



GÖTEBORGS UNIVERSITET  
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School of Business, Economics and Law at the University of Gothenburg

# The Impact of Incentive Systems in Global Organizations Located in Sweden

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## A Case Study of AstraZeneca

**Master Thesis in Business Administration, 30 credits**

**Management Control**

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# Acknowledgement

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# Abstract

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- Authors:** Caroline Kvist and Emelie Andersson
- Tutor:** Mikael Cäker
- Title:** The impact of incentive systems in global organizations located in Sweden: A case study of AstraZeneca
- Keywords:** Incentive system, bonus system, reward, compensation, management control, management accounting
- Background and Problem:** The main purpose of an incentive system is to affect the behavior of those who should be rewarded and thus guide them to work towards common goals. There has been negative publicity regarding incentive systems in Sweden, but despite this it is used by many Swedish companies. The incentive system is derived from the Agency theory, and since Sweden has a long tradition of Stewardship leadership it is interesting to study its role in a Swedish company. This theoretical clash might create problems.
- Research Question:** How is the behavior of the employees in a Swedish environment affected by the incentive system?
- Purpose:** The main purpose is to understand the role of incentive systems in global organizations located in Sweden.
- Method:** We have performed a qualitative case study, based on 16 interviews at four different departments at AstraZeneca.
- Conclusion:** We found that a bonus system derived from Agency theory does not affect a Stewardship environment significantly. Further, when a bonus system does not work in line with theory there are other contributions to an organization. This indicates that a bonus system after all can be appreciated but to fit the Stewardship environment it must be adjusted.
- Further Research:** Suggestions for further research is to repeat the case study at other organizations to see if our findings are consistent. We also suggest a larger number of respondents to further increase the understanding of how the employee behavior is affected.

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# 1. Introduction

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## 1.1 Background

Everyone seems to have an opinion regarding incentive systems and this makes it a very fascinating subject to study. The main purpose of an incentive system is to affect the behavior of those who should be rewarded and thus guide them to work towards common goals, which can increase efficiency and profitability (Smitt, Wiberg, Olwig, Riegnell & Sjöstrand, 2002). However, in Sweden various actors have frequently claimed that incentive systems are unnecessary or even bad for performance, and there have been great debates in the media. For example, this was the case when Electrolux CEO was delegated a huge bonus ([www.journalisten.se](http://www.journalisten.se), 2012-03-16) or when the labor union criticized the Stampen group for rewarding the CEO with a bonus as large as his ordinary salary ([www.va.se](http://www.va.se), 2012-02-01). Despite the negative apprehension, as much as 32 % of the Swedish companies registered at the Nasdaq OMX decided in 2011 to have a share-related incentive system; this is an increase by 10 % compared to 2010 (PWC, 2011). We believe that there may be both pros and cons with implementing an incentive system and that is why we want to examine how the system affects Swedish companies and especially the employees.

Today, there is an increase in globalization (Dicken, 2011) and many companies have their headquarters and main production facilities located in separate countries, which may cause risk due to a different cultural impact in management accounting and control. An incentive system that works in one country may not work in another (Chiang & Birtch, 2005), and Jansen, Merchant and Van der Stede (2009) found significant differences in the use of incentive compensation between American and Dutch firms. Thus, it is interesting to study the role of incentive systems in organizations with cultural differences. Swedish leadership has traditionally been vaguer than, for example, English (Tengblad, 2003) and globalization may be one reason for the increase in incentive systems in Sweden. Incentive systems have been more popular in Sweden (PWC, 2008) as a result of managers who want their employees to make an extra effort and increase the productivity (Merchant & Van der Stede, 2007). There are studies conducted concerning incentive systems in Swedish companies (Konkell & Örnell, 2009; Andersson & Ericsson, 2008) but not many discuss foreign impact or the effects of behavior among the personnel.

## 1.2 Problem Discussion

Our interpretation is that there is an increase in the presence of incentive systems in Sweden (PWC, 2011) and we want to explore what effects this may have. Sweden has a long tradition of Stewardship leadership (Jönsson, 1995); thus the employees want to act in the best interest of the company independent of incentive systems (Donaldson & Davis, 1991). We notice a potential misfit between Swedish leadership and the use of traditional incentive systems as a management control tool.

An alternative perspective to Stewardship theory is Agency theory (Jensen & Meckling, 1976), which implies that incentive systems can be used as a control tool to manage the self-interested behavior of the employees. Because of the Stewardship-tradition it is interesting to find out if incentive systems might cause problems when used in Swedish companies. An incentive system affects the employees of the company in different ways; for example, it can be motivational when used in an Agency context. According to Agency theory the model of man is a self-serving, individualistic person, which implies that rewarding desired behavior will manage the employee to act in the best interest of the company. On the contrary, when incentive systems are used in a Stewardship environment there is a risk of decreased motivation since the employee in this theory always will act in the best interest of the company. (Davis, Schoorman & Donaldson, 1997) Attempting to influence the behavior of this employee can be counterproductive because it undermines her natural actions (Harvey, 2005). This theoretical conflict calls for research in empirical situations where both theories can be expected to have explanatory value with regard to different parts of the environment, here represented by a company management model including an Agency-based incentive system and a work force expected to be influenced by Stewardship ideas. For example, we see a risk with using incentive systems in organizations, as it might create jealousy among the personnel because of difficulties in measuring performance between different job assignments. An employee in a Stewardship environment might apprehend the system as unfair which could lead to de-motivational behavior. Thus, it is interesting to explore the effects of the incentive systems on employee behavior: does it affect them in their daily work; do they feel that they have impact on the result measured and most importantly – do they understand the incentive system?

To gain a greater understanding regarding these potential problems we have chosen to focus on the following research question:

1. *How is the behavior of the employees in a Swedish environment affected by the incentive system?*

### **1.3 Purpose**

The main purpose of this thesis is to understand the role of incentive systems in global organizations located in Sweden. When searching for literature and previous studies, we found that there have not been many studies conducted regarding the effects of incentive systems in Swedish companies. Therefore, we felt that we wanted to contribute to the research and increase the understanding of the effects of incentive systems upon Swedish companies.

### **1.4 Definitions**

An incentive system is according to Merchant and Van der Stede (2007) as a system that “ties rewards to the performance evaluations”. One purpose is to place focus on those results that managers desire and reward when goals are met. The incentive can be rewards, but also punishments (although this is most common in the form of absence of rewards). Our interpretation is that an incentive system should reflect what top management considers important, but the presence of incentive systems can have both positive and negative effects.

According to Merchant and Van der Stede (2007) a bonus is a short-term incentive, based on performance measured over periods up to one year. A bonus pool is the total amount of bonus that can be paid to the employees in the given period and a formula will be used to arrive at it (Anthony & Govindarajan, 2007). We refer to these different components when using the term bonus system.

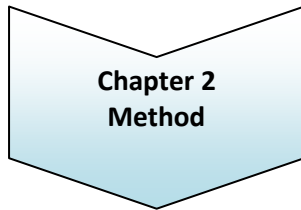
### **1.5 Limitations**

Since the time for this thesis is limited we are forced to make limitations; hence, we have not focused on the incentive systems as a “be or not to be”. Rather, we examine how companies use the incentive systems and if this affects the behavior of the employees.

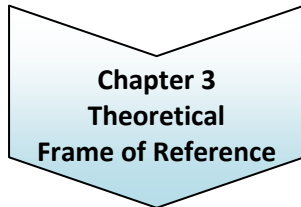


## 1.6 Disposition

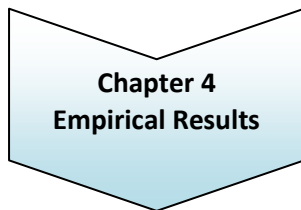
The thesis has the following disposition:



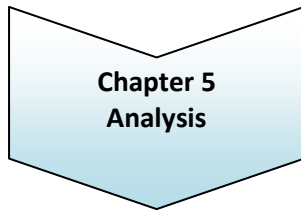
In this chapter we describe which research methods we have used, and how the thesis is considered credible.



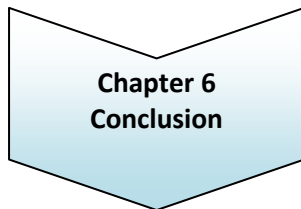
This chapter contains the theory that we will use when analyzing the empirical results.



Here we conclude the empirical results from the interviews.



This chapter analyzes the empirical results from the interviews compared with theory from Chapter 3.



In Chapter 6 we draw conclusions of our results from the analysis and make suggestion for further research.

## 2. Method

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We chose to perform a case study since we found it suitable for our purpose to understand the role of incentive systems in global companies located in Sweden. Since we wanted to observe the behavior of the employees in a Swedish environment, a case study based on interviews was an appropriate and feasible solution.

### 2.1 Research Approach

Since we wanted to study the behavior of employees a qualitative case study was preferred. We chose to conduct a qualitative study since we aimed to find out how the incentive systems might have effects on behavior and also to discover what the intentions with incentive systems were from a management perspective. Instead of conducting quantitative research by giving numerous respondents the same questions, we performed a smaller amount of deeper interviews to gain greater insight into how the respondents felt and acted. Our opinion was that the aim of our thesis could not be accomplished through a survey; instead, interviews with a number of people gave us more information and with supplementary questions we could gain greater knowledge. There is a difference between quantitative and qualitative research and there is no evidence showing which of the methods creates the best outcome; instead, the choice of research method depends on the purpose of the research (Blumberg, Cooper & Schindler, 2011). A qualitative study is mostly used when the researcher wants to do a research that cannot be measured in numbers, and preferred when the research aims to achieve total understanding instead of a total overview (Holme & Solvang, 1997). Our research was qualitative but with elements of a quantitative study, since we used the same interview guide in all interviews and hence our empirical findings were presented partly in numbers.

In our thesis we focused on how the bonus system is perceived by the employees and how it affects their behavior; we were also interested in how the system works in a traditional Stewardship environment. These are the main reasons why we chose to perform a case study and according to Yin (2006) a case study is preferred when the research question is “how” or “why”. The reason for conducting a single case study is often that the research object is critical or that the situation is rare which reflects the aim of our thesis well. It is important to remember that one single case study could not generate conclusions for a population; we were only able to observe the behavior at one company and make conclusions related to the theories. (Yin, 2006)

## **2.2 Developing the Frame of Reference**

When constructing the frame of reference we used research from both behavioral and economical research since both contribute to the existing literature (Merchant, Van der Stede & Zheng, 2003). The Agency theory is based on economic research while Stewardship theory is derived from behavioral research. Instead of choosing one model we combined and relied on both these theories to be able to explain when and why people act in a certain way. Using two models also creates a broader understanding of a social context from different perspectives.

The articles we used to build our frame of reference are primarily found in trustworthy databases as Web of Science or Scopus but we have also used course literature and other books from well-known authors. When we searched for theories and concepts we traced the reference back to the original source.

## **2.3 Choice of Research Objects**

### **2.3.1 Choice of Case**

We chose to observe AstraZeneca since it is a large global company which is located in Sweden with headquarters in London. Their bonus system is based on performance as described in traditional Agency theory, where the principal will manage the behavior of the agent through rewards (Jensen & Meckling, 1976), which is interesting since Sweden has a strong tradition of Stewardship leadership (Donaldson & Davis, 1991; Jönsson, 1995). A great part of AstraZeneca's business is research and development and since these results usually are shown several years later, it is hard to measure performance. However, the literature states that rewards should be timely, i.e. they should be provided soon after the performance (Merchant & Van der Stede, 2007). This paradox is one of the reasons why we considered this company an interesting object in our study. During the work with our thesis, AstraZeneca announced that they were shutting down a great part of their operation located in Södertälje. Although we did not notice this, it was important to have in mind since it could have affected the answers.

### **2.3.2 Choice of Respondents**

The interviews regarding our case study were conducted with four employees at each of the three largest departments of the company: Operations, Commercial and Research & Development (R&D). We also interviewed four employees with cross-functional job assignments that support the whole company. These persons that we call administrative personnel work within IT, Finance, Purchasing

and Human Relations, and we found it interesting to explore their thoughts about the incentive system since their opinion might differ. The chosen employees work at an operational level of the company. We chose to interview employees at four different departments because we suspected that the answers would differ. For example, sales people are often motivated by compensation (John & Weitz, 1989) which we found to be a reason why their answers might differ. When conducting the interviews we tried to exclude these preconceptions.

## **2.4 Data Collection**

### **2.4.1 Sources of Data**

Our empirical findings are essentially built on primary data from interviews but we have also used secondary data such as information sheet regarding the bonus system and the article from Åberg (2003), used in the beginning of Chapter 4. Primary data is the first data where the researcher/author has experienced or discovered the fact and secondary data is when someone is referring to what someone else has discovered or experienced (Holme & Solvang, 1997). The advantage with using primary data is, in line with Holme's and Solvang's (1997) opinion: when the source is closely connected to the current situation it becomes more trustworthy.

### **2.4.2 Interview Technique**

We conducted interview questions that were semi-structured to get the respondents to talk instead of answering and this gave us more information about their perception of the incentive system and how it affects them. The interview guide is attached in the Appendix no 1. A qualitative interview is often called semi-structured since the questions are prepared but with possibility for the respondent to express their thoughts and manage the direction of the interview. The intention is to get more information from people about their thoughts and interpretations than could be collected through a survey. (Blumberg, Cooper & Schindler, 2011)

Before performing the interviews we conducted a start-up interview with Rikard Olsson (Director R&D Finance Performance, Strategy & Reporting) at AstraZeneca, to gain deeper knowledge of how the bonus system at the company is designed. At the end of the process we also conducted an interview with the department of Compensation & Benefits to find out about the official intentions behind the system. We saw a point in doing this interview at the end since this helped us not to push our respondents towards the official intentions. This final interview also increased our total understanding of the incentive system at the company. Our intention was to conduct all interviews at

the facility in Mölndal but since some departments were located at other places, half of the interviews were conducted through telephone.

During the interviews we tried to keep to the prepared questions, but gave the respondents opportunity to affect the conversation. According to Yin (2006) it is important to be a good listener and not to have preconceptions, but also to have a good understanding of the underlying issues which makes it easier to sort out relevant information. Our preconceptions could have resulted in bias; hence, we focused on letting the respondents speak freely without us affecting their answers. When we asked the respondents about the bonus system we never suggested any alternative solutions; this was done to further decrease the risk of bias and increase the quality of the outcome. We also used a recorder during the interviews and took notes, which gave us the opportunity to return to the interviews several times to collect and double-check information. During the interviews one of us asked the questions and the other observed and took notes: this helped us to gain a greater understanding of the respondents' answers as well as other reactions. When needed, we made follow-up questions via e-mail to gain more information. No matter whether the interviews were conducted in person or via telephone we used the same interview technique.

After the interviews we drew conclusions from the answers and then compared them to our theoretical frame of reference. The interviews are deductive since the interview questions are based on theory. (Patel & Davidson, 2011) We chose not to use quotations since the interviews were conducted in Swedish, and if we would had translated their words into English our translation might not do them justice.

## **2.5 Credibility**

To increase the trustworthiness of our thesis we made it as valid as possible; Yin (2006) states that internal and external validity are important factors to achieve this. A case study, where conclusions are based on interviews, has to ensure that there are not any other influences affecting our findings; that is internal validity (Yin, 2006). With semi-structured interview questions we expected to capture all influences that could affect behavior. For example, we opened the interviews with questions regarding the respondents' daily work and how they apprehend they were controlled from management before we asked about the incentive system. As Holme and Solvang (1997) mention it is also important to remember that qualitative interviews reflect the thoughts of the individual, and this can differ within the same department. This risk is impossible to eliminate, but we tried to reduce it by interviewing four different kinds of employees in each department. As mentioned above

we did not suggest any solutions when asking about the bonus system, to further increase the validity and decrease the risk of bias. We also used a recorder and during the interviews and one of us observed and took notes while the other asked the questions; this focus enabled us to register more than just words. To ensure external validity it is important to state that the case study does not try to generalize about a population; rather, the case study should observe a certain area and contribute to the existing literature. (Yin, 2006) We have not drawn conclusions about every Swedish company with foreign impact; instead, our aim was to present one model of an incentive system in a Swedish company with English influence. Thereby, we hope to provide others with means to understand similar situations.

We are aware of the limitations of a case study based on interviews, since there always is a risk of bad memory, problem with expressing feelings and with interpretations by the respondent (Yin, 2006). To reduce that risk we interviewed four respondents from each department, in order to get a cross-sectional view and reduce the risk of bias.

## **2.6 Ethical Aspect**

Due to the sensitivity of the subject of economic compensation, we were eager to ensure the anonymity of the respondents; hence, the ethical aspect was important. To protect the respondents we chose to call them respondent 1, 2, 3 and 4 in each of the four respondent groups. We have also chosen to refer to all respondents as “she” independent of sex, to further increase the anonymity. Since the conditions for recording the interviews were that we would not distribute the answers, all material was destroyed afterwards. We kept their names and email-addresses during the process of completing the thesis so we could contact them with follow-up questions.

# 3. Theoretical Frame of Reference

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To ensure that the employees act in the best interest of the organization most companies use a management control system (MCS). The MCS includes all the devices and systems needed to manage the behavior of the employees in desirable ways (Merchant & Van der Stede, 2007) and should offer the information needed for managers to control the behavior of their employees (Otley, 1999). An incentive system is a tool within the MCS (Malmi & Brown, 2008), which an organization can implement as a strategic choice. The design of the incentive system is crucial to achieve desired effects; if the system does not affect the behavior or commitment of the employees, Smitt et al. (2002) argue that the system is “unsuccessful”.

This chapter will begin with describing some cultural differences which may affect the apprehension of an incentive system, followed by an explanation of Agency theory and Stewardship theory which will be used in the analysis when answering our research question. We will also present a brief overview of an incentive system and describe how a bonus system is designed.

## 3.1 Cultural Differences

There is a relationship between an organization’s reward, motivation and the surrounding culture; a system that works, for example, in North America may not be successful in Europe or Asia, which might have an impact when designing the incentive system. (Chiang & Birtch, 2005) This complication is also mentioned by Otley (1999) who states that most research regarding the impact of payment on employee performance is made in the U.S. and that this impact may not be equal in other cultures.

Hofstede (1980) conducted a well-known study concerning leadership in the company IBM, where he found significant differences between power distance, individualism, uncertainty avoidance and masculinity among different countries. This led to a huge management discussion and the study has been repeated several times (Hofstede & Hofstede, 2005). Hofstede’s (1980) traditional view of masculine cultures considers achieving goals as an important factor of rewards, while feminine cultures are characterized as having strong social needs, and therefore value the quality of life more than the financial aspects. Hofstede (1980) mentions Great Britain as one of the world’s most individualistic countries with a capitalistic system based on self-interest. Sweden, on the other hand, is described as a feminine society that relies more on relationships.

Other studies made concerning Swedish leadership confirm that leadership is different in different cultures. Tollgerdt-Andersson (1993) conducted a study by comparing job-advertisement for executives between three Scandinavian countries, France, Great Britain and Germany. She found that in the Scandinavian countries social and personnel qualities were demanded in 80-85 % of the advertisements in contrast to the other countries where only 54-66 % of the advertisements required these qualities.

Today, many researchers focus on national differences in culture, but it is important to note that there is a great difference between cultural differences and national differences. The national borders were implemented during the 20<sup>th</sup> century and cultural borders are not reflected by the national ones. Despite this, previous research is mostly conducted in different nations which make it easier to collect data from nations instead of cultures. (Hofstede & Hofstede, 2005) When using the term cultural differences we refer to differences due to national borders.

### **3.2 Principal Agent vs. Stewardship**

There are two common theories to explain how employees act in a company, *the Agency theory* and *the Stewardship theory* (Donaldson & Davis, 1991). To answer our research question it is important to have knowledge about both theories to explain how employees respond to incentive systems and to be able to understand their behavior. In line with the findings of both Hofstede (1980) and Tollgerdt-Anderssons (1993) our opinion is that the Stewardship theory reflects Swedish leadership well and that the Agency theory represents English leadership. We are going to use this approach to explain the differences in behavior (instead of using intrinsic/extrinsic or individualism/collectivism).

*The Agency theory* is a well established theory that is based on research conducted over several years, and explains that each person will try to maximize her utility by acting rationally and gaining maximum utility with the least effort. If the agent has to choose between two options she will choose the one that gives her maximum utility. Sometimes, the theory is referred to as *Principal-agent theory*, although most often this is the same theory. The principal is the owner of the firm and the agent is the executive that the principal has chosen to manage the firm. The agent has accepted the cooperation because it gives her more utility than any other opportunity. However, there is a risk with this cooperation, since the agent always seeks to maximize her own utility and the agent's acting might be contrary to the principal's interest. (Davis, Schoorman & Donaldson, 1997, Jensen & Meckling, 1976) The best way to minimize the risk of divergence between the agent's acting and the



principal's interest is to establish an incentive system that forces the agent to act in the best interest of the principal (Jensen & Meckling, 1976).

*The Stewardship theory* provides to some extent an alternative perspective of the Agency theory and has its ground in psychology and sociology. The main thrust of this theory is to explain how people are motivated without any extra incentives; the employees as well as the managers act in the best interest of the principals. Instead of acting in self-interest and always searching for the best position for themselves, they act in the best interest of the company. The model of man is based on a steward who rather wants cooperation and pro-organizational behavior than self-serving and individualistic behavior. Given a choice between self-serving and collectivistic behavior the steward will choose the alternative that is the best for the firm. It is also important to remember that the steward, of course, has needs as every other person and wants salary to pay the rent. The difference between a steward and a traditional agent is that the steward believes that her personal needs will be met by working to meet the company's need. (Davis, Schoorman & Donaldson, 1997) It is more important to engage employees with intrinsic motivation as opportunities for growth and improved relationships. An incentive system can crowd out the effect of intrinsic motivation (Harvey, 2005), hence, a system can be counterproductive. The table below, made by Davis, Schoorman and Donaldson (1997) explains the differences between the two theories.

### **Comparison of Agency Theory and Stewardship Theory**

	<b>Agency Theory</b>	<b>Stewardship Theory</b>
<i>Model of Man</i>	Economic man	Self-actualizing man
<i>Behavior</i>	Self-serving	Collective serving
<b><i>Psychological Mechanisms</i></b>		
<i>Motivation</i>	Lower order/economic needs (physiological, security, economic)	Higher order needs (growth, achievement, self-actualization)
<i>Social Comparison</i>	Extrinsic	Intrinsic
<i>Identification</i>	Other managers	Principal
<i>Power</i>	Low value commitment Institutional (legitimate, coercive, reward)	High value commitment Personal (expert, referent)
<b><i>Situational Mechanisms</i></b>		
<i>Management Philosophy</i>	Control oriented	Involvement oriented
Risk orientation	Control mechanisms	Trust
Time frame	Short term	Long Term
Objective	Cost control	Performance Enhancement
<i>Cultural Differences</i>	Individualism	Collectivism
	High power distance	Low power distance

### **3.3 Swedish Leadership**

Swedish leadership can be distinguished from more direct leadership which is common in Germany and USA, since it is based more on openness, discussions and teamwork. The advantage of this is that it creates space for the employee to be creative and make her own decisions (Jönsson, 1995). This kind of leadership is a form of Stewardship theory, since the managers depend on the employees to act in the best interest of the company.

Incentive systems have traditionally not been widely used in Sweden, in contrast to USA where they have been more frequent (Åberg, 2003). But there has been a growth of incentive systems in Sweden during previous years; in 2011 32 % of the listed companies decided on new share-based incentive systems; this was an increase compared to 2010 when it was 22 % (PWC, 2011). The Swedish leadership has a tradition of being participative, autonomous and team oriented. (Holmberg & Åkerblom, 2006). The same conclusion was made by Jönsson (2005) that describes Swedish leadership as imprecise and vague, meaning that the Swedish leader does not make decisions without consulting colleagues and employees. Instead of making the decision the Swedish leader often establishes support for the decision by meetings where the affected personnel are given the possibility to influence (Jönsson, 2005). This reflects the theories of Stewardship described in the literature.

### **3.4 Incentive Systems – an Overview**

Organizations are dependent on their employees to increase efficiency and survive in the long run (Arvidsson, 2008). The competences, values and motivation of the employees must be controlled so they all work in a direction that is in compliance with the goals of the company. An incentive system could be a tool for managing this. Smitt et al. (2002) contend that the incentive system can increase efficiency, sales and profitability but also reduce cost. They also argue that an employee must have controllability, hence being able to affect the results measured; otherwise, the incentive system will not be effective. There are many reasons as to why companies want to use incentive systems (Merchant & Van der Stede 2007); first, they create information for employees about what the top management wants to achieve and what they consider important. Second, they attract the “right” employees to the company, because people that appreciate this form of compensations will be drawn to this company rather than persons that want steady compensation. A third reason is that they are used as motivation for the employees to make an extra effort to reach the goals, beyond what they would have accomplished otherwise. However, researchers within the psychological and

behavioral area state the opposite; that the motivation can be decreased since the intrinsic motivation is reduced (Baker, Jensen & Murphy, 1988).

Incentive systems are often designed as rewards, but there are also examples of punishments, even though punishments most often are played out as absence of rewards (Merchant & Van der Stede, 2007). There are many different ways of rewarding performance, even if monetary rewards are a common kind. One person will not respond as another to the same reward, and might appreciate praise from the manager while another would rather prefer salary increases (Svensson, 2001; Baker, Jensen & Murphy, 1988).

According to Merchant and Van der Stede (2007) there are a number of criteria that need to be fulfilled for a reward to be effective; they must be valued and have a large enough impact to be motivational. They also need to be understandable, timely, durable, and reversible. Finally, Merchant and Van der Stede (2007) argue the importance of the rewards to be cost efficient; thus, the investment will be paid back in motivation.

### **3.5 Bonus System**

To create a greater understanding of the empirical findings followed below, we have chosen to focus on bonus systems in this part and will explain more thoroughly some theoretical aspects that are applicable to our research question.

#### **3.5.1 What is a Bonus System?**

A bonus system can be a part of an incentive system and is a distinct connection between a company's goals and the employee's compensation, which means that a bonus is paid to the employee if certain goals are fulfilled. It is important that the goals are connected to what the manager desires and also simple and easy to measure. They should reflect both the performance of the company, the department and the employee herself. Since it could be hard for the single individual to affect the goals of the company one solution may be to weigh the parts of the bonus according to the position; for example, one employee at the operational level can have 20 % bonus according to the goals of the company and 80 % according to the departmental goals. (Smitt et al., 2002)

Smitt et al. (2002) mention a number of pros and cons with different kind of goals measured. Having a bonus system based on EPS (earnings per share) can result in a large dividend when the stock

market is good, and there is not a complete correlation between the share price and the performance. Furthermore, it can be hard for the individual to affect the share price which can decrease motivation. Another compensation that is common is when top managers receive bonus which is not connected to the result of the company; instead, it is the manager's effort that is rewarded. This could lead to jealousy and irritation within the company if the result of the company is poor and the managers get large bonuses.

### **3.5.2 Performance Evaluations**

Criticism regarding monetary incentive systems implies that they are too effective since the objectives shows what the managers expect of the employees and hence they priorities these job assignment. This could be counterproductive since it is hard to exactly point out what employees should do which might lead to wrong priorities. (Baker, Jensen & Murphy, 1988)

Baker, Jensen and Murphy (1988) shows an example of a biased evaluation (from a survey made by Medoff and Abraham), where most of the managers has rated their employees as good or outstanding and tended not to give poor performance ratings. This is in line with the theories that people have overconfidence in their performance which could imply a misfit between the employee's apprehension and the manager's evaluation, hence lead to conflicts. For the performance evaluation to be accurate it is important to pay the right amount of resources, meaning if not enough time is devoted there is a risk of bias. Poor performance evaluations might lower the effectiveness of the bonus system, and hence reduce productivity. (Baker, Jensen & Murphy, 1988)

### **3.5.3 Group Rewards**

The rewards can be based on the performance of the individual employee, a group, or the entire organization. Today, there is a great emphasis on team building and the design of the bonus systems is reflected by this (Appelbaum & Mackenzie, 1996); for example group rewards are desired when cooperation of employees from across the organization is required (Merchant & Van der Stede, 2007). The group incentive plan is based on the same objectives as an individual incentive plan which is to satisfy the company goals. Group rewards are useful in situations where it is hard for the individual to find the link between effort and outcome or where supervision is impossible. (Appelbaum & Mackenzie, 1996)

An advantage with group rewards as a base for compensation is the powerful form of group pressure it might result in, since bad performance of one employee is not accepted by others. When working as a group towards common goals every employee wants to perform at her best as peer pressure

among them creates a reason to make that extra effort needed to reach the goals. (Merchant & Van der Stede, 2007)

Group rewards may also result in some significant disadvantages. First, they often do not provide a direct connection between individual performance and rewards, and the employee feels that she can not affect the performance on which the rewards are based (Applebaum & Mackenzie, 1996). For a bonus system to be effective the employee must have controllability (Smitt et al., 2002). Another problem with group rewards is the potential for a free-rider effect, which means that some group members can slack off and not perform as others get the job done anyway. The free-riders will receive the same reward as the other members of the group without making any effort (Merchant & Van der Stede, 2007), which can have de-motivational effects on the group as a whole as it will be perceived as unfair. Baker, Jensen and Murphy (1988) argue that, when possible it is better to tie rewards to individual performance.

# 4. Empirical Results

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## 4.1 About AstraZeneca

AstraZeneca is a global, innovative biopharmaceutical company with a focus on research, development and marketing of medical products. The company has 57 200 employees and is active in more than 100 countries, with China, Brazil, India and Russia as important emerging markets. (AstraZeneca Annual Report, 2011). AstraZeneca PLC was founded through a fusion of Astra and Zeneca in 1999 ([www.astrazeneca.se](http://www.astrazeneca.se), 2012-02-01)

AstraZeneca AB is a fully owned subsidiary of AstraZeneca PLC. The parent company's headquarters are located in London and AstraZeneca AB's headquarters of research and development are located in Södertälje, Sweden. AstraZeneca AB is responsible for the administrative coordination in Sweden. ([www.astrazeneca.se](http://www.astrazeneca.se), 2012-02-01)

Our case study is conducted through interviews with four persons at the three largest departments: Operations, Commercial and Research & Development (R&D). We also interviewed four respondents with more cross-functional job assignments within IT, Finance, Human Relations or Purchasing. We will refer to them as personnel within administrative functions.

## 4.2 The Bonus System at AstraZeneca

The previous incentive system at Astra was a profit-sharing system but after the fusion the new company AstraZeneca (hereafter referred to as AZ) introduced a new incentive system that was supposed to reflect the work of the employees. The managers' intentions with the incentive system were to pay attention to the company goals as well as give the employees information about what the managers expect. (Åberg, 2003) When we interviewed Peter Hallberg<sup>1</sup>, at the department of Compensation & Benefit, he confirmed this and explained that there were two main reasons for implementing the new system; first, it was fairer to have a percentage bonus related to the salary. Second, they wanted to have a system that benefits those who performed well, since the differences in individual performance were not shown in the previous system. The incentive system was the same throughout the company, but the salary was set individually. In 2003 the incentive system was based on three different levels for each employee: an AZ group bonus based on the group

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<sup>1</sup> Interview 2012-04-11

performance, a function bonus based on each department's performance, and an individual bonus based on each individual employee's personal goals which are developed during previous performance review. (Åberg, 2003)

To gain a greater understanding regarding the bonus system at AZ we conducted a start up interview with Rikard Olsson<sup>2</sup>, and he is the source of this part if nothing else is stated. AZ's bonus system is a part of their total reward package, also including base salary, benefits, recognitions and long term incentives, and is the same for every employee in the organization (except the top 5 managers, whose rewards are secret). The first part is base salary which is set at each local market and should be based on the average salary of a person with this job assignment in that area. The purpose is not to compete with other companies by having the highest base salary: rather, it is offering the best total reward. The bonus system is the second part of the total reward, (which we will return to later and will first explain the latter parts of the total reward package). The third one is benefits, which are also set locally and depend both on the image of the company (they offer healthy products and services, not beer for free as Google does) but also on tax regulations. The fourth part is recognition, a system made for nominating people and colleagues for extraordinary performance. The system was introduced since the company had many informal rewards, as the employee changing dinner with the wife and then sends the bill to the company as a travel expense, and instead rewarding good performance in a manner that is equally accessible for each employee. The final part is long-term incentives which only exists in USA, partly because long-term incentives have a strong tradition in USA and because AZ had to offer this kind of bonus when entering the market in the 1980's.

The bonus system is built on three stages: group, departmental and individual, and is only based on the result from the present year. At the beginning of every year the top management creates a scorecard for the group, including the most important targets of the year, like a mini strategic map based on the long-term goals of the company. Together with a target for earnings per share and cash flow this scorecard creates the foundation of the bonus system. The evaluation of the group is made each year by the board of directors and the CEO and results in a percentage. The departments then translate the scorecard to see what their department can do to reach the overall targets, and create their own scorecard which is their foundation for bonuses. This scorecard is also evaluated each year by the CEO together with the managers of the departments and results in a percentage for the departments. The last foundation is individual and the percentages are set by the manager, by

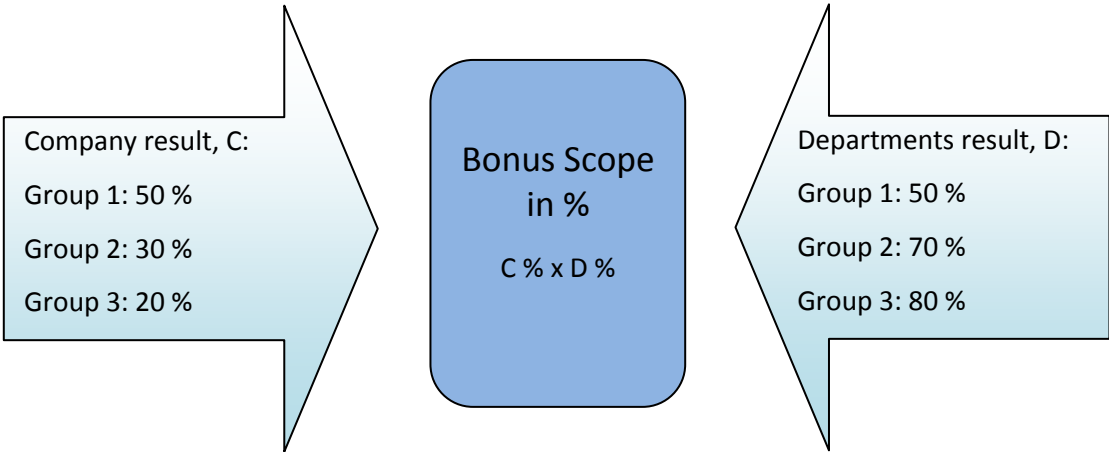
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<sup>2</sup> Interview 2012-03-06

evaluating how the employee has reached the individual targets and performed during the present year; the grade of performance varies between 0-250 percent.

When determining the bonuses the first step is to multiply the percentage of the group with the percentage of the department which gives us the bonus scope. Here, the company has different multipliers depending on which position is concerned; a worker with a low position has a larger part of the department's result and a higher manager has a larger part of the company's result. The figure illustrates how the bonus scope is estimated.

- Group 1: CEO, members of SET and managers of department.
- Group 2: Middle managers, senior specialist.
- Group 3. Members of administration, production worker, technicians, certain group managers within production.



Each employee's individual bonus is 8 percent on an annual year salary; this is multiplied with both the individual percentage (between 0-250 percent) and the bonus scope percentage. The payment is split in half; the first half will be paid in cash and the last half will be paid in stocks in a fund. Peter Hallberg<sup>3</sup> also explained that when a manager evaluates how the employees of her group have performed, the system forces her to differentiate since the expectations are that individuals perform differently. In large organizations there are both under- and over-performers which creates these expectations; hence, managers have to place a number of people below average and a number of people above. This may result in a manager having to place an over-performer below average or vice versa. To reduce this risk, AZ has introduced rating review meetings where the managers evaluate their groups. It gives the managers the opportunity to adjust the bonus budget between their groups; hence, one group can receive a larger bonus when performing better, and another that has not performed as expected can receive a smaller. This makes it possible to dispose the bonus budget at a

<sup>3</sup> Interview 2012-04-11



higher level and each group's performance will be reflected in the bonus. Furthermore, Peter Hallberg contends that the performance evaluations should not be too time-consuming since the managers are supposed to know their employees enough to make a fair judgment.

The sales force within the Commercial department has a sales incentive program as a part of the bonus system, which gives them a small opportunity to receive a larger bonus payment if sales are successful. All sales people work towards sales targets, which includes more specific measurable parameters than the target the rest of the employees work towards. Non-sales people have the same bonus system as any other employee at the company.

The bonus system at AZ has existed in the present form for two years, but the last changes were small adjustments like changing the multipliers of the bonus pool. Bonuses have been paid for several years.

### **4.3 Results from Interviews with Operations**

The Operations department at AZ is responsible for production, supply of goods and finance. The largest production unit is located in Södertälje, and this is where they produce the medicals: from producing the healing substance to the assembly in medical capsule, inhaler, fluids and tablets. The department is also responsible for the supply of goods and takes care of the products being delivered to resellers and medical institutes. Within Operations, there is a Finance unit which is responsible for performance management and economical evaluation. Beyond job assignments such as financial statements, budgets, assembly calculations and forecasts the Finance unit also has an important part in supporting decisions made at the different departments. All information in this part is gathered from interviews with the four employees at the Operations department.

All respondents feel that the control from management is loose; they work towards deadlines but how and when they perform their assignments is up to them. Three of them argue that doing a good job is the driving force behind their performance, while the fourth emphasizes the importance of personal development. Everyone feels that they develop in their work. All respondents receive feedback from both the group, organization and their manager and this is how they know if they have performed as expected.

The bonus system is well communicated and everyone claims that they understand it well enough; three of them also feel that they have the possibility to affect their bonus. When asking if the system

is fair two of them responded that since they do not know what other employees receive they cannot determine this. One of the respondents argues that there might be a risk of unfairness in a large company where there are several managers with different perceptions that are supposed to evaluate the employees on the same basis. Another respondent finds it unfair since the bonus is a percentage of their base salary; hence, employees with a smaller salary will get a lower bonus.

None of the respondents feels that the bonus system creates any competition between the departments; neither do they reckon that it has any influence on their daily work. Three of them are of the opinion that the bonus system does not motivate them at all; whereas one thinks it definitely does but not exclusively.

The design of the bonus system is appreciated by two of the respondents, whilst one argues that the payment of the bonus should be equal for everyone even though she still thinks that the performance of the individual is of importance. The last one suggests that the bonus should be allocated on group-level to increase the motivation and improve the performance of the group, but according to her this might be a risk if the employees perform differently.

The total reward package is good according to two of the respondents and another feels that it fulfills her expectations. The fourth considers it impossible to evaluate since the salaries are kept a secret. All appreciate having bonus since this is not something that all companies offer, but despite this three of them take it for granted.

Regarding the relationship between the manager and employee there is compliance among the respondents, since all answered that it is not affected by the bonus system. Still, one of them mentions that last year she was disappointed with the evaluation, but despite this considers the relation unaffected.

#### **4.4 Results from Interviews with Commercial**

Global Commercial Operations is the department responsible for sales and marketing. Their main focus is to make sure that every patient in the world will have access to AZ medical products. Two of our respondents work as Key Account Manager, one as a sales person and one as a product manager. All information below is collected through interviews with these employees.

All respondents feel that they are loosely controlled but they all have targets to work towards; for example, the Key Account Managers and the sales person mention sales and customers per day. Three of them explicitly express competitiveness as the main force behind their performance and the fourth considers her sales performance and that the customers are happy as important forces. Everyone feels that they develop in their work; one points out that she even develops as a person, due to the meetings with different customers. She also mentions her manager as a reason for development since she gives her the opportunity to improve her skills, for example, by working with an expert within the area that needs to be improved.

When asking about how they know if they have done a good job, we received very different answers. The first gets feedback from her customers, meaning it is obvious that she has performed well if she is allowed to come back. She also appreciates the feedback from her manager that sometimes even accompanies her during customer meetings to increase the understanding from management perspective. The second clearly states that reaching the sales targets is the best feedback, but she also receives feedback from her manager. The third respondent mentions the complexity with the measurements which results in difficulties in estimating if an employee has done a good job or not, but she still feels that her manager has a good enough understanding to give her feedback. The fourth explains how she creates her own statistics since her manager, according to her, trusts her too much. She has been working at AZ for several years and her manager knows her capabilities, and although she knows that her managers trust her she would appreciate better and more continuous feedback.

Regarding the bonus system, three of them understand it but accentuate the complexity; the last one does not understand it at all but told us that her group will be better informed about the bonus system. Two of the respondents feel that they can affect their bonus payment by doing the best job they can, while another claims that she can only affect it a little and wishes that her own performance would have greater influence. The fourth considers it almost impossible to affect the bonus independent of her performance; the work has to be extraordinary to be reflected in the bonus payment.

When discussing the question whether the system is fair many opinions were raised, and this subject was also reflected in several other discussions. Everyone is of the opinion that the system is unfair due to different reasons, for example, those three working close to health care pointed out that depending on which product you work with and in which county council you are active in, it will be more or less difficult to reach the targets. Some products are easier to sell and due to local

regulations and budgets there are great differences between the county councils. These three argue that sometimes the targets are set too high; thus, they become difficult to reach. The last respondent also feels that the system is unfair but instead dependent on small differences, and she argues that the range is too small which results in a bonus more or less equal for everyone. None of them apprehends any competition between the departments due to the bonus system.

Three of the respondents state that their daily work is not influenced by the bonus system, whereof two claim that they had performed in the same manner independent of the system. Since the last one has received bonus since she started at AZ two years ago, she feels that the bonus system has a positive effect on her daily work. However, similar to the answers above, she had performed the same even if she had not received any bonus. Regarding the bonus as a motivator three feel that it works, even though one emphasizes the de-motivational effect if the targets are set too high. One clearly states that the bonus system does not motivate her, and she only thinks about it two times a year: before the bonus evaluation with her manager and when the payment is delivered.

The bonus payment is taken for granted by three of the respondents, but not the size of it. If the respondents could choose whether to have a system or not, three of them wanted a system but with changes as fairer targets and stricter criteria for receiving bonus. The last one would rather prefer the bonus to be equally shared over the salary. Regarding how the relation with the managers is affected by the bonus system, only one employee feels that it has any effect in a positive way since the manager has provided good bonus declaration. The total reward offered by the company satisfies all the respondents, whereas three of them consider the high base salary as very positive. Another emphasizes that the company is very good in supplying the employee with what they need for doing a good job. The benefits are also appreciated but the bonus system is considered poor, and one employee mentions that it is not used as a motivator.

#### **4.5 Results from Interviews with R&D**

The department of R&D is responsible for the research and development of new efficient medical products where the patients are in focus. R&D is responsible for investigating new ways to treat the most common diseases such as Cancer, Asthma, Diabetes and Alzheimer. The main purpose is to find the biological target molecules which have impact on the disease but also to produce new unique substances that will develop new efficient and secure medical products. All information below this headline is gathered from interviews with employees at the R&D department.

Our four respondents work with different job assignments all within the R&D department. They all work towards clear objectives, while three of them emphasize that how they reach these objectives is up to them. They also reckon that they develop in their work. When asking about the major forces behind their performance everyone answered that happiness and recognition are most important. Three of the respondents feel they get recognized through feedback from colleagues and customers and due to this they know if they have done a good or bad job. The fourth feels that she only receives feedback from her manager, while the rest of the respondents perceive this feedback as more formal. Two of them are of the opinion that the communication with the manager can be improved.

When discussing the bonus system everyone feels that they understand the system and thinks that it is well communicated, but only one of them feels that she has the possibility to affect the bonus. The others feel that increased effort gives only a small result or none at all. One respondent perceives the system as unfair, because she believes the spread of the bonus is too small. She has a foreign background and mentions that the Swedish culture may have an impact on the design of the system. One respondent could not decide if the system was unfair since she has no knowledge of what the others receive, but she feels that it can be unfair because of how the system is designed. Her apprehension is that the managers have to place a certain number of people below the average and a number of people above the average, independent of how they perform. According to her this can lead to unfairness if a person is placed below the middle when she actually performs better, only because there are other persons that performed better.

None of the respondents apprehends that the bonus system creates any competition between the departments; one of them also states that if this happens it would be wrong since everybody is supposed to work towards common goals. We also asked them if the bonus system has any effect on their daily work but none of them feels that it does. Neither do they feel that the bonus system motivates them, although the system can help in formulating individual goals and improve the communication via increased appreciation and feedback.

If the respondents had the possibility to decide whether to have a bonus system or not, three of the four respondents would have chosen this solution, but only if the spread of the bonus is larger and with greater individual influence. The fourth person would rather have increased salary but if there must be a bonus system she believes that the sum of compensation should be the same for every employee.

AZ has paid their employees bonus for several years and two of the respondents consider this payment a given; they also took the bonus into account in the total reward when signing for the job, and a smaller salary was accepted due to the bonus. When asking about their apprehension of the total reward we got very different answers; one saw the opportunities since she felt that she could affect both the individual salary and the bonus; one would prefer a higher salary instead of bonus, and one was not satisfied at all while another saw the modern equipment as a great advantage.

None of the respondents feels that the relation with their manager is affected by the bonus system, although one mentions that it can improve communication since they have a more continuous dialogue. One of the respondents also said that for the manager to do a great job regarding the bonus it would take a month to collect all information needed and according to her the time invested will not be brought back in motivation.

#### **4.6 Results from Interviews with Administrative Personnel**

The four respondents in this group are ones with more cross-functional job assignments within IT, Finance, Human Relations and Purchasing. This means that they have very different job assignments, but the similarities between them are that they all work as support functions for other departments. This part concludes the answers from the interviews with these employees.

All the respondents feel that they are controlled by general objectives which are broken down to sub-targets, and three of them state that they are free to act within the frames of the sub-targets. The motivator for performance for three of the respondents is that they want to deliver a good job as well as receive recognition, while the fourth appreciated the challenging job assignments and the opportunity to work in new markets. One of them also mentions that it is motivating to work for a company that contributes to human well-being.

Everyone feels that they have the opportunity to develop in their work, and two of them argue that one reason may be that there have been reorganizations and due to this they have been assigned new job assignments. All four respondents get feedback from their colleagues and customers, but only one is satisfied with the feedback from her manager and points out that this is also reflected by the bonus. The others are of the opinion that the feedback from their manager could be improved; for example, the meetings could be more frequent, there could be a tighter fit between the manager's evaluation and the objectives, and the manager could increase the understanding of the daily work.

When asking if they understand the bonus system they all answered that they do, but one of them feels that it is very complex and another feels that she has enough understanding but that there is a vague connection between the objectives and the bonus payment. We received very different answers regarding our question concerning if they could affect their bonus payment: one feels that she theoretically can affect a part of it, referring to the individual part, but still she points out that this is small and the evaluation often stops at the departmental level. Another feels that doing a bad job can affect the bonus but the difference between doing a good or a very good job is insignificant. The third answered that if she wants to affect the bonus she needs to perform assignments beyond her ordinary job assignments. The last one feels that she definitely can affect the bonus, since she is responsible for her own performance. But she also points out that the manager has to differentiate and make a decision concerning the whole group, which means that she cannot affect the whole outcome of the payment. In line with the previous question only one apprehends the system as fair. The rest of the respondents are of other opinions; for example, one would prefer the same percentage in bonus for everyone, while another apprehends it as unfair since the extra assignments are considered more important than the ordinary. The last one does not feel that it is fair, since the performance is evaluated differently by different managers, but this does not bother her.

The daily work is, according to three of the respondents, not affected by the bonus system: one of them states that this might depend on the fact that Swedes want to perform and do a good job anyway. The respondent that did not agree feels that it does affect the daily work because the objectives push the employees to all work towards common goals. Despite the fact that only one feels that the bonus system affects the daily work, two of the respondents say that the system is motivating, although one of them thinks that the motivation could have greater impact in other cultures.

None of the respondents apprehend any kind of competition between the different departments, although one mentions the effect of team-work at the end of each year. She claims that they increase their cooperation by allocating resources differently to what they usually do in an attempt to reach the goals at the departmental level. Three of the respondents mention that there are not any discussions regarding the bonus system, maybe because it is a sensitive subject and people do not discuss money. One states that they talk about the bonus once a year when it is announced, and then only about the allocation, for example, how one department could receive a larger amount than another.

We also let the respondents express their opinion regarding the bonus system and how it should be designed. One of them would rather prefer rewards when performing something extraordinary, while two of them appreciate having a bonus system but they would rather choose the same bonus percentage for everyone. This could, according to one of them, decrease the risk of the system being counterproductive and de-motivational. The last respondent appreciates the bonus system as it is today and feels that the connection to the goals increases the focus. Three of the respondents take the bonus for granted: one even includes it as a part of her salary since her manager uses the bonus as an argument when negotiating the salary. The respondent that does not take the bonus for granted states that if the bonus is not paid due to poor company result she would not be disappointed, only if the reason was her own bad performance.

Everyone appreciates the total rewards of the company, and many of them mention the benefits and the wage levels as positive. One also values the bonus payment which she apprehends as large, while another thinks that the bonus payment is too hard to affect for the individual. None of the respondents feels that the bonus system has any effect on their relationship with the manager, although one argues that the relation might be affected if they do not agree regarding the bonus evaluation.



# 5. Analysis

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The first part of the analysis will compare the answers of the different departments in order to find similarities and differences. The second part will contain all answers and will be analyzed compared to the frame of reference.

## 5.1 A Comparison between the Different Departments

When analyzing the results from the different departments we found more similarities than differences. All employees, independent of which department they belong to, perceive the control from managers as loose. They work towards predefined objectives but are free to prioritize between activities as long as they reach those objectives. There is also a consensus between the departments regarding the question of development, since they all feel that they develop in their work. Other similarities are that the respondents do not think their relation with the manager is affected by the bonus system and most of them are satisfied with the total reward.

A significant difference was found when analyzing the forces behind the employees' performance; at the Commercial department all answered that competition and outperformance were the major forces. According to Hofstede (1980) these are typical masculine factors, while the other departments all mention forces that are more feminine, such as happiness, recognition and development. However, as explained in the method chapter, this was expected since sales people often are motivated by compensation (John & Weitz, 1989) and strive to increase their performance to accomplish something better than others. We also found a difference regarding the question of how they know if they have done a good job, where the respondents at the Commercial department all mentioned their manager and sales performance as sources of feedback while the other respondents instead referred to colleagues and customers. We will return to the fact that the Commercial department differs in Chapter 5.2.1.

In terms of similarities and differences concerning the bonus system we found that all departments do understand how the bonus system is designed, at least well enough. Almost all respondents agreed about their daily work not being affected, but despite this the respondents at the Commercial department feel that the system motivates them. It is interesting that they find the system to be motivating without having any effect on their daily work. Another consensus was shown regarding

the question if the bonus system created any competitiveness between the departments, where none apprehend this to be the case.

## **5.2 The Effect of the Incentive System on Employee Behavior**

Our research has resulted in two major findings: first, a bonus system derived from Agency theory does not affect the Stewardship environment at AZ significantly. Second, although the bonus system does not work in a way that theory suggests, we have found evidence showing that the system does contribute to the organization.

### **5.2.1 The Agency Concept Meets the Stewardship Environment**

We have discovered that the environment at AZ is characterized by the Stewardship theory, which is indicated by appreciation of relationships, trust and other feminine factors (Davis, Schoorman & Donaldson, 1997). The steward described in this theory cares about collaboration as well as good relationships and this is in line with Hofstede's (1980) feminine factors. The fact that most of the employees at AZ consider the control from managers as loose, and that they are free to prioritize among activities as long as they are in line with the overall objectives and deadlines, is a sign of Stewardship leadership since the theory is based on confidence. In the Stewardship theory the managers trust the employee always to act in the best interest of the company; hence, the control will be looser. This is followed by the fact that Swedish leadership is perceived as open, caring about relations and open for discussion (Jönsson, 2005), which also is in line with the Stewardship theory. It is interesting that AZ has English ownership and English leaders often are described in an Agency theory context (Hofstede, 1980; Davis, Schoorman & Donaldson, 1997). Consequently, English leadership has influenced the company, since they changed their system from a profit-sharing system to an incentive system based on performance. Hence, they have brought an Agency concept, since they use an incentive system to manage the employee's behavior (Jensen & Meckling, 1976), into a Stewardship environment. This is a risk since it might crowd out the employees' intrinsic motivation (Harvey, 2005).

The answers to the question regarding which forces are behind the performance of the employees, with the exception of the Commercial department, also indicate a Stewardship environment. Answers such as doing a good job, self-satisfaction, appreciation, satisfying customers and personal development are all examples of responses within the Stewardship theory (Davis, Schoorman & Donaldson, 1997), reflecting that the employees appreciate collectivism and pro-organizational behavior. As mentioned above, all respondents within the Commercial department instead

emphasize competitiveness and reaching sales targets as most important. This finding is closer to the Agency theory since this theory is based more on individualistic behavior. One reason may be that sales people have a stronger tradition of being paid by performance (John & Weitz, 1989), which was one of our preconceptions.

Similar to previous finding, the employees at the Commercial department indicate Agency thinking when referring to how they know if they have done a good job. They all refer to their manager or the sales performance as sources of feedback, which also is in line with the theory and as described in the table made by Davis, Schoorman and Donaldson (1997); an employee within the Agency theory is controlled, acts individually and works via extrinsic motivation. This shows the difference between the two theories since a Stewardship employee is rather described as involved, acts collectivistically and works via intrinsic motivation. The other respondents have answered that they get feedback from their colleagues and customers which is a sign of Stewardship behavior. We also found it remarkable that eleven respondents take the bonus for granted. This means that the reward is not valued and thus will have no motivational impact (Merchant & Van der Stede, 2007). This might depend on the Stewardship environment, that employees always perform their best, independently of reward. Hence, the bonus is given due to good performance, but they would have performed the same even without it.

A bonus system is an Agency concept (Jensen & Meckling, 1976) and since we find AZ to be mainly reflected by the Stewardship theory, we did not find it surprising that 15 of the respondents answered that the bonus system has not affected their relation with the manager. Furthermore, the last respondent does feel that her relation with the manager is affected, only in a positive way since the manager enjoys encouraging her. This is also a sign of Stewardship theory since the respondents' apprehension of the effect is that the relation is improved, and not that she is controlled which implies that she appreciates the relation.

All findings above indicate that our respondents in three departments at AZ are permeated by a strong Stewardship environment. Since Agency and Stewardship theory are built on different values, problems may occur when using an Agency concept presented in the form of a performance-based bonus system in this environment. Despite the fact that an Agency concept was brought into the company, the employees still apprehend the control as loose, appreciate feminine factors and will perform in the same manner whether having a bonus system or not; all findings indicate that this has not significantly affected the Stewardship environment.

### **5.2.2 The Role of the Bonus System in the Stewardship Environment**

As a result of our research we have found that the bonus system at AZ does not work in line with what theory suggests. The reasons as to why AZ changed their bonus system from a profit-sharing system were to distinguish individual performance and to have a percentage bonus which would be fairer due to different salaries. To have any effect an incentive system should manage the values, competences and motivation of the employees in the direction managers want (Arvidsson, 2008). We could not find this connection since 14 of our 16 respondents answered that their daily work is not affected by the bonus system. Five of the respondents answered that the bonus system does motivate them, and since two of the employees claim that their daily work is affected, this leads to three persons who do not feel that their daily work is influenced, but still find the system to be motivating. Smitt et al. (2002) argue that a system is unsuccessful if it does not motivate the employees. Hence, seen from their point of view the system is unsuccessful, but seen from other perspectives it might not be successful.

None of the respondents perceive that the bonus system creates any competition between the departments. The bonus is allocated to the departments based on their result compared to budgets, and that no one apprehends any competitiveness is distressing since group rewards actually can have positive effects on the behavior of the employees (Merchant & Van der Stede, 2007). Bonus based on groups can create peer pressure which encourages the employees to work together to reach the goals. One reason for the absence of peer pressure within AZ may be that the allocation of bonus is decided at a higher level resulting in the apprehension of the individual employee not being able to affect it, all this in line with the fact that the employee must have controllability (Smitt et al., 2002). Despite the fact that no respondent apprehends competition, one mentioned that when the end of year is nears they all work together within the department to reach common goals, an obvious sign of peer pressure. This might be an indication that peer pressure actually does exist. As mentioned above one respondent suggested that AZ should remove the individual part in the bonus system and only reward on a group basis. She thought that this would increase the collaboration within the group, in line with Stewardship theory, but she still sees a risk with this since there is always the possibility of free-riders. Again, the bonus system does not work according to theory but as indicated, peer-pressure might occur without the employees noticing.

As presented, we received mixed answers from the respondents regarding the question if they can affect the bonus payment; five consider it possible, six answered no or very little while the remaining five feel that they only can affect a part of it. This is interesting, since Smitt et al. (2002) argue that for the system to be effective the employee must have controllability. Several respondents

mentioned how they only can affect the individual part of the bonus and they consider this part small compared to the total bonus; hence, they apprehend their influence to be insignificant. One respondent also mentions that the evaluation ends at the departmental level and never reaches the individual level, indicating that her possibility to affect the bonus is diminished. This is not AZ's intention since they do build their bonus system on three levels which should reflect both the performance of the company, departments and the employee herself. They also try to weigh the parts of the bonus according to the position; a lower-level employee has 80 % of the departmental bonus and 20 % of the company's while a bonus of a higher manager weighs 50/50. For this to have any effect they need to evaluate both the company's, departmental as well as individual levels so the individual performance actually can affect the bonus. Concerning this, AZ has designed the system in line with what Smitt et al. (2002) suggests, but regarding the controllability there is a discrepancy. This might depend on the individual part being too small to have any effect or on the fact that the departmental part includes too many employees for the individuals' effort to make a difference. The lack of controllability was noticed as some employees mentioned how they cannot control the results being measured.

In the empirical findings we describe how one respondent apprehend that for the managers to do a great job regarding the bonus evaluation, they need to invest a lot of time, which she claims will not be brought back in motivation. According to Baker, Jensen and Murphy (1988), the performance evaluation must be paid the right amount of resources to be accurate; otherwise, there is a risk of lower effectiveness. AZ claims that the time invested from managers should not be too costly since they are supposed to have the right amount of knowledge to do this evaluation in an accurate way. This is not in consensus with our findings since we have received opinions that confirm the lack of managers' knowledge regarding employees' daily work. Hence, we find in some cases that managers have not enough knowledge to conduct an appropriate performance evaluation.

The above findings are all signs of the bonus system at AZ not being consistent with theory, but we have found parts that do fit with theory. When AZ changed to the current bonus system they tried to manage the employees through organizational objectives broken down to departmental and further into individual targets. We find it to be a good strategy since all employees will work in a direction that is in compliance with the company goals (Smitt et al., 2002; Arvidsson, 2008). It is noteworthy, that one respondent argues that the connection between her bonus payment and the objectives are vague, which is a risk since this connection is crucial for the system to work. The company has also managed to communicate the bonus system well and as described by Merchant and Van der Stede (2007) a reward must be understandable to be effective. 15 out of 16 respondents find the system to

be clearly communicated although a few mention that the system is complex. AZ also intends to offer the best total reward compared with similar companies, and since almost all respondents are satisfied with this package, they have been successful. Noteworthy, about 30 % of the respondents have mentioned the bonus system as something negative in the total reward due to the complexity, that the goals are set too high or that it does not motivate the employees. One also suggested increased salary instead of bonus, but this is not an option since the salaries should be at the same level as other companies within the field.

In this chapter we have shown discrepancies between the bonus system at AZ and a bonus system described in Agency theory. Despite these discrepancies, that arose when AZ implemented the Agency-based bonus system into the Stewardship environment, we apprehend that many respondents are satisfied with having a bonus system. We found that there are other advantages with the bonus system than those described in literature (Merchant & Van der Stede, 2007; Smitt et al., 2002) when it is implemented in the Stewardship environment. For example, it helps the employees in formulating individual goals and improves the communication with the manager, since the bonus system forces them to have a more continuous dialogue. The evaluations and performance reviews increase the feedback and the employees also appreciate that they receive recognition. Most employees want a bonus system; as it is today, with smaller adjustments or to equally share the bonus over the salaries. All this indicates that the payment is important, hence, the employees consider the system as an opportunity to earn more money. This extra payment is appreciated and also often taken for granted by the employees, which implies that if AZ removes the system it may create a greater resistance than the presence of it does.

In conclusion, the bonus system has been shown not to have any explicit effect on the employees' daily work and we have also shown a discrepancy with theory. Hence, the bonus system does not work as it is supposed to according to the Agency theory, but we find other opportunities and advantages with the current system. For example, it increases the communication through the entire organization, creates understanding and greater knowledge of both the company's, departmental and individual goals. The bonus system also creates a possibility for the employee to earn more money, but without motivational effect and with the risk of jealousy. Consequently, the bonus system is in the end appreciated by the employees and they do not want to be without it; thus, we find the advantages of the system to be greater than the alternative which would be to remove it.

### 5.2.3 Other Findings

In addition to our two major findings we found that culture may affect the apprehension regarding the bonus system. This was shown concerning the design of the bonus, where the answers differ a lot. Six of the respondents are satisfied with the current system, but with smaller adjustments. Others have suggested solutions with signs from Stewardship theory; for example: to remove the system and increase the salary, to give out an equal sum or percentage to every employee or to introduce group rewards only. This is an indication of collectivism which is a foundation of Stewardship theory. However, three persons suggest that the bonus needs to have a larger range further to increase the influence of the individual employee. This might increase the motivational effect of the bonus, as it will have larger impact than today, which is a criterion for a reward to be effective (Merchant & Van der Stede, 2007). It is interesting that a Stewardship environment has been observed at AZ and to have a bonus system with a greater range is more in line with Agency theory (Davis, Schoorman & Donaldson, 1997). Noteworthy, two of these respondents have a foreign background and this implies that cultural differences may play a role in how the system is apprehended. We see this as a natural connection since the Agency theory is more common in other cultures than in Sweden (Hofstede, 1980; Tollgerdt-Andersson, 1993); hence, this may be the reason why these particular persons gave this suggestion.

Another notable finding is that eleven respondents perceive the system as unfair. Two respondents could not answer the question if the system is fair since they do not know what the others receive; adding those two answers will result in 13 out of 16 respondents who do not apprehend the system as fair. The employees within the Commercial department apprehend the system as unfair due to sales targets that are set too high and also believe that their performance is strongly dependent on, for example, which product they sell. Other respondents have given different reasons as to why they perceive the system as unfair: managers evaluate equal performance differently, and the managers are supposed to differentiate when evaluating. This indicates a discrepancy between the employee's apprehension and the manager's evaluation (Baker, Jensen & Murphy, 1988), and the solution AZ has for this problem (rating review meetings) is not used as expected. A few also mentioned the reason of different bonus payment due to different salaries, which again indicates that this system is implemented in a Stewardship environment.

# 6. Conclusion

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## 6.1 Our Contribution to Existing Literature

The main purpose of this thesis is to understand the role of incentive systems in global organizations located in Sweden. Our conclusion is that, even though a company implements a bonus system which is derived from Agency theory, this does not significantly affect a Stewardship environment. Hence, the behavior of an employee is not affected by a bonus system and they will perform in the same manner whether having a system or not.

We have also shown that a bonus system derived from Agency theory does not work according to theory when implemented in a Stewardship environment. Despite this, we found evidence indicating that a bonus system can contribute to an organization in other ways. This implies that there could be advantages with implementing a bonus system, others than suggested in literature. As mentioned above the behavior of an employee is not affected by a bonus system, but removing it would probably create resistance, indicating that a system is after all appreciated. For example, it can result in increased understanding of the company's goals, as well as improved communication between the employees and managers and it also gives the possibility to earn more money.

The fact that a Stewardship environment is not affected by an Agency concept and that there could be other contributory advantages with a bonus system than suggested in Agency theory, indicates that a bonus system can be appreciated in this environment. Depending on the nature of an organization, and the purpose of an implementation, the bonus system can be designed in different ways. In conclusion, a bonus system derived from Agency theory may not be the best solution; rather, the system must be adjusted to fit the Stewardship environment.

## 6.2 Further Research

Our findings are based on a single case study conducted at one company. This implies that further research can improve the understanding of how an incentive system can affect global organizations located in Sweden. This could be accomplished through conducting similar research within other organizations. We also suggest deeper interviews including a larger number of respondents, to further increase the understanding of how the employee behavior, in a Stewardship environment, is affected by an incentive system.



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# Appendix no 1

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## **Interview Guide**

What are your job assignments? Are you satisfied with them?

How do you perceive that you are controlled in your work?

- How do you know which job assignments to prioritize, and why are you prioritizing them?
- What are your forces behind performance?
- Do you feel that you develop in your work?
- How do you know if you have done a good or a bad job?

What is your apprehension of the total reward offer by the company (including salary, bonus, benefits etc). Are you satisfied?

- What is good/bad?

Do you know how the bonus system is designed and how it works?

- Do you understand the system?
- Can you affect your bonus payment?
- Is the system fair?
- Does the system create any competition between the departments?

How does the bonus affect your daily work? Is it up for discussion between employees?

Does the bonus system motivate you?

If you could decide, would you choose to have a bonus system and how would you design it?

Do you take the bonus payment for granted?

Does the bonus system affect the relation between you and your manager?