



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

THE EFFECT OF COMMISSION BASED WAGES

A Case Study of the Real-Estate Industry

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Abstract

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<i>Authors</i>	Anna Gunnarsson & Hanna Åkesson
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<i>Title</i>	The Effect of Commission Based Wages – A Case Study of the Real-Estate Industry
<i>Keywords</i>	<i>Real-estate industry, incentive systems, monetary rewards, change, institutional theory, commission and rewards.</i>
<i>Background and problem</i>	Within the real-estate industry, commission based wages has been the tradition for a very long time. This wage system demands a person to be motivated by money. At the same time, recent studies shows that humans are not solely motivated by money, other factors are important. Still the purely commission based wage system remains the dominating. Recently a debate has been raised within this sector, regarding the need to have alternative wage systems. This has been the background to why this topic is of interest to further investigate.
<i>Research questions</i>	<ul style="list-style-type: none">- How does the chosen wage and incentive system affect and motivate the work of a real-estate agent?- How does the institution manifest the wage system in the industry?- What factors support a change of the wage system?
<i>Purpose</i>	The purpose of this paper is to describe the wage and incentive system in the real-estate industry. The paper investigate why the wage system is used, and how well established the tradition is. Furthermore, the paper aims at reflecting upon the need of change of the current wage system.
<i>Method</i>	Ten real-estate agents from six different firms were interviewed. Half of the respondents were managers and half were employees. Furthermore a survey was sent to four schools graduating real-estate agents in spring 2014. An answering frequency of 52% was attained.
<i>Theoretical framework</i>	Incentive systems, wage systems, motivation theories, institutional theory and management accounting change theory.
<i>Conclusion</i>	The conclusion of this paper is that the commission wage based system works well within this sector, due to the character of the people. This system is deeply rooted in tradition and a strong institution exist guarding the current system. However, many indicators point towards a change being needed and demanded within this sector.
<i>Further research</i>	Proposed further research is to look at this same problem but for all of Sweden, due to our limitation to the Gothenburg region. Furthermore could an investigation of how an “optimal” wage system would be designed be of interest. Also an investigation of how a fully fixed wage system would work within this industry.

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The Effect of Commission Based Wages

1. Introduction

This chapter will provide background information about the real-estate industry and their wage determination. It will present an insight to the problems concerning this wage determination and how it affects performance for the individual real-estate agent. The chapter will finish with the purpose and aim of the thesis.

1.1 Background

The year is 2012, and there are 6700 real-estate agents in Sweden. 660 new real-estate agents entered the market, however during the same year 700 real-estate agents left. This leads to a total reduction of real-estate agents in Sweden. For the first time in a decade, there is a negative growth occurring.¹ Statistics show that one third of the people leaving the profession have been working for less than five years.² The probability of an agent leaving the profession declines significantly after five years of work within the industry. The reason for people leaving the profession that early on is the culture of working solely with commission. 64 % of the real-estate agents in Sweden are working on full commission today.³ This is a long-lived tradition from the days when a real-estate agent was a “pure” salesperson. Since then a lot has changed. The agent has more responsibilities and legal requirements from the Swedish real-estate agent inspection (Fastighetsmäklarinspektionen). Education has also been added as a requirement within the field. With these changes, the profession is not the same as the traditional real-estate agent profession, when one worked as a “pure” salesperson. In spite of all the external changes, there are small changes internally in the industry to adapt to the new conditions. For the newly graduated agents this creates a problem. During the first years it is hard as a newly established agent to live on the small paycheck received. It leads the agent to leave the profession for another employment.

In Sweden today, the real-estate sector distinguishes itself by being one of the few utilizers of pure commission salary. As been noted by studies of motivation theories, motivation consist of intrinsic and extrinsic factors.⁴ When regarding commission, only extrinsic motivators are being fulfilled. As mentioned above, a debate is now arising regarding the future of commission-based wages. Strong voices have been raised about the issue, but still the tradition lives on both within the industry and in society.

¹ Mäklarsamfundet. *Fastighetsmäklare, Fakta och nyckeltal* 2013 (2013)

² *ibid*

³ Fastighetsmäklaren. *Fast lön, nix oro* (2014)

⁴ Armstrong (2003)

The 100 % commission is stressful for the individual agent, and in combination with greater recession in the economy; it's not a lasting environment for some of the newly graduated real-estate agents⁵

This says Felipe Martinez to DI. Martinez is one of many real-estate agents proposing to adopt a partly fixed wage, for a more secure environment for the individual agent.⁶ The organization Mäklarsamfundet (one of the unions for real-estate agents in Sweden) is also discussing the subject in their recent report, where they have interviewed a real-estate firm, which has recently switched to fully fixed wage.⁷ The union believe that managers in the industry now see the problem with the unsure wage system, and is preparing to change for a more secure working environment and wage system.⁸

1.2 Discussion of Problem

The thesis will describe the incentive and wage system, and how it affect the individual real-estate agent. Traditional theories have taught business students that humans are not motivated solely by money. Hertzberg and Maslow's theories are leading within the field, and has been for a long period of time. According to them people are motivated by different things and combinations, and not solely one factor. This leads to question the commission-based system of the real-estate sector. In contrast there is Vrooms theory regarding expectancy, which promotes the commission based incentive system with the condition that one is motivated by money.⁹

Throughout time, good performance has been rewarded with money. This has its roots in the scientific management methods established in the beginning of the 20th century. Monetary incentives have always been an accepted way to reward good performing employees.¹⁰ There is now an ongoing discussion about motivation and monetary rewards and that they are outdated in developed economies. Dan Pink states that the employees might request other ways to be stimulated and motivated in work. With solely commission the intrinsic motivation is ignored and only the extrinsic motivation is being satisfied.¹¹ Pink claims that extrinsic motivation has become less necessary because times have changed. Research shows that rewards in terms of money, make employees lose joy in their performance and harms creativity. The question is whether or not an employee with a routine-based work task are motivated by external tangible rewards or by other means of motivation.¹²

With these theories about incentive systems, we proceed to explore the contemporary problems arisen in the real-estate agents industry.

⁵ Lindblad. *Dagens Industri*. (2012)

⁶ Martinez (2012)

⁷ Fastighetsmäklaren. *Fast lön, nix oro* (2014)

⁸ Fastighetsmäklaren, *Lön, bonus, garanti, provision – hur behåller vi de nybakta mäklarna*. (2014)

⁹ Vroom, V.H. (1964)

¹⁰ Armstrong (2003)

¹¹ Pink (2010)

¹² ibid

1.3 Aim and Scope

The purpose of this paper is to describe the wage and incentive system in the real-estate industry. An investigation is conducted why the wage system is used, and how deeply rooted traditions of the system is. Also concluding a reflection upon if there is a reason to change the current incentive system. This thesis will outset from the discussion in the industry regarding the problem with commission based wages.

1.4 Research Questions

- How does the chosen incentive system affect and motivate the work of a real-estate agent?
- How does the institution manifest the wage system in the industry?
- What factors support a change of the wage system?

1.5 Outline

Method - The second chapter present the methods used to answer the research questions. It starts with a description of how the information was collected and how the investigation was performed.

Theoretical Framework - The third chapter will present the theoretical foundation of the report. The theories are presented in a logical order to easier be able to understand the thesis research questions, the aim and the analysis.

Empirical Study - This chapter will present the empirical findings collected from the interviews, survey and secondary sources.

Analysis - In the fifth chapter the results from the empirical study is compared and analyzed with a standpoint in the theories presented in the theoretical framework.

Conclusion - In the last chapter the research question is answered based on the results presented in the analysis. Finally suggestions are given on what could be interesting questions for future research.

2. Method

This section of the thesis provides a discussion regarding the methods used. After a discussion concerning the choice of subject the methods are discussed. Also a reflection regarding the chosen firms in the study is presented. In conclusion there is a discussion regarding the credibility of our chosen methods.

2.1 Choice of Subject

The choice of subject for the thesis evolved over time, starting within the field of incentive systems and theories that humans are not only motivated by money. Through personal contact with a soon graduated real-estate agent we asked ourselves how this works within a field where 100% commission based wages are the standard. When looking closer into this field through articles, we found a contemporary debate regarding the need for the real-estate sector to change to a different wage system with more security. With this main focus, the scope was narrowed down to find the most interesting aspects and the questions we wanted answered with this thesis is the following:

- How does the chosen incentive and wage system affect and motivate the work of a real-estate agent?
- How does the institution manifest the wage system in the industry?
- Is there a reason to change the wage system?

Our initial approach was to read the debate articles published by the trade organization for real-estate agents. Furthermore a real-estate agent was contacted to manifest the validity of the discussion within the industry. When reading other theses, the subject of the future for commission based wages within the real-estate industry has been suggested.

The thesis observes the people working in the field today, but also survey students becoming real-estate agents within a near future. This scope is being of interest since it chart current ideas and trends and see how these correspond with the thoughts of the future real-estate agents.

2.2 Research Method

Primarily after deciding on the subject of our thesis the scope was narrowed down and research questions were formulated. Two sets of data collection was conducted, one through qualitative interviews, and one through a quantitative survey. The main focus is the qualitative interviews, but the survey serves as a complement to the interviews. Before conducting the interviews a frame of references was created in which the questions were anchored. As been highlighted it is important to first go through the existing theories to avoid reinventing the wheel.¹³ The interview questions were formulated with a standpoint in the chosen theories to guide the interviews within the field of research. The questions to the real-estate agents were on purpose in three different sections, with each section regarding one theory.¹⁴ It was of importance to manifest the theory in the question due to a tight time schedule. The collection of relevant data

¹³ Bryman and Bell (2013)

¹⁴ Attachment 3

was in this way ensured. The theories were narrowed down to evolve around three main fields; motivational theory, institutional theory and change theory.¹⁵

Furthermore, method used for collecting the data was decided upon. Conducting qualitative interviews was the method found the most suiting since flexibility was sought in the interview scenario. The purpose was to describe the ideas and thoughts of the people in the industry. To incorporate the next generation's thought regarding the subject an online-survey was conducted at four main universities who graduate real-estate agents.¹⁶ The result from the short survey to the students was then used in the questions towards the establish real-estate agents to hear their opinion on the result. It was also used to gain knowledge about future sentiments.¹⁷

When all data was collected it was analyzed in the context if the theoretical framework and the different theories was applied one at the time to maintain a good structure.

2.2.1 Qualitative Method

It has already been stated that the main focus in this thesis is the qualitative interviews. The qualitative approach has the main focus with words. Furthermore, an unstructured form of interview was decided upon. Thus, putting emphasis on the personal thought of the real-estate agents. It is important that the interview objects have the opportunity to respond in a personal way and are not restricted by a premade template. The approach chosen is described by Bryman and Bell as a semi-structured interview. A disadvantage with conducting semi-structured interviews was that it might lead the respondent to respond in a specific way that we through our questions influence to. It would not have happened with an unstructured interview.¹⁸

2.2.2 Quantitative Method

The quantitative part of the interview was in the form of an online survey. Quantitative data has its main focus regarding numbers and ratios. It also involves a bigger amount of data compared to the qualitative. The result from the survey was used in some parts of the interviews, asking the interviewed agents about their reflection on the results. As stated by Bryman and Bell, the downfall with the survey was that no further explain our intention could be explained, and a problem could arise if the questions have been formulated in an ambiguous way. The distributions process of the survey, through the school personnel, can of course be negative since the distribution could not be controlled. The survey was designed to be short and attractive in an attempt to minimize the drop-out rate. The survey was as explicit as possible in the cover letter so the respondents understood the purpose.¹⁹ There might arise a problem with the sample since it is hard to control that it was only the students targeted for the survey whom answered it. However, the aim was to collect a bigger amount of data and it would create big limitations conducting another method of collection.²⁰

When analyzing the data the focus lays upon the frequency distribution of the result. Consideration was not taken if there is a difference between different regions in Sweden or if

¹⁵ Bryman and Bell (2013)

¹⁶ *ibid*

¹⁷ Attachment 3

¹⁸ Bryman and Bell (2013)

¹⁹ *ibid*

²⁰ Attachment 1

there is any difference between women and men, or between ages. This due to that it did not aid the aim of the thesis. The data is presented with a bar chart.²¹

2.3 Data Collection

2.3.1 Interview

Ten interviews were conducted with real-estate agents from six different firms. The sample of objects for the interviews has been restricted to the area of Gothenburg, with the exception of one firm in Varberg. Thus, as many interviews as possible could be conducted in person. Due to the fact that spring is the most hectic season for real-estate agents it was not possible to handpick the agents for the interviews, forcing us to interview those willing to help us. This was of course a big limitation, but a wide range of gender and years of experience were sampled, and avoided a too homogenous response.²² Another limitation in this might be that the once choosing to participate are agents who have strong opinions on the subject. Hence, leading to a biased answer. Nonetheless, this is not something we have been able to control. After conducting nine interviews, saturation was reached in the answers to our questions. We felt satisfaction with having reached the point of saturation. One more interview was held after this point, consolidating that saturation was reached. *Table 1* below displays the range of interview objects.

	Sex	Position	Experience
Agent 1	Male	Employee	2 months
Agent 2	Female	Employee	2 years
Agent 3	Female	Manager	2 years
Agent 4	Male	Employee	4 years
Agent 5	Female	Manager	6 years
Agent 6	Female	Employee	9 years
Agent 7	Female	Employee	12 years
Agent 8	Male	Manager	15 years
Agent 9	Male	Manager	25 years
Agent 10	Male	Manager	30 years

Table 1 – Range of Respondents

To find agents to interview a personal contact (agency in Varberg) was used, where interviews were conducted. Furthermore, a majority of real-estate agencies in Gothenburg were contacted through email. The response was varied and a vast majority did not even reply. When there was a positive response a personal meeting was set up. The agents received the questions beforehand, about one week prior to the interview. This was done to give time to contemplate the questions. No limitations was seen with their pre-knowledge of the questions. On the contrary, it might add another dimension to their answer if they talked with their colleagues. Many real-estate agents were very busy during the interview period, flexibility was important and a majority of the interviews were conducted at their offices. In two cases the personal meeting was problematic, phone interviews were conducted instead. The phone interviews did have the limitation of not being as “personal” as the other meeting, and they felt more “stressed” than the ones conducted in person. The same interview guide was used and the responses felt

²¹ Holme and Solvang (1997)

²² *ibid*

honest. In the personal interviews, recording of the interviews were done to gain a complete understanding of the answers. It was important to be able to focus on the responses and not be distracted by typing.²³ The interviews were all anonymous. Anonymity was given from the start, due to creating a safe environment for the respondent, but also since there is no contribution to the aim of the thesis knowing who specifically was interviewed. In the empirical data part there are quotation but no reference to whom said it. This is an active choice in order to gain honest responses from the interviewed agents. Notwithstanding, this should not affect the empirical data since there is no relevance in whom said what. After every interview a summary of the interview was written and transliteration done, to make sure that all details were recorded.

The aspect of conducting the interviews at the firms could have implication on the result. On the positive side it gave a sense of security, which could lead to a more valid result. On the contrary they might be affected to answer in a "firm-biased" way when they were at the office. This made it more difficult for us to get answers which were not colored by the institutional ideas. When conducting telephone interviews the respondents felt more anonymous resulting in more open-hearted answers. A downside was that reactions and body-language could not be observed.

2.3.2 Survey

The survey was sent out to four universities offering the real-estate program. There are in total six schools in Sweden offering the program. The four universities were chosen due to their resemblance in structure and because they had classes graduating in spring 2014. Out of these, the survey was distributed to the students in their last year, soon to be real-estate agents. The schools chosen and the total amount of registered students and respondents, together with the answering frequency is seen below in *table 2*.

<i>School</i>	<i>Students*</i>	<i>Respondentes</i>	<i>Answering frequency</i>
<i>Borås Högskola</i>	37	23	62 %
<i>Högskolan Gävle</i>	60	46	77 %
<i>Malmö Universitet</i>	60	18	30 %
<i>Luleå Tekniska Högskola</i>	34	9	26 %
<i>N/A</i>		4	
<i>Totalt</i>	191	100	52 %

* *Students registered at their last term.*

Table 2 – Respondents to Survey

The schools chosen were not situated in Gothenburg, therefore the data could not be collected in person. Due to the distance in relationship to the small scope of the survey, it was not time-efficient to travel around Sweden. Surveys have the benefits of being cheap and easy to administrate, and we did not personally affect the responses.²⁴ Contact was made with the school administrations' which was a helping hand in the distribution process. In the survey the respondent have to specify gender, age and school, which gives us a good view of who has responded. This however was not used in our analysis, but created a good background material

²³ Bryman and Bell (2013)

²⁴ Bryman and Bell (2013)

when getting to know the industry. It also helped us to know which schools have responded. The survey was available for the students during a three week period, resulting in 100 respondents. In total 191 students were registered at their last term this spring, resulting in a total answering frequency at 52%. This gives a good validity to the responses attained.²⁵

2.3.3 The Collection of Theoretical Material

To build our frame of references the library at the University of Gothenburg, School of Business, Economics and Law, has been a main source. The first step was using GUPEA and investigating what others have written and what theories they have used. Through this we have used GUNDA and Libris to attain interesting books and articles about the field of interest.

The key words used when attaining material is: *real-estate industry, incentive systems, monetary rewards, change, institutional theory, commission and rewards.*

2.3.4 Empirical Material

For the empirical part of this thesis the main data is collected through primary sources from our interviews. It is more suitable to collect data directly from the people in the industry, especially when it is hard to find good secondary sources on the contemporary debate. Some information has been collected from trade magazines and webpages belonging to the real-estate association. The focus regarding primary data in the empirical material is, as Holme and Solvang states, that when the source is closely linked to the current situation, it becomes trust worthier.²⁶ The survey contributes with primary data as well.

2.4 Discussion of Credibility

In this section there will be a discussion regarding the limitations in the method and how this influence the validity and reliability of the thesis. It will also include a section of criticism of the sources.

2.4.1 Validity

The validity of the data collected through the interviews and survey need to be scrutinized since it is far too easy to believe the data. A pitfall is also that it is easy to believe that the data is what we are looking for. It is important to stay away from being confirmation biased. Commencing by looking at the interviews, the decision was made to send the questions to the respondent beforehand, which might have an effect the answers attained. This implicates that the responses might not be truly valid since others might influence the answers. Our own part as interviewers might compromise the validity of the interview because of the signals generated, and the expectations associated with the interview.²⁷ Trying to prevent the issue of invalid data there was an interview guide creating the outline of each interview. To minimize the error of external validity the interviews were conducted with real-estate agents at different firms with different wage systems.²⁸ When discussing the field of a qualitative method we can apply the methods of Denzin and Lincoln; credibility and the transferability.²⁹ Transferability is about being able to transfer the data collected today in one industry and see how this match with the future.³⁰ The data collected will be specific to the real-estate sector and only applicable

²⁵ Holme and Solvang (1997)

²⁶ *ibid*

²⁷ *ibid*

²⁸ Bryman and Bell (2013)

²⁹ Denzin and Lincoln (2000)

³⁰ Bryman and Bell (2013)

to the Gothenburg region. Another issue with the qualitative interviews are their subjectivity, both to our interpretation and the opinions of the respondent. This was taken into consideration when analyzing the respondents' answers.

The quantitative data will also suffer the validity discussion. In consideration that the data was collected through a survey, there is a need to be able to establish that the questions measures what is desired. To prevent ambiguity in the survey it contained a few very short question with clear choices minimizing the space of interpretation. A pitfall in the questionnaire might be our own assumptions that have colored the questions.³¹

2.4.2 Reliability

Reliability concerns however the results are influenced by chance or if the same results would have been attained if the interviews or survey was repeated.³²

Regarding the qualitative interviews consideration have to be taken if we would attain the same results if the interviews were remade. The subject of the interviews is a contemporary debate, hence it would probably give the same results if they were remade within a near future. Considering that the contemporary data will not be reliable in the far future. During the analysis it is important that the same frame of references was used to regard the empirical data through ta gain a reliable result.³³ It is important to have dependability in the research. This is attained through a solid method description of every aspect of the research so that other easily can audit the process.³⁴

The reliability of our survey could be affected by the scale chosen regarding what ratio between wage and commission the students prefer. To make the scale reliable we have an even scale with every ratio was available. To be more certain about the reliability we could a re-test with the same group could be performed to see the correlation.³⁵ Though, this is not possible since we do not believe anyone would respond to the same survey.

2.4.3 Generalization

When using the quantitative method it is important to reflect about the generalization made. Considering it is virtually impossible for us to survey every real-estate student in Sweden, assumptions have been made regarding the data collected. Furthermore, it is important to reflect how the data collected for this group could reflect the sentiments of other students or other real-estate agents. The schools chosen are geographically spread. The aim was that the data could reflect all parts of Sweden, this was taken into consideration when choosing our sample of students.³⁶ Do they represent the sentiments of real-estate students in Sweden? Could they represent the sentiments regarding wages for all students in Sweden? At the first question the answer is yes since our survey reaches many of the real-estate students. Anyhow, one cannot make the argument that the results are valid for all students, independent of field, in Sweden, the results are isolated to real-estate students.

³¹ Bryman and Bell (2013)

³² Holme and Solvang (1997)

³³ *ibid*

³⁴ Denzin and Lincoln (2000)

³⁵ Bryman and Bell (2013)

³⁶ *ibid*

2.5 Criticism of Sources

It is of importance that the sources for the thesis are reliable, unbiased and unambiguous. To consolidate the academic standard of the thesis, active choices of sources have been made.³⁷

The literature was chosen with a standpoint in academic writing. To guarantee their relevance and reliance mainly articles from well-known scientific journals have been chosen. Primarily, recently published literature was used to keep the thesis contemporary. However, in some cases we do have older sources. Foremost, older sources have been used in the field of motivational theories. This is explained by more recently published literature on the subject refers to older studies which are the primary sources within the field. This validates the choice. The original theories are of importance. Time has been spent on gaining the knowledge of whom is the main names within the field to gain legitimacy and credibility.

Due to the fact that there is no scientific writing regarding the specific subject of this industry, the trade magazine published by the real-estate association have been used. This creates limitation because it is not a scientific paper without peer-review or other academic height. Due to the limited amount of other sources, this has served its purpose. Information from this paper has been regarded critically. It has been essential to be up to date with what is happening in the industry. These sources are primarily for the empirical data and not a part of the theoretical framework.

The limited amount of internet sources is an active choice due to the unreliance of the source. It is utterly hard to validate the information found online. However, when an internet source have been used, caution has been taken, minimizing room for erroneous sources.

³⁷ Ejvegård (2003)

2.6 Connecting Theories to the Research Questions

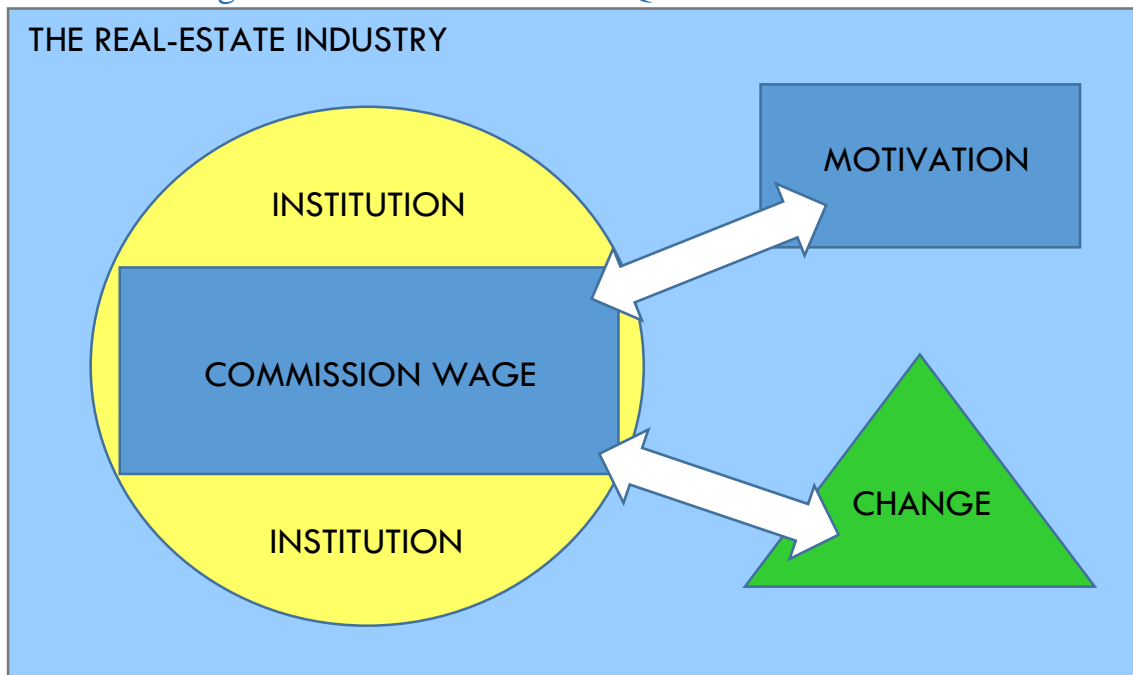


Figure 4. Connection between Theories and Research Questions

The above figure aims to provide an explanation of the linking between the theories and our research questions. In the center is the commission wage. The historic aspect will be explained through the institutional theory. We will also investigate the motivational theme of this type of wage system. At last we will look at if there is a reason to change the system, and how this is linked to the theory.

3. Theoretical Framework

This section will lay forward the theories chosen as relevant when analyzing the subject of our thesis. The theories presented will be motivational theory leaning towards monetary incentives, institutional theory and the theory of change.

One fundamental control system within a firm is the wage system. It is an important tool to control and motivate employees. The real-estate industry is built on traditions and the wage systems have looked the same through centuries. In this section we will start by looking at motivation to see what incentive systems are and why they are used. Also what preferences one have to be happy in their working environment. As of being an industry rich in traditions, theories regarding institutions will be presented. In society today, there are discussions brought up about change in the incentive systems and new business models are established within the industry. Therefore the chapter will end with theories about change in institutions and management accounting systems. The real-estate industry is using a wage payment system that is mainly built on commission and therefore the theories will be presented with a standpoint within incentive systems.

3.1 Motivation

This section will include Maslow and Herzberg's theories regarding motivation in the work environment. It will likewise contain expectancy theory, which is commonly related to salespeople's' commission.

The two greatest scientists within the field of motivation are Abraham Maslow and Frederick Herzberg. Their theories are the foundation to all further motivational studies that has been made. Both theories, Herzberg's two factor theory and Maslow's hierarchy of needs fall into the same conclusion: the human being has different kind of needs and these needs is what affects motivation. Motivation can be divided in to two fields: intrinsic motivation and extrinsic motivation. The intrinsic motivation is the motivation that exists within the individual, and is not relying on external factors. Driven by the interest and enjoyment of the task itself, a sense of self-fulfilment. The extrinsic motivation refers to the performance or an activity to achieve an outcome, whether or not you find intrinsic motivation in the task. Extrinsic motivation comes from outside the individual. Extrinsic motivation is money and rewards. Extrinsic motivation also includes the threat of punishment following misbehaviour.³⁸

3.1.1 Maslow's Hierarchy of Needs

In 1940 Maslow presented his theory on an individuals' different needs. This theory shows how different needs affect the motivation and finally how these compete with each other. This theory is usually presented as a pyramid, (*figure 1*) with the most basic needs in the bottom and followed by higher level of needs. The hierarchy exists of five levels of basic needs. The individual does not feel the second need until the demands of the first one is satisfied, hence

³⁸ Armstrong (1993)

forth.³⁹ On the bottom of the pyramid you find the *Physiological Needs*, which are the individuals' biological needs. They consist of need of food, water and oxygen. Of all needs, the physiological needs are the easiest ones to satisfy with money. These needs are followed by *Safety Needs*, which consist of feeling safe, healthy and having security. When it comes to the working environment, this means having employment and financial security from your employer.



Figure 1. Maslow's Hierarchy of Needs⁴⁰

3.1.2 Herzberg's Two-Factor Theory

This theory is a conclusion of a study launched in the end of 1950's. Herzberg contributed to Maslow's studies by adding a new dimension by presenting two factors for an individual's needs. The two factors are: hygiene and motivation factors. The hygiene factors are linked to the employee's satisfaction at the work place. Motivation factors are linked to how motivated the employees are to do a good job. This theory emphasizes that the hygiene factors need to be fulfilled, if not, the employees will feel dissatisfied. Motivation factor cannot lead to dissatisfaction, but they need to be fulfilled to make the employees work as hard as possible. Therefore the two factors are independent of each other. An individual can be very motivated to do a good job, but can at the same time be very unsatisfied with their salary or the work environment.⁴¹

3.1.3 Expectancy Theory

Tolman proposed an expectancy theory of motivation, which was afterwards supported by Vroom who developed the theory further. Vroom's expectancy theory assumes that an individuals' behaviour is a result from conscious choices among alternatives in performance with the purpose to maximize pleasure and minimize pain. Expectancy theory states that individuals' motivation and effort is a function of three different beliefs that are presented below.

1. The expectancy that specific behaviour will result in the attainment of a specific goals,
2. The value of the desired goal, and

³⁹ Nilsson & Olve (2013)

⁴⁰ Asher Talent Alliance

⁴¹ Herzberg (1968)

3. The degree to which such behaviour is instrumental in the attainment of other additional goals.⁴²

The value of the specific goal could be money, but also status or prestige. If the organisation wants an employee to perform as effective as possible, they need to provide the most powerful motivational incentive in the most cost effective way as possible.⁴³ Valences play an important role in motivating sales people to focus on achieving tasks.⁴⁴ Therefore the management needs to know what preferences the employee has. In that way they can reward with incentives that makes the employee perform in the best possible way.

3.2 Wage Payment Systems

This section will give a short introduction to what payment systems are and how they can be designed.

Pay systems are methods of rewarding the employees for their contribution and work for the organisation. Pay systems should be clear and simple to follow so the workers easily know how they are affected.⁴⁵ Wage policies can be summed by proceeding from two questions: What do you want to pay for as a manager? And what salary do you as a worker need to be motivated, to do your best and stay in the organisation? Payment policy is a combination of three parts:

1. *The Payment Cost.*
The monetary payment and the additional cost, e.g. education and social obligations you as a manager has towards your employees.
2. *The Wage Type.*
There is two types of salary. You can have a fixed or an affectable wage. An example of an affectable wage is commission-based wages.
3. *Wage Differentiation.*
This is the possibility to give an individual wage to your employees. The ability to remunerate an individual employee because of their extraordinary knowledge, result or their way to work.⁴⁶

3.3 Incentive Systems

This section will present what incentive systems are and thereafter the focus will lay on commission. It will also include a discussion about the advantage and disadvantage with commission as an incentive system.

Incentive systems are incentives and rewards that are distributed by managers. The incentives are dependent on the receivers' action or performance. There are different kinds of incentives, both informal and formal. An example on informal incentive is feedback on performance during a meeting. A formal incentive could be bonus or commission on sales. The incentive systems task is also to inform the employees what the focus of the organization is. Therefore it is important that both the formal and informal incentives are focusing on the same objective. If not it could be a conflict in the information the system is trying to convey. The incentive system

⁴² Hume, (1995)

⁴³ Vroom (1964)

⁴⁴ Flaherty and Pappas (2002)

⁴⁵ Acas, Advisory, Conciliation and Arbitration Service (2012)

⁴⁶ Lindblom, (1996)

has other functions than just motivate and inform the employees. The systems also exist to: recruit and keep the employees, and to keep a flexible cost structure. “Recruit and keep employees” is to attract the right people. As noted by Nilsson and Olve, the system measures individual performance and reward performance with money. An organization wants to attract people who are hardworking and at the same time motivated by their incentive systems. To have a flexible cost structure is something that is preferable for industries that are greatly affected by the state of the market. In use of commission on sales means that the personnel cost varies with the company’s performance. Low sales mean low financial incentives to the employees. Resulting that the employees is taking a part of the risk from the owners. The consequence of a bad result is not very significant because the personnel cost is lowered.⁴⁷

3.3.1 Incentive Systems and Commission

It is common for sales people to have a wage that varies with their performance. The basic idea is that the employee is motivated by this type of wage structure to sell more, since it will reflect on the salary. Commission wage can be mounted in different ways, full commission or full fixed wage, with added bonus or a mix of them all.⁴⁸ Hume did state that the incentive system with full commission based wage is commonly applied for sales people, resulting that the salespeople are fully dependent on their performance. Meaning that the security with a known and predicted salary every month is absent. Hence, the pressure is a lot higher compared to other businesses, but at the same time are the incentives a lot higher.⁴⁹ For some salespeople, especially those who are risk averse or in early stage of their careers, a commission-based compensation system could be unstable.⁵⁰ The greater the percentage of the salary that consists of commission, the greater is the risk that the company transfers to the employee.⁵¹

Armstrong emphasis that all organizations are engaged in a search for increased added value from their workforce. The commonly used method to be paid after performance in sales professions is a result from traditionally believes that this is the best mean of achieving highest value added. The rationale for this view is simply that money motivates. This theory has its roots in the scientific management methods. The assumption is made that the workers has the power to self-control their output and adjust the effort mainly dependent on how much they estimate to get in return in monetary incentives.⁵²

3.3.2 Criticism against Monetary Incentive Systems

Monetary rewards can give a significant impact on the employees’ behaviour because virtually everyone values money, according to Pouliakas and Theodossiou. Furthermore, they mean money has a symbolic value that reflects prestige and success. However, the fact that the employee values money does not merely reflect on the performance and motivation. Higher value in the incentives does not simply lead to higher performance. Pouliakas and Theodossiou’s study shows that there is an “inverse U-shaped” relationship between incentives

⁴⁷ Nilsson & Olve (2010)

⁴⁸ Lindblom (1996)

⁴⁹ Hume (1995)

⁵⁰ Flaherty and Pappas (2002)

⁵¹ Armstrong (1993)

⁵² *ibid*

intensity and effort levels, which means that higher incentives actually may result in a decline of performance.⁵³

Through decades, the notion of motivation through money has been criticized. One who has discussed motivation with monetary incentives is Beer who wrote:

Tying pay and other intrinsic rewards to performance may actually reduce the intrinsic motivation. By making pay contingent upon performance (as judged by management), management in signalling that it is they – not the individual – who are in control, thus lowering the individuals feeling of competence and self-determination.⁵⁴

Comparable to all extrinsic motivators, goals can narrow the focus. This is another reason for the failure of incentive systems being effective; in the way they concentrate the individual mind. For complex or conceptual tasks the goal (and reward) can cover the wide-range thinking, which is necessary to find an innovative solution. When an extrinsic goal for short-term success leads to a big payoff, its presence can restrict the view of the broader dimensions of behaviour. In fact, Pink presents a warning for incentive system and how he believe they should come with their own warning label:

Goals may cause systematic problems for organizations due to narrowed focus, unethical behavior, increased risk taking, decreased cooperation, and decreased intrinsic motivation. Use with care when applying goals in your organization. (p.28)⁵⁵

Several studies show that performance related pay is working against their purpose, and grave doubt are raised by this evidence on the effectiveness of performance pay as a motivator. Though it works under some circumstances in today's society, especially in sales job where you can easily find a direct relationship between effort and reward. Armstrong has brought about criteria which can help understand why or why not performance pay is working. These are called *Criteria for effectiveness* and needs to be examined under two headings, the first are those who affect *individual criteria* and the second are those who affect *organizational criteria*.

Individual Criteria: Performance pay is more likely to work as a motivator if:

- It is appropriate to the type of work carried out and to the people employed.
- It fits the culture of the organisation.
- The reward is clearly and closely linked to the individual.
- Employees are in a position to influence their performance by changing their behaviour.
- Employees have a clear perception about the targets and standards of performance required.
- Employees can track their performance against these targets and standards.
- Employees expect that effective performance will certainly lead to worthwhile rewards.
- There is a reasonable amount of stability in work methods and flows.
- Constraints are built into the scheme to ensure that employees cannot receive inflated rewards, which are not related to their own performance.
- The scheme is properly designed, installed and maintained.

⁵³ Pouliakas and Theodossiou (2008)

⁵⁴ Beer (1984)

⁵⁵ Pink pp.114 (2009)

- Employees covered by the scheme are involved in its development and operation.⁵⁶

Organizational Criteria: The essential organizational criterion is that the system has to fit the business needs, goals and overall values and desired organizational culture. According to Armstrong there are some specific points that needs to be considered. The first is the *corporate culture*. Performance pay is more likely to succeed in an entrepreneurial and performance-oriented culture where values support hard work, individualism and risk-taking. The problem is that very few organisations can maintain all these requirements and still have a collaborative culture where the employees do not lose sight of the general organisational goals. The second point to consider is *business unit versus corporate performance*. When you have an individualistic culture, the performance of the company is dependent on different individual units. This can undermine the development of the business as a whole since the managements' possibilities to direct the organisation is restrained. The third point is *short-term versus long-term*. The incentives are commonly linked to the short-term performance of employees. This can conflict with the organizations long-term goals, which can be forgotten in the pursuit of the rewards in short-term. The fourth and last point is *individual performance and teamwork*. It is necessary to avoid defining individual performance in a way that is internally competitive and disrupts teamwork.⁵⁷ It is not many organizations, which can fulfil all these criteria. Edward Deci do not believe paying for performance is the best solution. Deci argues that money actually lowers employee motivation, by reducing the "intrinsic rewards" that an employee receives from their work.⁵⁸ Other group of critics argue that while financial incentive schemes improve productivity in principle, in practice they induce significant adverse side effects that are costly to employees' morale and productivity.⁵⁹

3.4 Institutional Theory

Institutional theory takes into consideration the pressure on an organization by the social structure and environment of the industry. It is not only the institutional pressure from jurisdiction that affects the organization. The industry in itself can act as an institution upon the organization, hence the traditions and the general practice within an industry. Within an organization, the effect of being a part of an institution is that it will affect the professions, processes and programs. This might be done regardless of the efficiency of the procedure.⁶⁰ Arguments have been raised that many organizations adapt a formal structure that dramatically reflect the "myth" of the institutional environment instead of reflecting the demands in the work activity.⁶¹ In today's society it is not uncommon that the formalized structures, which have been built by institutions, are deeply integrated in social reality. It is not a new phenomenon that organizations tend to become isomorphic with their environment, and the organization reflects the socially constructed reality. Organizations within an institutional industry tend to imitate environmental elements.⁶²

⁵⁶ Armstrong (1993)

⁵⁷ ibid

⁵⁸ Deci (1971)

⁵⁹ Baker, Jensen and Murphy (1988)

⁶⁰ Meyer and Rowan (1977)

⁶¹ Bell (1973)

⁶² Meyer and Rowan (1977)

Ever since Weber identified bureaucracy and what he called the “iron cage” the subject of institutions has been debated.⁶³ The aim of the classical institutionalism is that it explains much of the stability in the action patterns among firms within the same field. Institutions are something that exist both externally and internally. One can find the institution manifested in the standardized behavior of individuals but also in the isomorphic display of the firms within the field. Habits on how to think and act are settled, mostly pragmatic solutions that have worked in the past. One can say, solving future problems with means of the past.⁶⁴

DiMaggio and Powell are known to be the ones who first introduced the concept of new institutionalism in the early 1980's. The main difference is that this theory focuses more on the relationship between the environment and the institutionalized organization and how this affect the change of the organization. DiMaggio and Powell identified that managers did organize their firms in a way that mimicked others in the field to gain legitimacy. As they stated, the process of change within an organization seems less driven by efficiency and more driven by the urge to be similar. This process of homogenization of firms within a field do however not necessarily lead to efficiency. Efficiency could be lost due to an un-efficient “best practice” being adapted throughout the industry. Firms tend to create an environment surrounding them, built on rational decisions, which later on inhibits their ability to change. As said by Schelling (1974):

Organizations in a structured field, respond to an environment that consists of other organizations responding to their environment, which consists of organizations responding to an environment of organizations' responses. (p.149)

A phrase highlighting the complexity of institutions and peer pressure, because the pressure is solely a reaction to some other organizations response.⁶⁵

DiMaggio and Powell identified factors that leads to an isomorphic change. One of them is normative isomorphism, most often is linked to professionalism and associations. These tend to define the norms, unwritten rules and tacit knowledge. There is the dilemma that the most powerful within a field tends to get the positions in the association boards, keeping the myths and norms alive because they were the guardians of them in the first place. The firms, or people, who get through the threshold even though they do not meet the norms, are most often socialized into the norms.⁶⁶

In their article, DiMaggio and Powell do raise a number of hypothesis in which they argue that these are the groundwork for a change towards an institutional environment. They raise hypothesis regarding organizational level and hypothesis regarding the field level. On the organizational level the main focus is that centralization, dependency, uncertainty and ambiguity will lead towards being more isomorphic. On the field level, the tendency towards becoming isomorphic is greater when; the field is dependent on the same resources, dependent on central agencies, the fewer the alternative structures are and the greater the professionalization of the field.⁶⁷

⁶³Condorcet (2012)

⁶⁴Clegg and Bailey (2007)

⁶⁵DiMaggio, Powell. (1983)

⁶⁶Ibid

⁶⁷Ibid.

Neo-institutionalism argues that the interaction between organization and the field affects the institution, and vice versa. The firm alone, or the industry alone cannot create the institution, they interact. In 1996 did Greenwood and Hinings invent the concept of neo-institutionalism, a mixture between the old and new institutionalism.⁶⁸ This implied that the industry creates the archetypes that are followed. A change within one organization could change this archetype. The institutional context that influences the firm is the market. These include the norms and laws within a field, and also what behavior is mimicked. It is important to investigate what effect these exogenous forces have when they interact with the firm. Once again, the institution does not solely affect the firm; there is a continuous exchange between the field and the single firm. On the other hand is the endogenously factors that describe power structures, interests and capacity of change.⁶⁹

3.5 Management Accounting Change

To bring about change within an institution is not easy, it would require a firm beginning to change its pattern. In consequence, it would lead to jeopardizing their legitimacy. Due to the environment contributing to the institution, and the environment is changed depending on the organizations responding to their environment, a change in one organization could lead to a ripple effect in the long run. Leading to a change of a management control system.⁷⁰

3.5.1 Change of Incentive System

First looking at changing an established incentive system. It is very difficult to completely eliminate the performance reward once you have implemented it. First, there are studies showing that productivity drop as performance rewards are removed. Second, the demand for compensation arises because the system has created an expectation of monetary benefits; therefore a compensation for this loss is required. Even if these problems with changes in the system exist, it is essential to change your systems as the time pass. A good result system must constantly change; otherwise, there is a risk that the system will discourage business goals, for example if conditions change in the industry.⁷¹

3.5.2 The Accounting Change Model

With this background, it is important to look further upon how management accounting can change. In this case the change of a strong wage system, for a firm, but also for an entire industry. This section will highlight the theories about management accounting change, emphasizing the thoughts of Kasurinen, Innes and Mitchell and Cobb. They developed a model concerning how change of management control can transpire, and what factors are needed. The model is called the accounting change model.

This model deals with the problems arising when a management accounting system or process are being changed. Early on did Innes and Mitchell divide the factors of change into three; *motivators*, *catalysts* and *facilitators*. Motivators could be the organizational structure or a competitive market which motivates the organization to change their system in order to benefit. Motivators influence change in a general way. Catalysts are factors which enhance the effect, this could be the launching of a competing product. Finally, the facilitators are the factors that

⁶⁸ Greenwood and Hinings. (1996).

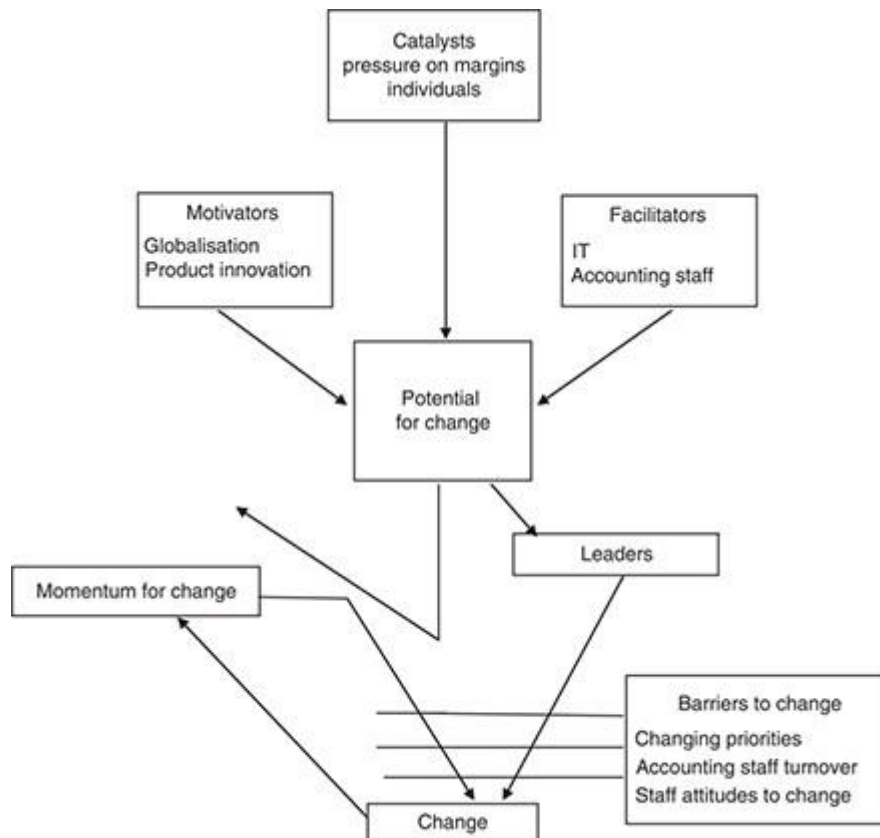
⁶⁹ Clegg and Bailey (2007)

⁷⁰ ibid

⁷¹ Svensson (1988)

are not vital for the change, and could not result in change on their own. Nevertheless, they are vital for the realization of change.⁷²

Cobb put emphasis on the role of the individual as a leader of change. Furthermore, weight was put on the importance of a momentum in the change process. Barriers was identified which are obstacles preventing change. The model seen in *figure 2* incorporates the theory from Innes and Mitchell regarding motivators, catalysts and facilitators creating a potential for change. When we have this potential for change, we need Cobb's leaders and momentum to overcome the barriers to change.⁷³



Source: Cobb *et al.* (1995, p. 173)

Fig 2. The Accounting Change Model

The barriers to change can be identified as personnel resisting change. This could be even more substantial if the new system reveals that the old one was erroneous. Hence, leading to embarrassment and a defensive climate. Barriers could also be structural. Thus, a structure that has been perceived as efficient during a long period of time could be hard to change. A conclusion found is that it is structural factors that serves as barriers to change, rather than procedural factors. Hence, a process-strategy to solve the resistance towards change is not optimal since the structure is the main barrier. When considering resistance towards change, it is mostly common with an indifference towards change. Hence, not an active negative approach towards the change, but rather a disregard.⁷⁴

⁷² Innes and Mitchell. (1990)

⁷³ Cobb (1995)

⁷⁴ Kasurinen (2002)

It has been noted that a strong factor of difficulty to change lays within the different views of managers and employees regarding change. For top management, change is highly regarded as an opportunity and they are generally more prone towards change. Middle managers and employees generally do not seek change, and do not welcome it.⁷⁵ A main reason for the inertia for change is the fear of losing legitimacy with a new system. There is an underlying fear and concern about losing the legitimacy, which creates resistance.⁷⁶

Kasurinen further develop the model by Cobb by creating the “revised accounting change model”. This can be seen in *figure 3*. Kasurinen’s contribution to the established model is the adding of *confusers*, *frustrators* and *delayers*. These factors lays between the potential of change within the organization and the actual change. Confusers are barriers that “confuse” the change process. E.g. uncertainty regarding the goals with a project and opposing goals creating this confusion. Frustrators are factors that tend to suppress the attempt to change. E.g. the engineered culture of an organization can suppress change and create inertia. A well-established system serves as a frustrator. Delayers of change are normally rather technical barriers, but often temporary. E.g. an inadequate information system leading a delay of the process, also the lack of a clear strategy of the change serves as a delayer.⁷⁷

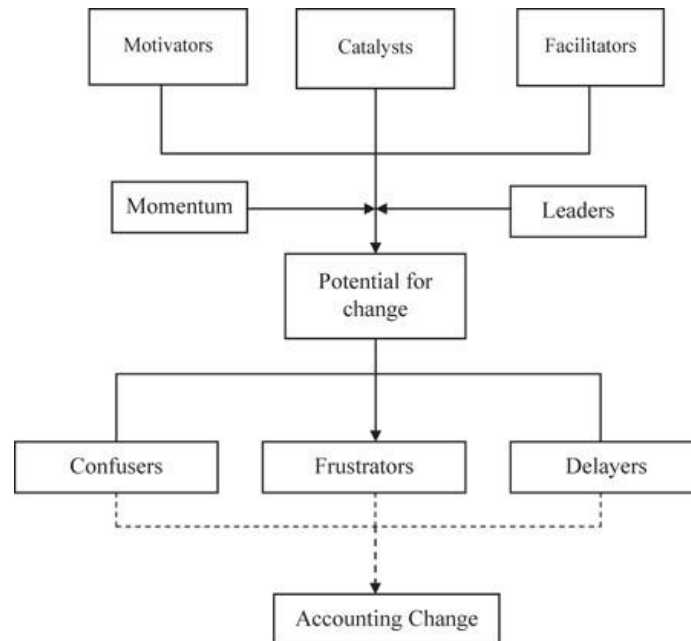


Figure 3. The Revised Accounting Change Model.⁷⁸

⁷⁵ Kasurinen (2002)

⁷⁶ Scapens and Robert 1993

⁷⁷ Kasurinen (2002)

⁷⁸ Ibid

4 Empirical data

This section will present the empirical data obtained through secondary sources, the survey and through interviews.

4.1 Secondary Sources.

4.1.1 The Real-Estate Industry

Real-estate agents are constantly fighting against their social image. This is an image consisting of being sales people who will earn a lot of money to any price. They drive the most expensive cars and use specially reduced prices to attract as many buyers possible, which will lead to the highest selling price. In reality, they work seven days a week and are always expected to be reachable by the customers. They are constantly being monitored by the real-estate inspection and only earn money when a sale has occurred.

The real-estate inspection in Sweden (Fastighetsmäklarinspektionen) is a public authority that registers and inspects the real-estate agents in Sweden. To be able to work as a real-estate agent you are required to be registered at Fastighetsmäklarinspektionen. Since recently there is a requirement to have a university degree in the field. There are two union organisations for the real-estate agents in Sweden and these are: Mäklarsamfundet and Fastighetsmäklarförbundet. They are supporting the real-estate agents and are also informing and developing the real-estate agents' work and customs.

4.1.2 Positions

The traditional positions in a real-estate agency are franchiser and employee. The franchiser is the manager and this is the owner of the company. The employee is the one taking the assignments from customers. The manager is also in some cases taking assignments, but the role is mainly to manage and coach.

4.1.3 Wage System

Real-estate firms earn money from the sales they conduct. They take on average 3-8% commission of the sales-price. This is the general structure of the industry. The real-estate agents in the firms that are getting paid in commission, is receiving their paycheck dependent on their sales. From the 3-8% commission attained by the firm, 22-28% of that is paid in commission to the responsible real-estate agent. The rest is going to the firm and in some cases distributed for holidays or split between all the employees as group bonus. Another uniqueness with the pay system in the industry is that traditionally neither insurance nor pensions are included in the salary. Therefore this is something the agents have to save and organize by themselves. The manager is paying out their own wage since they are the owner of the company.

4.1.4 The Tradition of Commission Wage

64% of the real-estate agents are having a wage system solely based on commission. This is a phenomena being discussed more frequently lately. The latest article from Mäklarsamfundet is debating if it is possible to have a more fixed pay and still reach profitability.⁷⁹ They have seen

⁷⁹ Fastighetsmäklaren, *Lön, bonus, garanti, provision – hur behåller vi de nybakta mäklarna.* (2014)

that it is possible with example from some firms in Sweden who changed their system to a fixed wage. At the same time it is something each agency have to individually design.

4.2 The Survey

To see what the future real-estate agents think and expect of their future wage a survey was distributed. The students who graduate in the spring of 2014 from four schools in Sweden were asked. Malmö högskola, Gävle högskola, Luleås tekniska universitet and Borås högskola. 100 students replied.⁸⁰

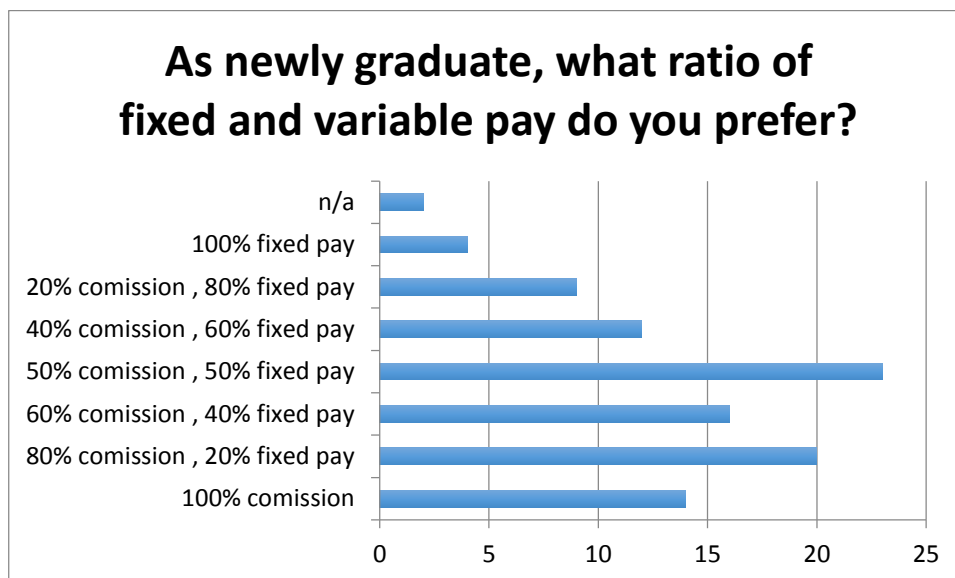


Figure 5. Survey Result.

The results show that the preferred ratio between fixed and variable pay would be a 50/50 ratio. Looking at the frequency distribution of the data, the weight is distributed towards more of variable pay than for having a more fixed wage. The results also show that a large group would like to work with 100% commission. Overall more students prefer a ratio of more commission, but however with some part fixed pay.

⁸⁰ Attachment 2

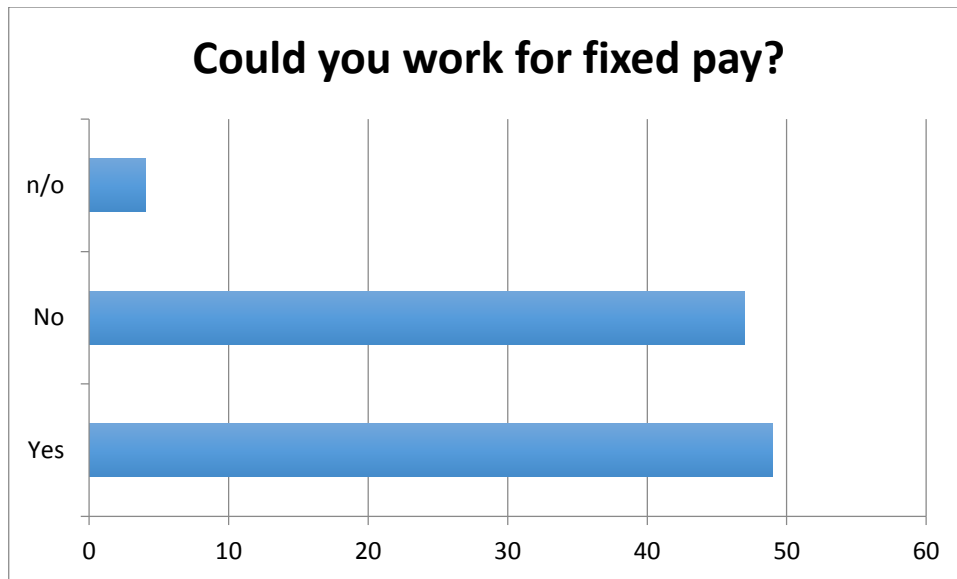


Figure 6. Survey Result.

When asked if they [the students] could work for a fixed pay, the results shows an almost equal, 50/50 spread between the sentiments. When asked this way more students than in the previous question say that they are willing to work for a fixed pay. Linked to this question was also a follow-up question asking why they would/would not be willing to work with 100% fixed pay. The respondents answering “yes” mentioned factors as security, comfort and safety. Whilst the respondents answering “no” mentioned factor as; not a concept working within this industry, not cost-efficient and that it would not motivate hard work. Many of the student’s refers to the “carrot” that they believe is needed for motivation.

4.3 The Interviews

During the interviews the main-part of the agents claims that the commission salary is motivating them.

I’m happy being able to affect my own pay. I’m like an entrepreneur in the company

Especially the managers believe that as a salesperson you need commission to be motivated to work as hard as possible. The paycheck is a confirmation that you are doing a good job, which is needed to be happy in the working situation. Meanwhile this is stressful in hard times when you have not succeeded with your sales. Therefore it is a fine line with commission being motivating or stressful.

Commission is not a good solution if you can’t lean on someone else’s fixed paycheck. It could lead to one loses the moral and ethics when you become desperate in hard times.

Many of the real-estate agents are referring to the stress you feel when you are not succeeding with your sales. Especially those agents with a family and small children to provide for are mentioning this desperation. They promote a bit of fixed pay so you do not put yourself in those stressful situations. They also say that it would make you a more harmonic person, which would lead you to automatically be a better salesperson. In the start of the career one should have a fixed rate longer than 3-6 months, which is the tradition. This would lead to better sales and will automatically create a better working environment for both the individual and the

organization as a whole. A fixed pay in the beginning would also help the agent to get established in the field. With fixed pay is it possible for the agent to focus solely on the work itself, and not on the fact that you might not be able to pay your rent the following month.

When talking about fixed pay, the majority of the agents believes that it would kill the motivation in ones work. They all agree on as a salesperson you need commission as a carrot to work as hard as possible. They also add that a partly fixed pay in the work would, as mentioned, make you more harmonic and in consequence a better sales-person.

Both the interviewed persons and the survey objects were asked what ratio of fixed and variable pay they preferred.⁸¹ Notable with the interviewees was that they all had a different answer to the question. Those who had a family to provide for and/or had worked for a longer time was not that interested in the variable pay. They argued that the security and knowledge of being able to pay the bills was the most important. Meanwhile the agents who were younger were more interested in the variable pay with the explanation that it motivated them.

During the interviews alternative methods in pay systems were observed. One of the companies had a different business model and charged a fixed rate for their work. This is possible because the employees is working fixed hours and have more of a nine-to-five working structure. The real-estate agents in these firms are receiving a fixed wage every month. The company is internet based and they are not required to be available to the customer at all times. They compare themselves as having a “normal” office work with a fixed pay. They were happy with the pay-system and found it suitable for their kind of work.

One other firm was solely working with a group-based commission. The employees were divided into groups of four and had one focus-area together. In this way when one of the agents did not have any good leads or sales coming up, they could help the others with the administrative work. In the end they were all getting paid the same amount. The manager motivated this way of working with giving the work a “team feeling” and working together – not against each other. This way of work was observed in another agency that had the traditional commission system. Three agents came together as a group and worked together, and shared the profits in three. This was done even if the firm was paying out the salary individually. The employees motivated this with being able to help each other and made them all more profitable and happy in their work.

Some agencies are working with guarantee wages. This means that you are always promised a sum of money, but if you are selling for more than that, you got commission on the excess. Some agencies use this in the beginning of the agents work at the agencies, instead of a fixed rate. One agency guarantee wages after you had been working for 2,5 years. With every year you work, this guarantee sum was raised. This is used to make people stay in the business and because they observed people leaving because of insecurity in the wages.

All the interviewees were asked about the importance of salary in their work. The majority said that it is important but not the most important part. One answered the question with:

It's not the salary as in the monetary reward that's important for me. It's the possibility to affect it myself and at the same time compete with myself.

⁸¹ Attachment 2.

Monetary rewards were usually referred to as “carrots” which made the job exciting and motivating. In the end of every month you got a certificate on how successful you have been, and it pushed you to keep on working for the big sales. As a real-estate agent you are working seven days per week, and therefore the salary is important. It is what you are supposed to receive when you sacrifice that much of your time. The answer to the question of what is the most important in the work of a real-estate agent was the social part. Not the salary, but to have good co-workers and be able to meet and help people was significant in the work. A majority said that this is the most crucial factor of their employment.

When asked why the tradition of commission wage is established within the real-estate industry, many of the interviewed agents agree that this is “the way it is”, but they did not know why. When asked to reason freely many return to the historical aspect of the real-estate business. Traditionally, the real-estate agent was a pure sales-person, and commission has been the norm for sales-people for a long period of time. This is one of the recurring thoughts of the real-estate agents. Many pin-point that this is a very old tradition lingering, much due to the current management consisting of “old men”. “Old men” is a recurring phrase in almost all interviews, alluding to both physical aspect of the managers, but also symbolic to the resistance of change. Many mention the argument regarding the cost-structure of the firms, that there is no room to pay a sufficient fixed pay. Even though this argument is used many disregard it as invalid since other types firm in other fields manage to pay a fixed wage.

All other types of businesses manages to pay a fixed wage, why shouldn't we be able to do the same?

Also due to what is referred to as “inflation” of real-estate agents in the industry today many see this weeding, with a “survival of the fittest” approach as good for the industry. The sentiments within the field seems to be that this weeding is a natural part, and that the people working as real-estate agents should cope with the tough environment.

A new agent who cannot sell enough to earn their own wage, is probably not meant to be in this business where sales are the most important.

However, almost all interviewees did express that this attitude is outdated, and does not cohere with the reality of today.

It's very outdated, who says that it is only the people being the best sales people who is the best for the business. That is not how it works today.

The impact of the management is also a recurring factor mentioned by both employees and managers. With the current system it is possible to employ many new agents every year for a minimum cost since the fixed cost is low. Nevertheless, the real cost of employing a lot of new students end up being an expensive experience which many mentions as the long term impact.

It is very cheap. You could employ a lot of new agents and your only cost is a phone and a computer. Since you don't have to pay a wage it is a win-win situation.

It might be cheaper in the short run, but in the long run it is very expensive to hire new people.

When asked about the associations and their role in the traditional system we are told that the representation in the board and associations are normally by manager from bigger firms. Some

of the real-estate agents mention that these people are not very prone towards change. One mentions that these are normally “guardians” of the existing system. One agent explicitly calls the associations “conservative” in both their work and in their thoughts. This agent says that it is the associations that creates the informal framework that all firms act within.

A newly employed agent tells us about how they in school are told how the wage system works. There is never a question about challenging the system, they are told that commission is the way the field works. The agents also express that one is in no position to walk into a first job-meeting and demand to get a fixed wage, because there are a handful of other, equally as competent students, who could take the employment. This is later confirmed by a manager saying that there are no incentives for them to hire a new agent for a fixed pay when they have many other candidates willing to work on commission. The supply is greater than the demand, and the employer can pick whom fits the best. The agents working for a longer time in the field also confirms that it is very hard to demand a different wage because of the established “rules”. Yet many said that when they have been working for a while they could probably bring up the discussion. Some contradicting thoughts did emerge, where managers said that their door is open for a discussion of salary but the employees did not feel that they could make the demand.

Society has an image of the real-estate broker as a rich person, which has earned this money due to high commission. This prejudgment of the real-estate agent has spread to the people studying to be agents. They believe that the only way to earn a lot of money in the field is by having commission. Many of the interviewees mention that this is a common idea when you are new in the industry. However, this view the real-estate business is highly lucrative is something that fades the longer one is in the business, and becomes more of a “normal” job. In the interviews some do express that as a student you do know about the commission system, and that it might be tough. Many do not see this as a problem since they are going to be successful, and will not be affected by this problem. This indicate that many seem to think highly of their own capability.

When asked about the future of the wage system there was a predominating thought that change is needed and that the existing system is not sustainable. A reason many mentions is the new agents, graduating from the schools today. There is a generation change.

The generation of today values free-time more and are not as willing to work without pay, this will force a change to happen

The shifting of gender within the industry is also pointing towards a reason for why a change will happen. Traditionally the industry has been male-dominated but today there is a shift where the stereotype of the real-estate agent is a young woman. Many mention that the issue of maternity leave will raise and force a change.

Today if I would get pregnant I would have to plan it well so I had time to sell as much as possible before I had to leave

The new generation is mentioned many times, and they are seen as a factor for why change will happen. One agent says that the new generation is more eager to express their opinion and they are not scared of raising a discussion.

Regarding what the “new” wage system should be, there was conflicting sentiments. The two main standpoints regarding an alternative wage system are the ones that believe a fixed pay

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system would work, and those thinking that a partly fixed wage system is the most optimal. Advocated by many is also the thought of having individual pay, where the agent every year can decide what ratio between fixed and variable pay.

This would be optimal, there are certain stages in life where a fixed pay would be the best. However, some parts you just feel the flow and want to work on commission.

Managers also express that they would be open towards having this form of more individual wage system. Many mention that if there was a fixed wage it would lower the total pay. The agents who mentions having more fixed pay also states that the fixed pay would be lower than what one could earn on commission. However:

I would gladly have a lower fixed wage, because the security with knowing I would have a stable income makes it worth it.

When asked how this hypothetical change best would happen, once again the sentiments diverge. Some argue that it has to happen from above.

Nothing will happen unless the whole industry change. No one will be willing to change their rules of the game by fear of losing market shares. There has to be directions from the association regarding this subject if anything shall happen.

Other argue that the associations will not change and that it is necessary that there is a form of “grass-rot” movement.

It is the small individual firms that will lead the change. Nothing will happen unless we do it ourselves.

When asked about their prophesy regarding the wage system in 20 years, there are no clear answers, but many do state that a change would have happened by then. Mentioned is that the current system is not sustainable, and for the industry to stay attractive there has to be a change.

5. Analysis

This section will analyze the empirical data with a standpoint in the theoretical framework. It will commence by analyzing the reigning incentive system and how these effect motivation. Furthermore, the aspect of institutionalism and change will be analyzed.

5.1 Incentive Systems and Motivation

An effective pay system has to be clear and simple to follow. This is accomplished in the real-estate industry.⁸² The agents can estimate themselves what they will earn in the end of the month depending on their performance. The wage differentiation is something that automatically occurs since the pay varies with performance. The managers still have the possibilities to change the commissions' percentage and this wage differentiation is used to attract and keep employees.

The primary incentive system used in the real estate business is the formal one – commission based salary. An incentive system different roles is to: inform, recruit and keep employees, motivate and to have a flexible cost structure.⁸³ The commission-based pay system informs the employees what the focus of the organization is – sales. The industries incentive system also manages to recruit new real-estate agents since it is commonly known to be a business where you earn a lot of money. People who are hardworking and who are motivated by money get attracted to the industry. The ones who have started working, and who is doing a good job wants to stay since they have gotten used to the salary and the possibility to compete with themselves. An incentive system function is further to motivate the employees.⁸⁴ Therefore the system is dependent on the receivers' preferences. It is not an incentive if the receiver does not see it as one. Since the industry is attracting people who are motivated by money is this a successful system to motivate the employees. The wage system is also working with “weeding out” those who are not suitable for the job. If you are not an adequate sales person you will not be able to stay in business. The last role of an incentive system is to keep a flexible cost structure.⁸⁵ Through our interviews with managers we have seen that this is crucial in the real-estate business because of the dependence on the state of the market. The risk is therefore transferred from the company to the employees. This sometimes results in a very unstable economic situation for salespeople, especially those who are risk averse and in an early stage of their career.

The system also narrows down the focus to a short-term extrinsic goal. This could restrict the agents' view of a broader dimension. This is true since the agents are planning one month at the time. Their focus is to make enough salary to pay this month's rent and hopefully earn even more than that. This could, as Pink points out, lead to unethical behavior, increased risk taking

⁸² Armstrong (1993)

⁸³ Lindblom (1996)

⁸⁴ ibid

⁸⁵ ibid

and decreased cooperation. This all together will also decrease the intrinsic motivation.⁸⁶ The real-estate agents also emphasize this. When they have a bad month you are getting desperate and could lead to a more short-term focus and unethical behavior.

As Vrooms expectancy theory states⁸⁷ - an individuals' behavior is a result from conscious choices among alternatives in performance with the purpose to maximize pleasure and minimize pain. Because of a clear system it is easy for the individual to have expectations on what they will receive from their chosen action and performance. Through our interviews we have seen that the salary is important for the real-estate agents. They can, with the system affect their own pay and compete with themselves and with this possibility they are motivated to work as hard as possible. Armstrong has mounted criteria for an effective pay for performance system in an organization. The first ones, the individual criteria are all met, except for the last one: "Employees covered by the scheme are involved in its development and operation."⁸⁸ Therefore the employees find some disaffection for the system. This does not change the fact that the main parts of the criteria are met and the system is effective to use in the industry. The organizational criterion is also met since the system fits with the business needs, the goals and overall values and desired organizational culture. According to Armstrong performance pay is more likely to succeed in a corporate culture where the values are individualism, risk taking and hard work. This is true for real-estate firms. One thing to consider for a manager is to make sure that the individual performance is aligned with the overall business goals. With performance pay is the management possibilities to direct limited, and therefore it is hard to direct the whole organization. The most critical factor observed with performance pay is the conflict between individual performance and teamwork. The main part of the firms pay commission individually, and this clash with values for teamwork and collaboration. As a manager it is important to always evaluate if the performance pay is disrupting teamwork and how to prevent this conflict. Armstrong says that both the individual and organizational criterions are hard to meet for an organization, and therefore many are criticizing performance pay.⁸⁹ Despite this, is the real-estate business succeeding with fulfilling the criteria at the same time.

As mentioned earlier the wage system's function is to motivate the real-estate agents. Maslow and Herzberg are talking about motivation and how to make someone content with their working situation. The system focuses on the formal incentives, which leads to that only the extrinsic motivators are fulfilled. The intrinsic motivators of being safe and feeling belongingness are adventured with this system. As mentioned, being able to affect their own pay and compete with themselves motivates the agents. But as soon as the safety needs are put on risk, fear replaces this motivation. Through our interviews we have seen that other parts of the work is as equally important as the salary. This could be the social needs, to have good co-workers and be able meet new people. The system limits these possibilities since it creates a more individual culture.

⁸⁶ Pink (2009)

⁸⁷ Vroom (1964)

⁸⁸ Armstrong (1993)

⁸⁹ *ibid*

5.2 The Institution

Regarding the real-estate sector, clear evidence is found to support the notion that a strong institution concerning the wage system exists, guarding the tradition. Bell stated that the organizations chose a structure, in this case a wage structure, which reflects the myth of the institution.⁹⁰ The interviews revealed many “myths”. As said, no one knew why the existing commission system is the tradition, but everyone knows this is “the way it is”. The notion that the business would not survive if a fixed wage was paid, because of the cost structure, is also wide spread. Hence, a myth that the real-estate agent business would not be able to work as other businesses. This is manifested by Meyer and Rowan, who reflect how these myths becomes a part of society, and the social reality.⁹¹ Looking back on how the myth of the real-estate agent as a hard-bitten sales-person has reflected on the wage system of today. This idea lives on and has become a part of the institution surrounding the wage system.

DiMaggio and Powell did identify the urge for a firm to be similar to gain legitimacy.⁹² The urge to be similar is never outspoken by the interviewees. However two sentiments point towards this aim. First, mentioned is the view that it is the “common” way to set the wage and that it does not confuse the customers. Moreover there are the small comments towards the firm having a very different wage system with a fully fixed wage. The attitude towards this firm is somewhat smirk and no one seems to approve of their way of working. Hence, showing how many leans towards being similar and somewhat resent those who change. This is contradicting, the same agents advocating change of the wage system, are at the same time negative towards the firm making the biggest change. This indicating the power of the institution.⁹³

Isomorphic change is more likely to exist when certain conditions are met, as stated by DiMaggio and Powell. Their hypothesis on the organizational level, they pin-point that the more uncertain the relationship between means and ends the greater the extent to which an organization will model itself after organizations it perceives to be successful.⁹⁴ Hence, within the real-estate organization there is an unstable climate, and you never know when you will sell or not. This will affect the revenue of the firm and the commission has been a way to reach a flexible cost structure. Furthermore, the greater the participation of organizational managers in trade and professional associations, the more likely the organization will be, or will become, like other organization within the field. This is also evident within the real-estate industry. As mentioned in the interviews, the representation in the association boards are the managers from the bigger firms.

When regarding the isomorphism of the field as a whole, two main hypothesis connect to the field of real-estate. First, the greater extent to which and organizational field is dependent upon a single source of vital resources, the higher the level of isomorphism.⁹⁵ All real-estate firms are depending upon people selling and buying their house or apartment. They all rely upon the same base of customers and need to compete amongst each other. This is connected to the previous discussion regarding legitimacy, and the firm do not want to deviate from the norms due to the fear of losing customers. Secondly, the fewer the number of visible alternative

⁹⁰ Bell (1973)

⁹¹ Meyer and Rowan (1977)

⁹² DiMaggio and Powell (1983)

⁹³ *ibid*

⁹⁴ *ibid*

⁹⁵ *ibid*

organizational models in a field, the faster the rate of isomorphism in that field. As noted through the research, the model regarding wages are almost the same throughout the whole field. Those who deviate are often not deviating far from a 100 % commission system. Once again, this confirm the notion of the wage system within the industry being an institution.

5.3 Management Accounting Change

When looking at the aspect of change, almost all respondents agree upon the need of a change of the wage system. As the model depicted by Innes and Mitchell, Cobb and Kasurinen, there are certain factors which are vital for changing an established system. The sentiments mentioned both in the interviews, and seen in the survey, can serve as motivators of change. The interviews highlight the need to change the business due to the “attitude” of the students, they will not accept the reigning conditions. The survey shows that the students do wish for a different wage structure than the 100% commission, hence underlining that they are one of the motivators of change. The real-estate agents today do also mention that they want more security and stability in their wage structure. This could also be seen a motivator or perhaps a facilitator of change.⁹⁶

Cobb talked about the importance of having momentum in the change process.⁹⁷ The recent articles published in the association papers and the raise of the debate, do point towards a momentum. The momentum together with the leaders of change are supposed to help overcome the barriers. A problem arises since there is no clear leader who advocate change of wage system. As noted there is a prevailing disagreement between the real-estate agents of who will lead the change. Should it come from above or below? Traditionally, the theory states that managers are more prone toward change, whilst employees are less prone. This is contradicting to the findings of this thesis. The employees are the ones more eager to change than the managers. However, this might seem reasonable since it is the managers whom benefits the most of the existing wage system.

Kasurinen highlight that one big resistance towards change is if the new system reveals if the old was ineffective or erroneous.⁹⁸ The interviews reveal that the old system has been working for a very long time and many of the interview objects feel that it has not been a bad wage system in the past. However, in changing times there is now another demand from the people in the industry. Furthermore, it is evident that a structure that has been effective for a long time will be harder to change than a newer system. The most common problem regarding change is that people in the industry are indifferent. In this case many have ideas and opinions and people are far from indifferent to the subject. This lead to a good seedbed for a change to occur. Frustrators of a change of the wage system is the deeply rooted institution, suppressing change.

⁹⁶ Innes and Mitchell (1990)

⁹⁷ Cobb (1995)

⁹⁸ Kasurinen (2002)

6. Conclusion

This concluding chapter will answer the research questions and aims to explain the main conclusion of this thesis. The chapter will end with a section identifying further research topics within this field.

In conclusion, the aim of the thesis was to study the wage system in the real-estate sector. From this a reflection was conducted regarding the historical development and reflections made regarding future change of the wage system.

The thesis shows that real-estate agents are motivated by the implemented incentive system. In this sector, money works as a good motivator which indicates that commission based wage is a successful incentive system. Even though the wage system is sufficient in many aspects, when the risk becomes too grand in relation the benefit of the system, the agents becomes concerned with security, leaving the system not to be optimal anymore. Commission based wages cannot give this sense of security. The interviews shows that the real-estate agents value security as much as they value money. The finding of this thesis also shows that commission based wages works well with the purpose of the industry. The system values high sales, which is reflected in the pay system. Commission based wages lead the people in the industry to have a short-term thinking. This might limit the ability to work in a sustainable way.

The reason for why the real-estate sector has the current wage system, is much due to the fact that it is surrounded by a strong institution. The traditions are kept and guarded by the association but also by the real-estate agents, through their attitude and tacit knowledge. The myth surrounding the real-estate sector is well established both within the ranks, but also well established in society. The findings shows that the whole industry is isomorphic, and the wage system is a part of being “similar”. It is important not to diverge, because as a firm you want to be legitimate. The institution is an explanation to why the current wage system lives on, even though it might be outdated. Meanwhile, it is important to realize that the commission based wage system has been successful and efficient within the industry for a long time. This is a reason for why the institution has become strong.

When contemplating the aspects of change, the findings point towards a change being demanded by many parts of the industry. The analysis indicates that almost all the factors needed to change the wage system are present, and a change could be possible. The only obstacle is that there is at this point no clear leader of change. The demand has changed from the people working in the industry, and the demand from the real-estate students as well. This indicates that a change might be inevitable.

In conclusion, this thesis has aimed at depicting and analyzing the role of the commission based wage system. The main finding has been that the current system has many good parts which support its use. There are logical explanation for why the system has been utilized. Nonetheless, the demand from the people working in the industry has changed and continues to change, forcing the industry to raise the debate about how the future wage system should be.

6.1 Further Research

Our thesis has only been conducting interviews in the Gothenburg region. Future research could investigate all of Sweden. This would make the conclusion more reliable. Eventual geographical differences would also be identified, because preferences could be depending on the environment.

Future research could also look into what the future and additional incentive system could include, with both the financial incentives and also what motivators are required. In this changing context, what would the “optimal” wage structure be?

Finally, it could be of interest to see how an adjustment to a fully fixed salary would affect the real-estate sector. Both the work for the individual real-estate agent, and also the sector as a whole.

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8. Attachments

8.1 Attachment 1

Hej!

Vi heter Hanna Åkesson och Anna Gunnarsson och studerar vid Handelshögskolan i Göteborg. Vi skriver just nu vår C-uppsats i ekonomistyrning och vårt ämne är ”lönesättning i mäklarbranschen”. Vi behöver nu lite hjälp utav er som är mäklarbranschens framtid. Vi skulle vilja att ni svarar på några mycket korta frågor om era förväntningar och tankar om er framtida lön. Den tar cirka två minuter att besvara.

Tack så mycket på förhand!

Hälsningar, Hanna Åkesson & Anna Gunnarsson

Kön 1. Man
 2. Kvinna

Ålder: 1. <20
 2. 21-23
 3. 23-25
 4. 25-30
 5. 30<

Vilken skola går du på?

1. Borås
2. Gävle
3. Malmö
4. Umeå

Som nytutexaminerad fastighetsmäklare, vilken fördelning mellan fast lön och provision vill du arbeta för?

1. 100% provision
2. 80% provision, 20% fast lön
3. 60% provision, 40% fast lön
4. 50% provision respektive fast lön
5. 40% provision, 60% fast lön
6. 20% provision, 80% fast lön
7. 100% fast lön

Skulle du kunna tänka dig att arbeta för enbart fast lön?

1. Ja
2. Nej

Varför?

Är du medveten om diskussionen i dagens samhälle om att ändra lönesättningen för fastighetsmäklare, och föra in större del fast lön?

1. Ja, jag har hört talas om detta.
2. Nej, jag har inte hört talas om detta.

8.2 Attachment 2.

Sex	Antal
Man	33
Woman	67
n/a	0
Total	100

Age	Antal
<20	3
21-23	48
24-26	20
27-30	16
30<	12
n/a	1
Total	100

What school are you studying at?	Antal
Borås Högskola	23
Högskolan i Gävle	46
Malmö Högskola	18
Luleå Tekniska Universitet	9
n/a	4
Total	100

As newly graduate, what ratio of fixed and variable pay do you prefer?	Antal
100% comission	14
80% comission , 20% fixed pay	20
60% comission , 40% fixed pay	16
50% comission , 50% fixed pay	23
40% comission , 60% fixed pay	12
20% comission , 80% fixed pay	9
100% fixed pay	4
n/a	2
Total	100

Could you work for fixed pay?	Antal
Yes	49
No	47
n/o	4
Total	100

8.3 Attachment 3

Detta är underlaget för den intervju som kommer genomföras berörande ämnet lönesystem och dess framtid för mäklarbranschen. Vi vill poängtera att detta är mer av en guide rörande ämnen vi vill ta upp, vi vill gärna ha en intervjusituation där en öppen dialog förs, så tveka inte om Ni vill framföra något annat under intervjun. Självklart kommer allt som sägs vara anonymt och Ni kommer refereras till som *Mäklare 1* etc. i den färdiga uppsatsen. Efter att uppsatsen är klar kommer Vi att skicka Er en kopia.

Vi vill väldigt gärna spela in intervjun för vårt eget bruk, detta kommer enbart att användas av oss och sedan raderas. Om Ni känner er obekväma med detta så tveka inte att säga till. Om Ni har några frågor eller funderingar innan intervjun så finns våra kontaktuppgifter nedan.

Med vänliga hälsningar Anna och Hanna.

Intervjuunderlag

- Hur många år har du arbetat i branschen?
- Beskriv i korthet hur din lön sätts?

- Är du nöjd med denna lönesättning? Varför, varför inte?
- Hur viktig är lönen för dig?
- Vad är viktigt för dig i ditt arbete, bortsett från lönen?
- Vad motiverar dig i ditt arbete?

- Varför tror du att traditionen med provisionsbaserad lön finns i mäklarbranschen?
- Vilken typ av människor dras till mäklaryrket?
- Vilka egenskaper skulle du säga att en mäklare har?

- Hur ser du på fast lön, fungerar det eller inte? Varför?
- Hur ser du på debatten i branschen gällande en större del fast lön?
- Är det möjligt med en sådan förändring av branschens lönestruktur?

Vi är intresserade av Era personliga professionella åsikter från Er som arbetar i branschen. Se det därför inte som att det finns ett ”rätt” svar utan Vi är mer intresserad av Din åsikt.

Anna Gunnarsson.

Hanna Åkesson.