design of the incentive programs. In the Netherlands, which according to the authors represents Europe well, rewards in the form of incentive compensation are much less likely to be found than in the US. Where used, the basis for the incentive compensations is different in the two countries. The US more often uses net profit as a base for compensation and the compensation itself is often a great deal larger there than in Europe. In the Netherlands the authors found that other performance measures such as sales measured in units were commonly used as a base for incentive compensations. The following quote from a general manager in the Netherlands concludes the Dutch approach:

“I know that it is a cliché, but I believe that giving attention to people and demonstrating interest in their work are powerful motivators. Giving people compliments and highlighting their accomplishments in meetings with other employees are more effective than monetary incentives.”

3.2.7 THE MOTIVATIONAL MODEL FOR REWARDS

This model is elaborated by Daniel Katz and Robert L. Kahn (1978) and aims to evaluate the extrinsic motivational factors provided by the organization. It is a multiplicative model where a positive outcome requires all variables to be at a satisfactory level. The scales goes from +2 till 0 where the zero value is absolute and the one and two value can be described as more arbitrary. The zero value means no value, no connection between task and reward and no increase of reward with greater effort.



$a*d*g=8$
 $a*d*h=4$
 $a*d*i=0$
 $a*e*g=4$
 $a*e*h=2$

$b*d*g=4$
 $b*d*h=2$
 $b*d*i=0$
 $b*e*g=2$
 $b*e*h=1$

All other patterns containing c, f or i = 0

Figure 3.7 The motivational model for rewards

Source: Katz and Kahn (1978)

The first consideration is whether the reward (goal) offered is valuable to the individual. Rewards can be everything from receiving a gold watch as a reward for long employment, the chance to advancement or being noticed in the organization as “employee of the month”. The second consideration is whether the employee sees a connection between the task (means) and the reward (goal). The example mentioned with the gold watch as a reward could be seen as a reward for growing old sooner than a reward for performance and by that occasion there is a weak connection between the task and the incentive. The third consideration is whether the individual agrees with the opinion that the reward increases with greater effort. Once again the example with the gold watch can be seen as a bad example since it has more to do with the length of employment than actual effort.

3.3 PREVIOUS RESEARCH ON INCENTIVE SYSTEMS AND MOTIVATION

There are several studies of how motivation is affected by the possibility of receiving incentives, monetary or non-monetary. The subject is widely discussed and there seems to be a never ending interest in the topic. We will present six studies, which can all be applied on our case study.

3.3.1 THE EFFECT OF INCENTIVE CONTRACTS ON LEARNING AND PERFORMANCE

Sprinkle (2000) has performed a study which he compares employees working for flat rate compensation with employees on performance-based contracts. He has investigated whether the presence of incentive systems influences the motivation of the employees, whether the performance differs between the two groups and whether the difference in performance between the two groups is constant over the measured time period. The participants were 40 business students from a large American university who were instructed to make a production decision for a single product in each of 60 periods divided into 12 trials. All workers were rewarded for their efforts, either by earning a predetermined sum of points or by earning points corresponding to the result of the work. The task was of the kind where the participants had the possibility to learn and improve their performance from feedback and experience. The author formulated the following hypotheses for the study:

H1: “Compared to individuals receiving a flat-wage contract, individuals receiving an incentive-based contract will exert more effort on the task.”

H2: “Compared to individuals receiving a flat-wage contract, individuals receiving an incentive-based contract will perform better on the task.”

H3: “The performance superiority induced by the incentive-based contract will increase over the course of the experiment.”

The first hypothesis was measured by how much time was spent on each task and the result showed that the participants hypothetically working on a performance-based contract on average spent more time on each task than the participants hypothetically working for flat rate compensation.

The second hypothesis was measured according to how many points the participants earned. The flat rate students received 40 points for each period regardless of result and the performance-based students received points according to how well they performed. The result showed that the group with the performance-based compensation outperformed the rest of the participants in all trials.

The third hypothesis posits that the persons working on performance-based contracts will increase their performance to a greater extent than those working on flat rate contracts. The result of the study also showed that the individuals with the performance-based wage improved their results for a longer time period than the other group.

3.3.2 INCENTIVE COMPENSATION AND PROMOTION-BASED INCENTIVES OF MID-LEVEL MANAGERS: EVIDENCE FROM A MULTINATIONAL CORPORATION

Ederhof (2011) has completed a study where the author investigates to what extent the extrinsic rewards for middle managers are adjusted according to what chances the manager has of being promoted. The author has investigated if the implicit incentives are taken into consideration when designing an incentive system and if it is proper to suggest that the more levels there are left to climb for the individual, the weaker the incentive system is. The study is built on data collected from managers at a large, multinational engineering company. 1151 managers working in 14 different countries participated in the study and the data analyzed was collected mainly in 2008. All participants are situated in the middle of their organization with a possible career of reaching top management. Positions such as IT or legal were excluded from the study since they are more of a supportive function with limited possibilities for advancement. Ederhof formulated the following hypothesis:

H1: "The explicit incentives provided by the variable-pay scheme are decreasing in the strength of the promotion-based implicit incentives that the manager faces, ceteris paribus."

The author has compared the extrinsic incentives of the managers between the 14 countries in order to accomplish the study. The result of the study showed that the managers of higher levels are given more generous bonuses and that the average increase is 3-4 percent of the salary when moving to the next level of responsibility.

3.3.3 A FIELD STUDY OF THE IMPACT OF A PERFORMANCE-BASED INCENTIVE PLAN

Banker, Lee and Potter (1996) have studied the incentive system for front-line workers at an American outlet retail chain shortly after implementation. The incentive system gives the staff the opportunity to receive an extra bonus if the sales goal is reached or exceeded but also threatens with termination of employment if the set sales goals are not met in two consecutive quarters. Implicit incentives in the form of promotion are very limited since the organization is flat and therefore does not provide for such advancements. The authors have formulated the following hypotheses:

H1: “Ceteris paribus, sales increase following the implementation of the performance-based plan.”

H2: “Ceteris paribus, sales gains realized on the implementation of the performance-based incentive plan persist and increase over time.”

H3: “Ceteris paribus, the impact of the performance-based contract on sales in the fourth quarter is less than its impact in the other three quarters.”

The authors found that sales increased after the implementation of the incentive system and that the increase in sales persisted over time and therefore was not due to the so-called Hawthorne effect where attention increases effort for a limited time period. Further Banker, Lee and Potter (1996) found evidence that sales in the fourth quarter was increased less than in the other three quarters due to the enlarged number of temporary sales personnel in the stores.

3.3.4 WHY DID YOU DO THAT? AN ECONOMIC EXAMINATION OF THE EFFECT OF EXTRINSIC COMPENSATION ON INTRINSIC MOTIVATION AND PERFORMANCE

Harvey (2005) has investigated the suspicion that extrinsic incentives could crowd out the intrinsic motivation within an individual. The study has shown that the MCO - motivation crowding out - effect could occur when an intrinsically motivated employee is offered extrinsic incentives such as monetary rewards. In that case, extrinsic incentives give the employee greater satisfaction than intrinsic motivation, which will “deactivate”. The author has found evidence that incentives could be seen as controlling and therefore bring about the MCO effect under two conditions: First, when the intrinsic motivational factors of the individual are the same as the subject for the extrinsic reward. Second, when the offered extrinsic rewards are too large, it is likely for the MCO effect to appear.

3.3.5 INCREASING THE EFFECTIVENESS OF REWARD MANAGEMENT: AN EVIDENCE-BASED APPROACH

Armstrong, Brown and Reilly (2011) completed a study where they explore why many organizations do not evaluate the effectiveness of their reward system and also examine in what way evaluation is made by those who use it. The study was based on a survey of 173 HR practitioners and 13 case studies of organizations known to evaluate their reward systems or indicated in the survey that they evaluated or planning to do so.

The research question of the study was *“To what extent and why is reward evaluation carried out?”*

The survey was made in 2009 and the questions covered the extent to which evaluation took place, why evaluation did or did not take place, the methods used and how effective they were. The results showed that less than half (46%) of the respondents carried out a full evaluation. Of those who carried out a review, only 54% were satisfied with the results. The reasons given for evaluating reward systems was to ensure that the organization could motivate the extra cost of pay with increased performance or profit. The most common reason not to evaluate was lack of resources or time.

The case studies showed that the organizations most likely to conduct evaluation were those with a highly disciplined and performance-oriented approach to measurement. Of the respondents who evaluated their reward systems, the most common criteria to evaluate was the employees' attitudes (75%). Only 40% evaluated business financial performance and 30% impact on employee productivity.

3.3.6 EXPLORING THE RELATIONSHIP BETWEEN MONEY ATTITUDES AND MASLOW'S HIERARCHY OF NEEDS

Oleson (2004) has completed a study aiming to examine if there is a connection between the needs in Maslow's hierarchy of needs and individuals attitudes towards money. The study aims to find out if individuals situated on a certain level in the hierarchy have similar attitudes towards money compared to other individuals, situated at other levels.

The author formed two research questions:

1: *"Do men and women have different money attitudes?"*

2: *"Is there a relationship between money attitudes and needs?"*

Oleson completed the study by using a questionnaire, which he let 338 students at an American university fill out. In order to locate the students in the hierarchy they were asked to answer statements on a five-point Likert-scale. The statements were: "In general my health is good" (physiological needs), "My life is orderly and well-defined" (safety needs), "I feel close to my relatives" (love and belongingness), "I feel respected by my peers" (esteem needs) and "I find my work challenging" (self-actualization).

To find out about the students attitudes towards money the author used a questionnaire with items where the respondents once again were asked to answer according to a Likert-scale. The items to decide about were, for example, budget, obsession, anxiety, power and achievement.

The result of the study showed that as an individual climbs higher and higher on the hierarchy of needs, money becomes less and less important. The strong attitudes towards money were found mainly among the students located on the lower part of the hierarchy at the safety needs level. The author found weak evidence that men and women should have different attitudes towards money. The differences that Oleson did find showed that women identifies money as a source of anxiety to a greater extent than men, and that men tended to be more obsessed with money than women.

4. EMPIRICAL FINDINGS

In the following chapter we summarize the empirical findings gathered in the case study. We start with the results from the interviews and our suggestions for change of the incentive system. Finally we present the results of the “Motivational Model for Rewards”.

4.1 THE ORGANIZATION INVESTIGATED

The subject of our study is one of the top five grocery chains on the Swedish market regarding sales in 2010. With over 100 stores of different concepts they are spread throughout the whole country from north to south. More than 4000 employees work in their stores. The company has central functions for human relations, purchasing, marketing and price setting which limits the store managers’ freedom but also helps them to focus on core activities in the stores.

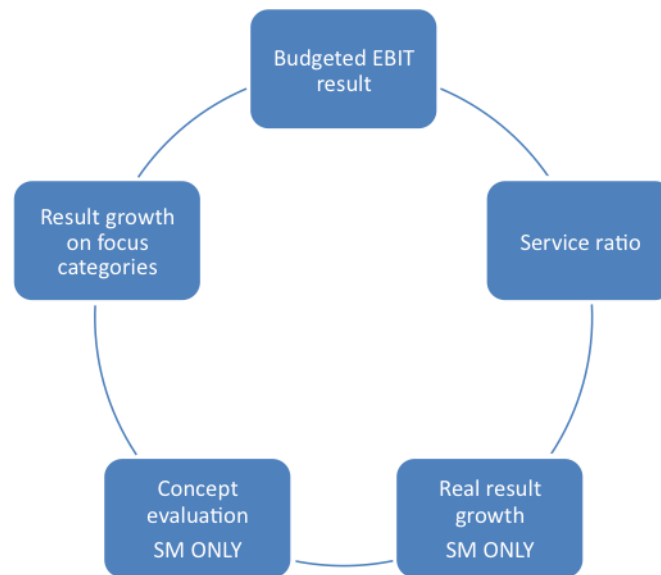


Figure 4.1 Components in incentive system

4.2 MONETARY INCENTIVE SYSTEMS FOR STORE MANAGERS

The company’s monetary incentive system for store managers is based on five components independent of each other: budgeted EBITresult, real result growth compared to previous year, result growth of focus categories (selected by head office), concept evaluation and service ratio of items. The concept evaluation is conducted both through visits by staff from head office who evaluate how the store is presented to the customers and also by an external firm which contacts customers and asks questions about their impression of the store.

This evaluation results in a grade which corresponds to a level of bonus. Service ratio is calculated from the number of sale values divided by the maximum possible number of sale values during a period of time. It is based on two categories of items, the 150 most important items (selected by head office) of the concept and items which are advertised in fliers during

the week. These two components are put together and result in a total service ratio. Each of the five components is worth 20% of the bonus and is independent of each other. Payment to the store managers is done on a yearly basis. All goals are set by the head office and are the same, primarily expressed in percent, for all stores. The exception is the goal for the EBITresult, which is decided by the store manager together with regional managers and the head office.

Furthermore the human resources manager explained that store managers are entitled to a company car and a favorable pensions fund, which makes it possible for store managers to retire at the age of 60 provided that they have been employed for a minimum of years. Store managers do not receive payment for over time and these benefits are a way of motivating them in the long run to complement the annual bonus which is short term.

4.3 STORE MANAGERS' VIEWS

The store manager is responsible for all activities in the store, from staff planning and recruiting to result and budget. Both of the managers that we have interviewed are generally satisfied with their monetary incentive system. They both think that the service ratio which was included in the incentive system this year is a very important aspect for the store together with the other components in the system. As store manager 1 says:

“The service ratio is very important so that the customer can be positive that an item that has been advertised will be available even if it is Sunday evening.”

According to the store managers the goals are set at challenging levels, and so they should be. Store manager 1 thinks that there should be 60-70% attainability of a goal in order for it to have the proper motivational effect. Store manager 2 says the following about the level of goals:

“If you don't have to fight for achieving a goal it has no use to rewarding it.”

As mentioned above, the bonus is paid once a year to the store managers. However, both managers say they check on a regular basis how they perform through the company's information system. They have access to so much information themselves through the company's information system that they always know how the store performs compared to set goals and bonus levels. Store manager 1 does not think that communication about the bonus should be given more often from head office, he is content about doing it himself.

When it comes to preferences of non-monetary or monetary incentives, store manager 2 says:

“Money is always an incentive, but for me I would say that it is 50-50. I want to try something new after a while and in that case promotion is just as important as the money.”

Store manager 1 explains it:

“You need to be rewarded and sometimes it is a pat on the shoulder, sometimes an email with encouraging words about last week's sales and sometimes it is more money.”

4.4 MONETARY INCENTIVE SYSTEMS FOR SHOP ASSISTANTS

The shop assistants' monetary incentive system is based on three of the store manager's components - budgeted EBITresult, result growth of focus categories and service ratio of items. Payment is done three times a year and is based on amount of hours worked. The human resources manager explains the use of the same components for both managers and shop assistants as a way to encourage them to work together.

The three components are not independent of each other as for the managers, all three goals have to be reached if they are to receive a reward. This is something that both interviewed managers have quite strong opinions about. Since the beginning of the year, both stores have changed their way of work especially to improve their service ratio, which was the new component. Routines for placing orders and replenishment have been revised and both stores have managed to reach the reward level.

Store managers also have mandate to distribute the negotiated raise which the union for the sector, Handelsanställdas förbund, and the company agrees upon between their employees. The HR manager describes the process as "time consuming" since employees who are not satisfied with their raise can appeal to the local labor union and this has led to store managers often giving everyone the same raise. Store manager 1 and 2 both think that it is easier to just give everyone the same raise and instead reward talented staff with promotion or more work hours.

4.5 NON-MONETARY INCENTIVE SYSTEM

There is a strong presence of non-monetary incentives according to our interview subjects, the most mentioned being promotion and education. However, one of our respondents does not classify training as a reward since she is of the opinion that all employees are entitled to training irrespective of performance. All of our interview subjects have been promoted to their present position and the company has its own internal training centre where employees can attend courses on, for example, food safety, leadership and environmental work. Employees are free to apply for courses, and some are mandatory in order for employees to reach certain levels of responsibility. The registration for a course does not mean the employee is entitled to participate, this is something that the store manager decides.

The company consistently works with supporting their employees' careers. Store manager 1 explains that recruitment is the main focus when middle manager positions are appointed. Every store has a "career ladder" presented on a notice board where the path from shop assistant to store manager through promotion and education is shown. Every year the store manager reports his/her employees with potential to head office together with detailed development plans for the next couple of years, all in order to keep track of and keeping potential store managers. Store manager 1 considers career opportunities to be huge within the organization.

Other ways of rewarding the employees are, for example, pointing out individuals who have done something extraordinary during the last few days. Store manager 1 tells us that he sometimes at weekly meetings encourages behaviours like "Anna not only informed the

customer of where the ketchup is situated, she followed him/her all the way there – good job!” This kind of reward is something store manager 1 considers just as motivating as money on the account. Store manager 2 finds the incentive system provided from the organization just enough but sometimes arranges sales competitions among the cashiers which he finds efficient.

4.6 GOAL FULFILMENT

The human resources manager explains that the primary aim of implementing the present reward system is to increase sales in the stores. He tells us that the aim of the incentive system is to supply the employees with adequate tools to reach the budgeted sales level. With help from the incentive system, for example the service ratio, the stores will easily see what they need to improve in order to reach the set goals.

When visiting the stores we asked all the respondents following question: “What do you think is the main reason why the organization uses an incentive system?” Store manager 2 answered that his point of view is that the main reason is to create commitment among the employees. Shop assistant 2 very persistently gave an identical answer - that the main reason is to encourage commitment and to make everybody strive for the same goals. Shop assistant 1 thinks that the reason is to motivate the employees and to make them work harder.

The human resources manager explains to us how central the budget is in the incentive system. If the store does not adhere to its set budget there will be no monetary rewards at all for the shop assistants, even though they may have reached the other two goals - the service ratio and the focus categories.

The human resources manager comments on the matter:

“If the employees see in January that they will not reach the sales goals for that month, then they will assume that it does not matter how much they work with for example the focus categories.”

This is something that the two store managers definitely recognize. Store 1 has not adhered to its set budget this year and store 2 has not yet the correct numbers but suspects that they have also failed to reach the set goals. For this reason there will be no monetary rewards for the first four months of 2011 to the employees in store 1, and probably the case is the same for store 2. For that reason our interviewed store managers has not discussed the system and the outcome very much with their employees in order not to make them feel dejected. The managers believe that the difficulties of adhering to the budget has to do with consumers’ changed behavior due to high prices on electricity, gasoline and rising interests. This has a limited effect on their own bonus since the EBITresult is independent of the other components for store managers; they are still entitled to a bonus based on the other components.

Store manager 2:

“Last year we failed already in January/February and I can honestly say that on occasions like that, I do not discuss this (with the employees). It feels wrong to communicate something you cannot reach and therefore we withdraw and focus on other things.”

According to the human resources manager the organization communicates the importance of still working hard even though the chance of a reward the present month is lost. He stresses that intense efforts in January will pay off in the following month even though budget is not adhered to that month.

4.7 EXPERIENCED MOTIVATION

Even though failure of adhering to the budget, all respondents claim they feel motivated by the system and especially the service ratio where they can easily see what have failed during the last week and also who is responsible for that. Store manager 2 mentions that the service ratios have become “a hot potato” in that the shop assistants look after each other, and if someone fails to fill up with articles the others will notice this and talk about it. He sees this kind of behaviour as a good thing because it shows the problematic areas and the employees will become aware of what they have to focus on.

Store manager 1 claims he is motivated by his incentive system and that it makes it worthwhile for him to stay for a few extra hours and make sure everything is in order in the store. He also finds it easier to justify his long days at work to his family since he is given a concrete reward for his efforts. He also mentions that he is available in his spare time to a larger extent than he probably would if the bonus did not exist. Store manager 2 explains he is dedicated to his job and says that he does not work more just because of the bonus, but it affects his priorities:

“I do not think that I work more hours because of the bonus system. I have always worked a lot and enjoy working. But it does affect my decisions about what to focus on. Areas or components included in the bonus system receive extra attention. /.../ Since it is being measured you put extra effort to do it well, it is natural.”

Shop assistant 2 tells us that they worked intensively with two of the components of the incentive system - the service ratio and the focus categories - already before they were a part of the incentive system but that she appreciates that they now are a part of the system.

All respondents mention the chance of promotion as an important motivational factor. Shop assistant 1 has only worked in the present store for one year but already has various responsibility areas and is clearly motivated by the chance of becoming a store manager, a goal he is determined to reach. Store manager 1 keeps an eye on his employees and notices the shop assistants with potential of going far in the organization. Store manager 2 works in a similar way and encourages his employees to apply for training courses and also to change work place if necessary to get promoted.

The human resources manager states that he himself is an example of how high one can reach in the organization:

“In our organization it does not matter what education you have. You can start as a checkout assistant and continue up to vice president. I have not even completed high school.”

Shop assistant 2 has long experience from working in the same store and has completed training courses along her career. Regarding the importance of promotion and training she says:

“We can have a downswing where the staff feels the job is a bit boring but if we send them off to a training course we will see them coming back thinking it is fun again.”

All respondents are aware of what they have to do to be promoted and shop assistant 1 was considerably more aware of what promotional chances he had than what monetary rewards he was able to receive. Shop assistant 2 states that the training has been important for her during her career, but that she now is more interested in the monetary incentives since she has reached her goal regarding position in the store.

4.8 SUGGESTIONS FOR CHANGE

Store manager 1 repeatedly tells us that he thinks it is unfair for the employees that their chance to monetary incentives is dependent on whether the store adheres to the set budget or not. He is of the opinion that the store assistants should be liberated from factors that they are not in position to influence. He thinks that this is an example of “teething problems” in the incentive system and that it will be changed until next year. He says:

“We will discuss this with the regional office because we are not experiencing the desired effect today.”

Store manager 2 has experienced situations where the competition has changed, for example by the opening of a new store in the neighbourhood and that the budget for that reason has been impossible to adhere to. His suggestion is that it should be possible to audit the budget in case of such extreme situations and he emphasizes that the same should happen if competition disappears. Then the budget would be too easy to adhere to and therefore it should be revised also in this case. Store manager 2 further says that he thinks that the system focuses on the right things in 70% of the cases but has no additional suggestions for change.

Shop assistant 2 has no opinion about changes yet. She thinks the system is too new to be evaluated but is certain that she will have opinions next year. Shop assistant 1 has no proposal for improvement.

4.9 RESULTS OF THE “MOTIVATIONAL MODEL FOR REWARDS”

We let all four respondents fill out a model elaborated by Daniel Katz and Robert L. Kahn. The aim of the model is to let employees grade their incentive systems on the basis of couple of factors. The points are not shown to the respondents in order to affect their answers as little as possible. Calculating the sum of the points is done by multiplying each point, which means that one zero is enough to reach the sum of zero. The results were as follows:

Respondent 1 found the incentives of some value. Further he was of the opinion that there is a very close connection between effort and incentive but that the reward only increases relatively if he increases effort. Total points: 2

Respondent 2 finds the incentives very valuable and he also sees a very close connection between the work performed and the incentive given. He definitely is of the opinion that the incentives increase if he works harder. Total points: 8

Respondent 3 values the incentives very high but does not see a connection between the effort made and the incentives given. The respondent is of the opinion that the incentives are clearly increasing with greater efforts. Total points: 0

Respondent 4 is overall very pleased with the incentive system and finds the rewards very valuable. Further he has identified a close connection between performance and incentives and he also thinks that the rewards clearly increase if he works harder. Total points: 8

Overall the result was as follows:

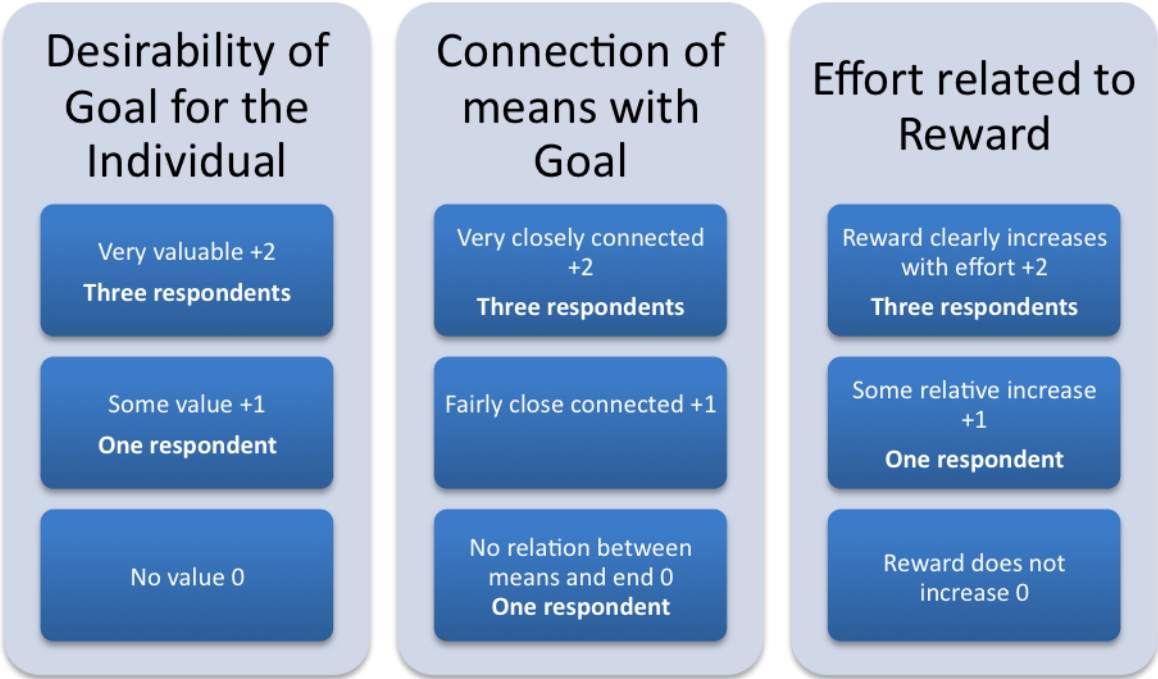


Figure 4.2 Result of the motivational model for rewards

5. ANALYSIS

In this chapter the company's incentive system is analyzed according to the "Motivational model for rewards" by Katz and Kahn. We present the result for each question and explain them with support in the normative theories and previous research. Finally, we evaluate the suitability of the model as a way of evaluating incentive systems.

5.1 DESIRABILITY OF GOAL TO THE INDIVIDUAL

The result of the initial statement that the respondents had to consider in the "Motivational Model for Rewards" shows that the majority of the respondents value the offered rewards very high. Regarding the respondents mentioning the chances of promotion as the most motivating factor we see a clear connection to Maslow's hierarchy of needs. Since those respondents did not consider money as important as achievement we suggest that they are situated in the esteem level of the hierarchy where needs such as challenging work and recognition are to be satisfied. We find further support for this in the study completed by Oleson, which shows that the higher a person climbs the hierarchy of needs, the less important money becomes. Additional evidence is presented by Herzberg's two-factor theory where promotion and advancement are defined as motivational factors and monetary incentives and wage are just factors keeping the employee from being dissatisfied.

All of our respondents could be classified as stewards, or close to becoming stewards, because of their dedication to their work and the organization. The stewardship theory supports the result that monetary incentives are unnecessary, the employees work for other reasons. The work itself and the feeling of contributing to the wealth of the organization are factors motivating a steward and we saw clear tendencies for this in our study.

Some of the respondents did value monetary incentives higher than non-monetary and we explain this with evidence from the study made by Ederhof where the author states that the fewer chances to promotion the employee has, the more important and more frequent extrinsic rewards are. This explains why the respondents that had already reached wished position valued the monetary rewards higher or equal to the non-monetary rewards. The chances of promotion are smaller the higher up in the organization the individual is situated and as a store manager he/she would have to change store or perhaps move to another region to be able to advance. The chances of promotion are vast for the store manager but it is not as simple as for the shop assistant who can easily be added more responsibilities along the way. Considering this, it is natural that the store manager has greater monetary incentives and that he/she values those incentives higher.

Additional evidence for the importance of training to be greater among the shop assistants is that they are working closer to their manager and according to the Hawthorne study interest and attention from managers alone create motivation. The fact that the store managers are always available for help and support decreases the need for monetary incentives among the front line workers according to the study. The store managers do not experience the same closeness to their supervisors and this is further evidence for the great importance of monetary incentives among the store managers.

In general the employees are satisfied with their reward system and desire the goals. Merchant has mentioned that the employees have to value the rewards and believe that they are large enough to have impact on their motivation. The answers from our interviewees showed that the preferences of incentives differ between individuals and because of that it is suitable for an organization to offer different kinds of incentives. For the company this means that non-monetary incentives, which have a lower cost than the monetary alternative, can be used not only to reward employees but also to find potential managers and therefore save money for recruitment.

5.2 CONNECTION OF MEANS WITH GOAL

Our interviewees showed a clear tendency to see a connection between their means of attaining goals and the reward. When comparing this fact to the aims of incentive systems according to Arvidsson, we find that the possibility for goal congruence is high between the company and the employees. The human relations manager thought that the reason for including service ratio in the incentive system was to increase sales and secure that a possible purchase never was missed due to bad replenishment. During our interviews it was clear that the employees had embraced the importance of having a high service ratio of items, which shows that goal congruence in that matter is reached. Training in different areas teaches the employees how to work in line with the goals for the company and together with the fact that key positions in stores mainly are to be recruited from the store's own work force strengthens our opinion that incentive system helps to create goal congruence.

Arvidsson also mentions an aim for incentive systems as to motivate employees to desired behavior, which also seems to work successfully for the company. The staff's main focus seems to follow the structure of the monetary incentive system with emphasis on service ratio of items. The training and promotion possibilities encourage the staff to raise their competence and to work hard with a clear career path always present.

Merchant explains that an incentive system can be based on both financial and non financial measures. The company uses a mix that we believe suits the line of business well with measures of profit, growth and service ratio. The service ratio is based on a type of customer related measure. Since the employees experience a good connection between means and goals they should also be satisfied with the measures chosen by management as a base for the rewards. However, both store managers are critical about the fact that the shop assistants' monetary incentive system is based on goals that all need to be attained to receive a bonus. Both stores reach all goals except the EBITresult which create frustration for the managers. To avoid creating negative attitudes among the employees, the managers choose to reduce the communication and emphasize other areas instead.

It should be noticed that at the time for our interviews, the first period of the incentive system had not been ended. It is probable that the attitudes among the employees would be different if they would know that they just missed a possible bonus because of the shaping of the incentive system.

The managers' frustration concerned the employees, not themselves. Since the incentive system for the managers is designed with independent measures it means that they can fail to adhere to budget but still receive reward for the measures reached.

Merchant mentions a couple of uncontrollable factors which should be taken into account when designing incentive systems. The managers explained that it was difficult to set a proper budget several months in advance when market conditions and consumer's behavior were in one way and still being responsible for reaching it when conditions had changed. During this winter prices of electricity and interests have increased which have affected consumers' behavior and therefore also affected the possibilities of adhering to the budget. One manager suggested that a budget should be possible to revise during the year, but that is not possible.

5.3 EFFORT RELATED TO REWARD

Since the first period of the bonus system for the shop assistants was not finished when conducting our interviews, we presume that their answers on this question regard the non monetary incentives.

Arvidsson states one aim with an incentive system as to recruit and keep employees. From what we have found it seems that this aim is reached through the company's incentive system. When the staff feels that there is strong connection between the effort related to rewards they are motivated to work harder and will probably aspire more demanding tasks.

Rewards are given at individual level for the managers while the shop assistants have both individual and group level. The monetary incentives are group based and the store managers often do not use the possibility to give individual raise when distributing negotiated raise from the union. Individual rewards consist first and foremost of non monetary rewards for the shop assistants in forms of promotion, training and more work hours. We believe that the combination of the two well suits the task.

There has not been noticed very much of the "free rider"-effect and that may be because of an established team spirit where the staff helps each other.

When considering if increasing effort was consistent with increasing rewards the respondents answered positively. Over all the questioned individuals found a clear connection between effort and reward, all but one respondent found the connection to be strong. We consider this evidence that the rewards given make the employees focus on correct areas and lay efforts in departments chosen from the management. The study accomplished by Sprinkle shows results similar with our conclusions, and proves that the presence of incentives increases the efforts of the individual, that the effect is long lasting and that the performance increases in line with increased effort.

The positive result could also be explained by the organization mainly consisting of managers belonging to McGregor's Theory Y. Managers of this kind rely on their employees, consider them responsible and believe they are committed to work. Our study shows that the employees are given freedom to accomplish their tasks without exaggerated control from the managers. For example, the store managers do not have a given amount of hours that have to be spent in the store - as long as they complete their duties the managers are satisfied. The managers let their employees take own responsibility and the rewards increase in line with performance.

5.4 THE MOTIVATIONAL MODEL FOR REWARDS AS A TOOL FOR EVALUATION

During our interviews we found it very easy to use the model since it is highly understandable and simple. The respondents could after a brief introduction argue for their opinions of the questions and were able to fill out the model independently. Our point of view is that they instantly understood the model and that it was uncomplicated for them to find an answer that fitted their opinion.

As shown above the model can easily be related to theories and research on the subject “incentive systems”, which proves the suitability of the model. Even though elaborated in the 1970s, it is still relevant to use in the economic environment of today. Each question is designed to cover several important aspects of an incentive system, which all need to be at satisfactory level in order for the incentive system to fulfil its purpose.

6. CONCLUSION

In the following chapter we present the most important conclusions from our theoretical framework, our empirical findings and analysis.

6.1 FULFILLMENT OF AIM

Our aim with this thesis was to develop knowledge about how incentive systems should be designed in order to be functional. Our intention was to test the relevance of the “Motivational Model for Rewards” towards normative theories, previous research and the result of our study. We have fulfilled our aim by compiling normative theories and research on incentive systems together with conducting a study of the opinions of employees at a grocery chain with the model as a part of the interviews.

6.2 THE SUITABILITY OF THE MODEL

Our research question was: *Is the “Motivational model for rewards” suitable for evaluating an incentive system?*

The result of the first statement gives the organization a direct answer whether the incentives are wanted, wished and valued by the employee. Also, the organization is able to see if their employees have understood what incentives they are offered and if they are motivated by them. An individual marking “no value” on this question demand further investigation to see whether the incentives are uninteresting for the employee or if the individual simply is driven by other kinds of motivation such as intrinsic.

The second question gives information about whether the connection between the task and the rewards offered is close. Answers here point out to the organization if they reward accurate areas, or if they have a weak connection between task and reward. A high score on this question show if the measures included in the incentive system have relevant connection to the employees’ everyday tasks. This information will also tell the company if they have to overlook the place of work to discover problems, such as the work being too stressful for the employees to concentrate on all areas.

The third question concerns whether increased effort lead to increased reward. For some rewards, for example the classic gold watch, the organizations would possibly score low on this part of the model and would have to rethink if their incentive system really is functional.

All together we have found evidence that the model is a proper tool for evaluating the incentive system of the investigated organization. The reason for our judgement is the several advantages of the model, such as the simplicity of its form and that it is easy for individuals to understand. Further it covers the most essential variables in an incentive system and connects those to theories about motivation and rewards.

Since the model is of a simple kind it should first and foremost be used for giving direction to what areas are problematic and need to be further investigated. We have found the model accurate to use as a complement to discussing the employees' thoughts about an incentive system, and we recommend it to be used face to face.

6.3 SUGGESTIONS FOR FURTHER RESEARCH

- Testing the “Motivational Model for Rewards” to evaluate incentive systems in other line of business with a greater number of respondents.
- To what extent are evaluations of incentive systems conducted in Sweden? It would be interesting to compare the result with the result from the study made by Armstrong, Brown and Reilly (2011).
- Investigate what motivates store managers in other retail companies, where monetary incentives are not offered.

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INTERVIEWS

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Interview with Shop assistant 1, 2011-05-04

Interview with Human relations manager, 2011-05-06

Interview with Store manager 2, 2011-05-10

Interview with Shop assistant 2, 2011-05-10

APPENDIX

INTERVIEW GUIDE

HUMAN RELATIONS MANAGER

Intervjumall - Personalchef

Bakgrundfrågor

Beskriv dig själv och dina arbetsuppgifter

Frågor angående butikschefers belöningsystem

Beskrivning

Vilken typ av belöningsystem använder ni för butikschefer?

Förekommer icke-monetära belöningar? (ex utbildningar, befordran)

Vad är syftet med belöningsystem? Vad vill ni påverka?

Varför utformat på aktuellt sätt? Har ni haft ett annat system innan? Om ja, varför har det ändrats?

Hur kommuniceras mål/utfall till de anställda? (månadsvis/kvartalsvis)

Hur har målen satts? Anser du att de är rimliga?

Utvärderingsfrågor

Utvärderas systemet?

Bedömer ni att systemet fungerar? Vad har ni fått för reaktioner?

Verkar det som att butikschefernas arbetssätt har påverkats?

Frågor angående butiksanställdas belöningsystem

Beskrivning

Vilken typ av belöningsystem använder ni för butiksanställda?

Förekommer icke-monetära belöningar? (ex utbildningar, befordran)

Vad är syftet med belöningsystem? Vad vill ni påverka?

Varför utformat på aktuellt sätt? Hur var det innan? Varför har det ändrats?

Vad fick ni för reaktioner när det nya systemet presenterades?

Hur kommuniceras mål/utfall till de anställda? (månadsvis/kvartalsvis)

Hur har målen satts? Anser du att de är rimliga?

Utvärderingsfrågor

Utvärderas det nya systemet?

Bedömer ni att det nya systemet fungerar?

Verkar det som att butikerna ändrat arbetssätt?

Intervjumall - Butikschef

Bakgrundfrågor

Beskriv dig själv och dina arbetsuppgifter

Angående BCs belöningsystem:

Beskrivning

Beskriv belöningsystemet för butikschefer.

Förekommer icke monetära belöningar? Utbildning, fester, chans till avancemang?

Varför tror du Willys använder belöningsystem för butikschefer?

Utvärderingsfrågor

Fokuseras på rätt saker?

Rätt nivå på mål? För lätt/svårt?

Hur brukar din arbetsplats klara målen?

Arbetar du på ett annat sätt på grund av belöningsystemet?

Värdesätter du de belöningar du får?

Är de tillräckligt stora?

Hur kommuniceras dina måluppfyllelser från huvudkontoret? (ofta/sällan)

Preferenser

Skulle du agera annorlunda om belöningsystemet försvann och ersattes med högre fast lön?

Föredrar du monetära eller icke monetära belöningar?

Anser du att det fyller sin funktion?

Vad kan göras bättre?

Fyll i Katz & Kahn-modell.

Angående butikspersonalens belöningsystem:

Förekommer säljtävlingar? Upplever du att personalen motiveras av dem?

Arbetar de anställda på ett annat sätt sen systemet infördes?

Icke monetära belöningar? Utbildning, fester, avancemang?

Hur påverkas sammanhållningen? "Lagandan"

Gör BC något eget för att motivera/belöna de anställda?

Fokuseras på rätt saker?

Rätt nivå? För lätt/svårt?

Fyller det sin funktion?

Är kollektiv belöning rättvist?

Används möjligheterna till uppföljning? (Excelfil som mailas varje vecka)

Hur kommuniceras till anställda? Anslagstavla/veckobrev?

Vad kan göras bättre?

Intervjumall - Butiksanställd

Bakgrundfrågor

Beskriv dig själv och dina arbetsuppgifter

Beskrivning

Beskriv ditt belöningsystem.

Förekommer de icke-monetära belöningar? (Utbildning, fester, chans till avancemang?)

Varför tror du att belöningsystem används?

Utvärderingsfrågor

Fokuseras på rätt saker?

Rätt nivå? För lätt/svårt?

Hur brukar din arbetsplats klara målen?

Arbetar du på ett annat sätt på grund av belöningsystemet?

Värdesätter du de belöningar du får?

Är de tillräckligt stora?

Hur kommuniceras dina måluppfyllelser?

Preferenser

Skulle du agera annorlunda om belöningsystemet försvann och ersattes med högre fast lön?

Har det påverkat ditt sätt att arbeta?

Är det rättvist med gruppbaserad belöning?

Har stämningen påverkats bland de anställda?

Föredrar du monetära eller icke monetära belöningar?

Anser du att det fyller sin funktion?

Vad kan göras bättre?

Fylla i Katz & Kahn-modell

MOTIVATIONAL MODEL FOR REWARDS

Translated by Christine Nyrenius. Presented in the same form as during the interviews.

Belöningens betydelse för individen	Samband mellan belöning och arbetsuppgift	Samband mellan belöning och ansträngning
Mycket stor betydelse	Mycket nära samband	Klar ökning av belöning vid större ansträngning
Någon betydelse	Ganska nära samband	Någon ökning av belöning vid ökad ansträngning
Ingen betydelse alls	Inget samband alls	Belöningen ökar inte alls vid ökad ansträngning