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# PAID BY PERFORMANCE

*- A Study about Factors of Motivation and Risk Acceptance*

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We consider it to have been an inspirational period of time. We have increased our knowledge within the subject and hopefully it will be considered an inspiration for others. We also wish for the study to contribute to new insights info about the subject.

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## Abstract

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**Title:** Paid by Performance – A Study about Factors of Motivation and Risk Acceptance

**Background and discussion of the problem:** In order to make an individual work for the same aims as the company, the management has to appeal to the individual worker's needs and factors of motivation. To overbuild existing differences between individual and company aims, incentive systems are designed. These can have different formulations, and rewards given can take different forms depending on individuals' motivating factors. These forms should be designed with consideration to the different needs and behaviours of individuals. As people are different they also have different levels of risk aversion, which means that not all individuals like their reward to depend on their performance.

**Research question:** *What motivates individuals to be paid by performance and take the risk involved?*

**Limitations:** We have chosen to narrow this essay down to solely study a line of business, which will be representative for others with similar systems.

**Method:** We have compared interviews with six estate agents from different firms. We have chosen to apply a qualitative method when gathering the primary data. When utilising this data for the study we had a hermeneutical approach, meaning that we will try to interpret the individuals' subjective apprehensions in order to reflect the most representative picture.

**Result:** We found the most motivating factors for accepting the risk involved with a performance-based pay to be: money, achieving something and feeling important. The question is if individuals consider the risk being a risk. We were told that they do not consider the performance-paid system to be a risk but an opportunity to earn more, but we came to the conclusion of it being a negative aspect even though not verbally stated. Individuals have proven their awareness of the existence of the risk, by considered team constellations risk reducing. In this line of business individuals are aware of the risks, but motivating factors such as money, achieving something and feeling important make the risk seem insignificant.

**Suggestions for further research:** The increase in discontent among buyers and sellers has been augmented and can also be considered a reason for continued investigation. Therefore, we find it of interest to study the effects that a combined fixed and variable wage system may provoke. It would also be of interest to investigate the possible outcome if today's system was totally eliminated from this line of business. It would also be interesting to implement a similar study when the line of business is not experiencing the blooming period the business is experiencing today.



## Table of contents

<b>1 INTRODUCTION.....</b>	<b>1</b>
1.1 BACKGROUND .....	1
1.2 THE DEFINITION OF THE PROBLEM .....	1
1.3 RESEARCH QUESTION .....	3
1.4 LIMITATIONS .....	3
1.5 DISPOSITION.....	3
<b>2 METHOD .....</b>	<b>4</b>
2.1 BACKGROUND FOR DESCRIPTION OF METHOD .....	4
2.2 SCIENTIFIC APPROACH.....	4
2.3 THE OUTLINE OF THE INVESTIGATION.....	5
2.4 GATHERING OF DATA .....	5
2.4.1 <i>Primary and secondary data</i> .....	5
2.4.2 <i>Qualitative method of investigation</i> .....	6
2.5 INTERVIEW .....	6
2.5.1 <i>Ethical aspects</i> .....	6
2.5.2 <i>Searching for real estate agents</i> .....	7
2.5.3 <i>Preparation and execution of the interviews</i> .....	8
2.5.4 <i>Arrangement of interviews</i> .....	8
2.6 CREDIBILITY OF THE STUDY .....	8
2.6.1 <i>Generalisation</i> .....	9
2.6.2 <i>Validity</i> .....	9
2.6.3 <i>Reliability</i> .....	10
<b>3 THEORETICAL FRAMEWORK .....</b>	<b>11</b>
3.1 WHY INDIVIDUALS ACT A CERTAIN WAY .....	11
3.1.1 <i>Behaviours of human beings</i> .....	11
3.1.2 <i>Motivation of human beings</i> .....	12
3.1.3 <i>Different kinds of driving forces</i> .....	12
3.1.4 <i>The needs of McClelland</i> .....	14
3.2 ASPECTS OF RISK .....	15
3.2.1 <i>The relationship between management and personnel</i> .....	15
3.2.2 <i>Risk aversion</i> .....	17
3.3 INCENTIVE SYSTEMS.....	18
3.3.1 <i>Motivation to work</i> .....	18
3.3.2 <i>Purposes of the reward</i> .....	18
3.3.3 <i>Outline of incentive systems</i> .....	19
3.3.3.1 <i>Recipients of rewards</i> .....	19
3.3.3.2 <i>Forms of rewards</i> .....	20
3.3.3.3 <i>What is rewarded</i> .....	20
3.3.4 <i>Theory of Expectancies</i> .....	21
3.5 RÉSUMÉ OF THE REFERENCE FRAME INSTALMENT .....	22
<b>4 EMPIRICAL DATA .....</b>	<b>23</b>
4.1 INTRODUCTION TO THE BROKING-OCCUPATION.....	23
4.2 WHY THE AGENTS ENTERED THIS LINE OF BUSINESS .....	24
4.3 DESCRIPTION OF THE SYSTEM.....	24
4.4 APPREHENSIONS ABOUT THE REWARDS .....	25
4.5 INDIVIDUAL OR COLLECTIVE REWARDS .....	26
4.6 APPREHENSIONS ABOUT PERFORMANCE PAY.....	27
4.7 OPINIONS ABOUT RISK TAKING.....	28
4.8 FACTORS CONSIDERED MOTIVATING .....	28



4.9 DRIVING FORCES AND NEEDS .....	29
4.9.1 <i>Driving forces</i> .....	29
4.9.2 <i>Needs</i> .....	30
<b>5 ANALYSIS .....</b>	<b>31</b>
5.1 FACTORS OF MOTIVATION .....	31
5.2 INCENTIVE SYSTEMS.....	33
5.3 ASPECTS OF RISKS .....	35
<b>6 CONCLUSION .....</b>	<b>37</b>
6.1 SUGGESTIONS FOR FURTHER RESEARCH .....	38
<b>LIST OF REFERENCES .....</b>	<b>39</b>
<b>APPENDIX.....</b>	<b>I</b>



## **1 Introduction**

*In this chapter we will explain the background and discuss the problem of the study. The research question will be presented followed by the limitations and the disposition.*

### **1.1 Background**

Humans have not always had the central role within companies that they possess today. According to the Classical Organisational Theories, workers were looked upon as a factor of production that could be controlled and manipulated in the same way as machines.<sup>1</sup> The consequence was that humans had to work with monotonous job assignments and with high performance pressure, which led to a great number of occupational accidents and strain injuries. Another aftermath was that the employee suffered psychological problems caused by isolation from his or her co-workers and inanimate assignments.

Today, it is the people in the organisation who make up the company, regardless of whether it is a commodity or service producing business. For the enterprise to be efficient and gain high profitability, it requires the employees to be confirmative and work efficiently with the company aims. From the company's appointed objectives, the corporate management shall direct the company's future to obtain these business administrative aims and visions. As the employees on a lower level on the hierarchical ladder constitute the core of the company, it is of great essence to steer the workmen in the direction of the company's desirable objectives.

One way of steering the workers in the desired direction is to design an incentive system.<sup>2</sup> The workers receive clear directives on objectives and visions, which, if they are achieved, will lead to a reward. Therefore, it is of great significance that the company's objectives are attainable and that these goals are desirable for the individual worker. If the incentive system meets these conditions it will lead to the workers being directed towards realising what the company wants, as rewards control our behaviour.

A worker who strives to attain an objective has to be motivated by something. Today, there are many theories about incentives that deal with which factors that motivate a human being. These Motivational Theories make up the foundation of the company's incentive system.

### **1.2 The definition of the problem**

All workers have personal objectives, which they strive to obtain. Thus, there is a risk of workers having personal goals, which are not conformable with objectives of the business management.<sup>3</sup> This discrepancy may lead to a conflict of aims, since unmotivated employees value their own objectives more than those of the company. To prevent a development of this sort, the management should design incentive systems, which motivate to interlace the

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<sup>1</sup> Jacobsen & Thorsvik, 2002

<sup>2</sup> Svensson & Wilhemson, 1988

<sup>3</sup> Arvidsson, 2004



personal goals with the organisational objectives. These objectives should be such that the employees can relate to them and hence result in motivated personnel, who then wish to obtain a better result for the enterprise.

An incentive system can be designed in different ways. Rewards can be intrinsic or symbolic and can be dispensed individually or collectively in a group or a system.<sup>4</sup> There is no ultimate incentive system; therefore each company has to design its own system in order to interact with the conditions the enterprise works in. This implicates that the company has to take into consideration what kinds of people work within the enterprise and what interests they have. Thus, incentive systems have to be adjusted, taking these aspects into consideration.<sup>5</sup>

From the reasoning above follows, that it is crucial for companies to consider the needs of individuals. According to Maslow's Theory of Needs there are five fundamental needs presented in a ladder of hierarchy.<sup>6</sup> These needs are, arranged in order, as follows: physiological, safety, social, esteem and self-actualization. Schein has criticized his theory, among others, for its weak formulation of the categories.<sup>7</sup>

The theory has been elaborated by McClelland who has arranged the needs from a horizontal point of view where needs on a lower level no longer have to be fulfilled before the ones on a higher level.<sup>8</sup> He works on the supposition that actions of humans are predicated from needs of power, affiliation or achievement.

The most important insights about Theories of Needs are that different individuals may have different motives and desires.<sup>9</sup> An incentive system can therefore be interpreted and apprehended differently depending on what the motivating factor is.

Thus, it is not only the needs of humans that explain individuals' actions and behaviours. Heritage and environment play an important role for who we are. Group differences like gender, origin, country and city also play an important part. The biggest distinction may still be the one of existing individual divergence. We are different when it comes to intelligence and personality, and therefore we act in different ways. Depending on individual dissimilarities humans are placed in positions where their divergences come to their fruition.<sup>10</sup>

Taking into consideration the different types of individuals there are and what kind of needs they have, make the company capable of equilibrating and diversifying risks. The vast majority of employees are risk averse, but clearly this differs from individual to individual.<sup>11</sup> According to Merchant risk aversion means that employees like rewards that depend on their performance. This performance ought to be interlinked with their effort and not affected by uncontrollable factors. To be able to direct the risk, companies who hold employees accountable for these uncontrollable influences, must bear some kind of cost doing so. The

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<sup>4</sup> Jacobsen & Thorsvik, 2002

<sup>5</sup> Arvidsson, 2004

<sup>6</sup> Hersey & Blanchard, 1982

<sup>7</sup> Jacobsen & Thorsvik, 2002

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Mabon, 1977

<sup>11</sup> Merchant, 1998



providing of higher value of his or her reward can compensate the employees. As Merchant states another form of compensation is that the company will bear the cost of some employee behaviours designed to lower their exposure to uncontrollable factors, but at the expense of corporate value. Thirdly companies can bear the cost of lost time, as employees' performances are appraised in measures that are contorted by uncontrollable factors.

In summation, to make an individual work for the same aims as the company, the management has to appeal to the individual worker's needs and factors of motivation. To overbuild existing differences between individual and company aims, incentive systems are designed. These can have different formulations and rewards given can take different forms depending on individuals' motivating factors. These forms should be designed taking into consideration the different needs and behaviours of individuals. As people are different they also have different levels of risk aversion, which means that not all individuals like their reward to depend on their performance.

### **1.3 Research question**

By the reasoning above we find it interesting to study what apprehensions there are about performance-based systems and what makes individuals work within this line of business, especially when individuals are willing to take a risk concerning their payment. The research question for the study is as presented below:

*What motivates individuals to be paid by performance and take the risk involved?*

By paid by performance we refer to employees being paid by what they achieve and not by dedicated hours. Being salaried in this way involves a risk for the employee, as not achieving will result in not being paid.

### **1.4 Limitations**

We have chosen to narrow this essay down to solely studying one line of business, which will be representative for others with similar systems.

### **1.5 Disposition**

In the study there are six chapters presented in the following order: introduction, method, theoretical framework, empirics, analysis and conclusion. In the introduction we will introduce the subject to the reader. In the following chapter, the chapter concerning the method, the setup of the study will be explained. In the theoretical framework the chosen relevant theories will be stated. Our primary data will be accounted for in the chapter called empirics. When the empirics have been rendered the linkage between the theories and the primary data will be analysed in the analysis chapter. In the final chapter the drawn conclusions will be presented.





## **2 Method**

*In this chapter we will present and discuss the applied method. We want to make the reader understand how we have implemented our work and how we have chosen to view, interpret and finally understood the information. The chapter is divided into six different instalments dealing with different subjects.*

### **2.1 Background for description of method**

We consider, in conformity with Patel and Davidson, that the purpose with the description of the method is to create possibilities for the reader to evaluate on his own the equitableness and the generalisation of the study's results and interpretations.<sup>12</sup> We will therefore bring up relevant aspects with the intention of mirroring how we have chosen to implement this study. These will also function as a support for the reader's comprehension and his or her assessment of the study's credibility.

To be able to investigate what motivates individuals to take the risk involved in seeking a line of business where reward is given by achievement, we will investigate a number of persons' opinions concerning this subject. Our intention is that these individuals will represent people taking this risk as a result of the incentive system's formation. A typical line of business where rewards are given after performance is real estate broking. Today, most agents work by a commission-based system where the commission is a percentage based on the sales price.<sup>13</sup> The real estate firms differ when it comes to the shape of the system. The only communal factor is that of the reward being based on performance, meaning when sales are executed. The interest for this line of business is based on the profession becoming more and more popular.<sup>14</sup> This means that the competition among the brokers is becoming tougher, and the companies have started to fight over the most competent workers. Thus, the real estate agencies have to allure with lucrative terms of employment.

### **2.2 Scientific approach**

The study will investigate what motivates individuals to take the risk involved with working within a line of business such as this. Thus, the essential thing is the interpretation of the individual's subjective apprehensions. This means that we will have a hermeneutical approach.<sup>15</sup> We will study, interpret and make an attempt to understand stipulations of individual's actions and life manifestations. In contrast to a positivistic approach we are not interested in explaining a phenomenon. We prefer to create an insight into the field of research through putting the parts of the investigation in relation to the entirety. This means that we will have a comprehensive view that is subjective with the assumption of people being subjective.

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<sup>12</sup> Patel & Davidson, 2003

<sup>13</sup> Göteborgsposten's homepage, 2007-04-05

<sup>14</sup> Ekonominyheterna's homepage, 2007-04-05

<sup>15</sup> Patel & Davidson, 2003



As writers, we will have an apprehension about the subject, meaning that we need to have thoughts, impressions, feelings and knowledge about the field of research that we will bring into the study. This understanding can be regarded as an asset for the study but also as an obstacle to understanding that which is investigated.<sup>16</sup> We do not see any disadvantages but consider that it is required that we are conversant in our field of research to implement the study.

### **2.3 The outline of the investigation**

We will investigate a field of research where there already is good knowledge about the subject. There are several theories about incentive systems and what it is that motivates individuals in their work situation. As the motivating factors vary there is no ultimate incentive system. It is for this reason interesting to investigate a particular line of business where there should exist certain decisive factors that motivate the employees.

Our intention is not to highlight the field's versatility but to restrict the investigation to certain predetermined phenomena and factors that are of interest. Thus, the intention of this study is to describe the line of business through implementing a descriptive investigation.<sup>17</sup> This means that we in a circumstantial way will describe and mirror the different brokers' apprehensions and what liaisons exist between these appreciations. We will also indicate the complexity of the situation, which is that many factors can be important.

### **2.4 Gathering of data**

How we as researchers have collected the data is of great importance for the study. The conclusions will depend on accessible data, meaning that we should have critical understanding of the material collected.

#### **2.4.1 Primary and secondary data**

We will for this essay use primary and secondary data. Primary data refers to information being gathered in the first time by the researcher himself. This leads to the investigator obtaining information that is tailored for his or her way of looking at the problem.<sup>18</sup> Secondary data, on the other hand, is data collected from others than the researcher. As secondary data may have been gathered for another purpose than the investigator, he or she should have a critical view on this material.<sup>19</sup>

When it comes to our utilisation of secondary data we have chosen to search for data on the Internet, in articles and on SCB's (Statistiska Centralbyrån) homepage. We have among others searched Google for words such as "real estate broker" and "real estate broking +

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<sup>16</sup> Patel & Davidson, 2003

<sup>17</sup> Ibid.

<sup>18</sup> Jacobsen, 2002

<sup>19</sup> Ibid.



history”. Our articles and Internet sources give a good background and comprehensive picture about our subject. We have also utilised SCB by searching, using the word “real estate”, for statistics about real estate price development. We consider this data to be representative for our study even though other scientists have gathered it. We are aware of the fact that this kind of material may appear less credible and therefore has been carefully evaluated before included in the essay.

The empirical data will consist of material that we have gathered, to present a representative picture of the subject of discussion. Gathering primary data is according to Andersen both time and resource requiring, but of the greatest importance for the study.<sup>20</sup> We have chosen to implement personal interviews on different companies to gather information that can be adapted to our essay. Below, an instalment treating the interview will be retrieved.

### **2.4.2 Qualitative method of investigation**

We apply a qualitative method of research as we consider this to be the most applicable way to be able to answer our question formulation. We will create a better understanding for the subject by focusing on the participants’ perspective and the outcomes of the interviews. Thus, for this study it is not relevant to utilise a quantitative examination method as it is characterised by the investigation having a broad perspective and transmuting information to numbers and amounts. We are instead interested in a qualitative method of research, meaning that it is the information given by people that is relevant and that the researcher apprehends and interprets.<sup>21</sup> We will in depth gather the distinctive, the unique or the contingently aberrant from our study. The crucial thing for us is not to give an explanation, but rather the understanding of the phenomenon that we observe and the existing coherences and structures.

When presenting the empirical data we will reproduce the number of agents rendering each statement. This may be considered as having a quantitative approach. Thus, this is not the intention but an attempt at reflecting how their opinions stand in relation to each other.

## **2.5 Interview**

It is of interest for the study to describe how different individuals apprehend their work position, which is preferably done by carrying out interviews. Interviewing individuals who work within this line of business every day will give a representative picture about the line of business and how people interpret their surrounding world. Thus, we should consider peoples’ differences and develop an interview technique that will be convenient, in order to make it possible to apply to all interviewees.

### **2.5.1 Ethical aspects**

We have during the interview procedure taken ethical questions into consideration. The most relevant ethical decision during the planning of the investigation is how to attain approval

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<sup>20</sup> Andersen, 1998

<sup>21</sup> Holme & Solvang, 1997



from the contemplated interviewees. According to Jacobsen confidentiality and requirement for information should be mentioned.<sup>22</sup> The signification of confidentiality refers to data identifying objects of investigation not being mentioned.<sup>23</sup> We have chosen not to publish any names of individuals interviewed or the company's name. Furthermore, we do not consider this to be of relevance for the study.

When conducting an interview a very important part is the so-called demand for information or informed consent. This means that the interviewee obtains knowledge about the general content and purpose of the investigation. The agent will also be informed of how the interview is disposed and if the participation involves some form of risk or not. The informed consent also includes when and how much information that will be given.<sup>24</sup> We do not want to distribute too much information with the potential risk of the responses becoming too contemplated. Nor do we want to withhold information from the interviewees, as they might feel misguided. When asked if they wanted to participate we introduced ourselves, and the purpose of our research. We emphasise that we are interested in interviewing real estate brokers to find out what apprehensions there are and what motivating factors are considered important. From this presentation the interviewee could voluntarily decide if he or she wanted to participate.

To be able to secure that the information rendered during the interviews do not sidestep the combining or that the answers will not be misinterpreted, our intention was to record every interview if the interviewee approves. It turned out that not one of the interviewees had any objection. Thanks to recordings the probability of apprehending the answers correctly increases. It is also a matter, of course, that the interviewees may if they so wish read our essay.

### **2.5.2 Searching for real estate agents**

Altogether we conducted six interviews on different real estate agent firms. As we wanted to obtain a wider perspective we chose to select brokers from different firms. To get in touch with the real estate brokers we started calling a selection of firms. It turned out to be very difficult to get in contact with any other person than but the receptionist, whom did not have any authority to approve participation of the brokers. For this reason we started sending electronic mail to the firms' info addresses, instead of calling, with the expectation of the electronic mail being passed around and ending up in the hands of someone willing to meet us. Out of approximately 20 circulars we could straight away book time for two interviews. One week later we called the recipients of the electronic mail back to find out if they would consider participating. We could from this make an appointment for an additional four interviews.

Our intention was to interview at least five agents from various firms to reflect a representative picture of the existing apprehension. For the study it would have been better to interview more than the six, but even though we struggled to get hold of more it was not feasible for several reasons. First of all, they did not have time. As we understood it, it was

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<sup>22</sup> Jacobsen, 1993

<sup>23</sup> Kvale, 1997

<sup>24</sup> Ibid.



due to this time of the year being the busiest for the brokers. Secondly, we as researchers have a timeframe to follow, meaning that we do not have the possibility to conduct interviews at a later stage of the study. From this lack of time we have realised that we have to accept the outcome and work for it to become the best study possible.

When choosing real estate agents our intention was that these would possess similar backgrounds within the line of business. This refers to the age of the agents and the number of years they have been active as brokers. As a result of the difficulty of obtaining agents who could participate we had to accept those who did respond. This implies a variety of age and number of years employed in the line of business, but we do not consider this to have a negative influence on the essay. It turned out that many of the represented views depend on these factors. Therefore the spread, in age and employment, will reflect the existing apprehension.

### **2.5.3 Preparation and execution of the interviews**

Our preparation for the interviews has been to take a stand on how the structure of our interview should be. The researcher can decide the questions in advance and their arrangement, meaning that the interview has a predetermined structure. It is also possible to use an unstructured interview where the uses of open questions are implemented for the interviewee to be able to answer freely and develop their thoughts.<sup>25</sup>

In this essay we have chosen to apply a semi-structured interview to maximise the results from the interviews. We have, in advance, decided questions and their order to design a template for the interviews.<sup>26</sup> These questions are of open character, creating a base for deeper and more completed appreciations. The interviews will differ depending on how outspoken the interviewees are. We are aware that some questions will not be answered uncompelled and therefore will be asked, as we need answers. Two questions are of the character of multiple choices where after having chosen the answer the interviewees will have to motivate why they chose it.

### **2.5.4 Arrangement of interviews**

Recording the interview has several advantages, among others that we can take up everything stated. Despite this we think that the interviews should be collocated on paper to facilitate the handling and arrangement of this data. We therefore chose to circumstantially write down what was said after each interview. Thereafter, we studied the answers given to see if there were any differences and conformities.

## **2.6 Credibility of the study**

We consider it highly important to discuss how we have chosen to deal with the question of credibility. First of all, we would like to point out that our intention is to provide knowledge

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<sup>25</sup> Merriam, 1994

<sup>26</sup> See Appendix



about the subject utilising the collected facts during the research process. The empirical material has been utilised as a starting-point to answer our purpose of the research. We would like to emphasise that we consider this instalment a dialogue about the credibility of the essay. Norén states that the researcher profits from presenting and reasoning about the mode of operation performed by the researcher.<sup>27</sup> We have in a prior method instalment shown how we have set about this study to strengthen the credibility.

In order to be able to investigate the credibility of the essay in a more scrutinised way, we have chosen to discuss three different aspects of credibility. These are as presented below: generalisation, validity and reliability.

### **2.6.1 Generalisation**

Our intention with this study is to make it generalisable for lines of businesses where the individual takes a risk in being paid by a commission-based wage system. The study being generalisable means that the research findings, in some form, are transmittable to other environments.<sup>28</sup> To implement the study we chose to apply a line of business that is representative for these types of lines of businesses, and instead of interviewing brokers from the same firm we have interviewed agents from different firms to get a broad perspective. We have because of our interviews obtained a picture of the brokers' opinions about their occupation. Unfortunately, these six interviews may not be apprehended as a generalisation of all agents, as the assortment is small in comparison to all working authorised brokers. Thus, we would like to elucidate that we have obtained a wide picture of what existing appreciations there are and that a bigger selection might not have contributed with anything new. This would mean that our study nevertheless is generalising for the apprehensions that are generally represented about this risk taking system. Thus, this is not confirmable, as we have not implemented more interviews.

### **2.6.2 Validity**

For qualitative studies validity is normally defined as: if the researcher, through the utilised method, investigates what is intended to be investigated.<sup>29</sup> Essential for the validity is that the results from an investigation are interpreted correctly and the kind of truth we have reached is discussed. It is possible to distinguish between two different kinds of validity, inner and external. We believe we obtained a high external validity. This means that we think that the interviewees tell the truth. We have in the modelling of questions had our research question as a starting point to make the questions relevant and valid for the study. In order to obtain truthful answers we have been careful in forming the questions so that they have not been able to be misinterpreted. We also chose not to describe the research too detailed and not to send the questions in advance. This is to make the interviewees give spontaneous answers, and not beautify reality. The interviewees can, according to Lundahl and Skärvad, render facts consciously inaccurate or the reason can be that they do not remember it the right way<sup>30</sup>. There might be several incentives for not giving the whole truth, for example fear of the boss

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<sup>27</sup> Norén, 1990

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Lundahl & Skärvad, 1999



finding out what has been told. In the study we have therefore made the choice of not mentioning any names or firms to keep the interviews anonymous.

Something that we consider to be of great importance is the fact that the interviews have been executed during a period of time when the real estate business is blooming. Prices are today higher than ever and it has resulted in the occupation becoming more popular as people see opportunities to make money. As people today live on average 10 years at the same residence in comparison to 20 years in the past, the demand for brokers has been augmented. For the reason that the brokers work during a period of stability we believe that the external validity is not as good as it could have been, as the brokers speak from experiences that are positive, and perhaps never have apprehended their occupation as a high-risk profession. The inner validity, on the other hand, has been achieved as we find the theoretical and the practical definition to conform. Thus, we believe that our investigation measures what it is intended to measure.

### **2.6.3 Reliability**

The reliability is normally defined as the absence of haphazard errors in measurement, thus the meaning could be interpreted in several ways.<sup>31</sup> One aspect of reliability is the stability in what we measure. To avoid the interviews from varying too much from occasion to occasion we have had the same setup and a structure in the questions asked. This implies that our study has a stable approach and that the ways of conducting the interviews may be looked upon as equalized. The candour of the interviewees has differed, but it cannot be apprehended as a disadvantage for the gathering of data.

As interviewers and scientists, we have not been affected by disturbance factors deteriorating the reliability of the essay. For every interview we have been well prepared, and collected for how the interview will appear. The interviews have been carried out at the agents' offices in an individual room and owing to recording the interviews we have the advantage of not leaving anything out. We have not influenced the interviewees at all, other than by having asked questions designed to make them stick to the subject.

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<sup>31</sup> Norén, 1990



### **3 Theoretical Framework**

*In this chapter we will discuss a variety of theories found relevant for the research question. We will begin by presenting different theories about motivation and risk. A background to incentive systems will also be presented.*

#### **3.1 Why individuals act a certain way**

To be able to investigate how to motivate an individual, it is important to understand how and why people act a certain way. What these catalysing factors are, has always been a subject for discussion. This has resulted in researchers wondering if individuals are all driven by the same fundamental factors or if there are diverse kinds of motivations that stimulate humans. What research has concluded is that there has to be a motivational factor behind behaviour.<sup>32</sup> In this section we are going to present different views of behaviours, needs, driving forces and motivation of human beings.

##### **3.1.1 Behaviours of human beings**

In general it is considered that behaviours depend on peoples' needs. A need is often defined as a feeling of something missing. This emotional condition motivates an action and once the particular need is satisfied another usually appears. Wagner claims that it is desirable to behave in a certain way if a reward is connected to the behaviour. As a result of this, the probability of repeating this behaviour will increase.

One factor that affects human behaviour is curiosity. Apart from other factors of behaviour, curiosity will not be saturated during a long perspective of time. As long as new things appear there will be an interest in exploring the subject. The fundamental reason for this curiosity is the wish to maintain an optimal activation. If there is a low level of activation the prevailing situation is considered dull and searching for other sorts of stimulation will become a fact. If the level of activation is too high, there will be an interest in reducing activates to counteract the existing anxiety and agony.<sup>33</sup> These behaviours may be compared with theories about incentive systems. It is therefore important for the objectives of the incentive systems not to be too hard to reach.<sup>34</sup>

Another factor is the need of accomplishment, where it is necessary to connect the emotional result with the situation. On the one hand there is a wish to compass a challenge but on the other hand there is an existing resistance involved with the possible outcome of failure when you carry out a challenge. Depending on how successful the challenge becomes, it will be associated with feelings like pride or shame. Thus, a person's need to perform depends on how much he or she is willing to take on the challenge and what the possibilities of success are.

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<sup>32</sup> Wagner, 2003

<sup>33</sup> Ibid.

<sup>34</sup> Arvidsson, 2004





Human behaviour is embedded in a social system. According to Wagner social co-laterality creates motivation for individuals. For example individuals may achieve a better result if they work in social groups where they compete with each other. For people, this aspectual competition represents a need to raise their status within the group.<sup>35</sup>

Status and prestige are two ways of describing people in a group. Mabon states that status implicates the position someone takes in a group or organisation, which can be a leading or subordinate position. Status is also associated with the professional role people have in the company. Prestige to Mabon is to what extent people have succeeded and how appreciated they are in the specific role.

There are other factors that distinguish human behaviour. These are factors such as heredity and environment, and qualities like intelligence and personality. Because of the fact that people are different, individuals accept different employments. At the recruitment procedures the job assignment is described, and from this, the most suitable character will be defined.<sup>36</sup>

### 3.1.2 Motivation of human beings

Theories about motivation and behaviour are an approach to answer questions about human behaviour. Hersey and Blanchard argue that behaviour is motivated by a desire to attain an aim, which means that behaviours are goal-oriented. Behaviour can also be described as a series of activities which lead to an interesting question about what it is that engage people in an activity and not another. Regardless of what make people act, an action is based on the different motives people have. Hersey and Blanchard define motives as needs, wants, drives or impulses, which are either conscious or subconscious. Hence, it is the greatest strength of the need, which in a particular moment, will lead to an activity. It is also known that an individual that has satisfied a need will seek another to fulfil.<sup>37</sup>

The figure below shows the relationship between motives, goals and activity in a motivating situation. A motive leads to a goal, which implicates a particular behaviour that eventually leads to goal activity.



Figure 3.1: A motivation situation  
Hersey & Blanchard, 1982, p. 21

<sup>35</sup> Wagner, 2003

<sup>36</sup> Mabon, 1977

<sup>37</sup> Hersey & Blanchard, 1982



### 3.1.3 Different kinds of driving forces

The first thing that comes to peoples' minds, when discussing driving forces, is the salary. But the wage is not the only motivating factor in working life. The fundamental idea is that humans have a prolific ability, an inner energy that cannot be gathered up in the existing manufacturing life. Svensson and Wilhelmson consider people to be steered by five different driving forces. These are constraint, material, incorporated, inherent and social, which will be discussed below.<sup>38</sup>

*Constraint* is a negative driving force that concerns sanctions, or threats of sanctions. This constraint does not have to be physical violence, but structural violence. This means that it will be based on a social structure, which does not give possibilities for an alternative sustenance. Constraint provokes resistance, which means that it is impossible to make people perform tasks that require initiative, interest, caring, or responsibility. By applying this driving force, it will undermine the efficiency of other driving forces and end up in a *cul-de-sac*, as with additional constraints.

Performance pay is the most acknowledged *material driving force*. There are two different kinds of material driving forces, namely individual and collective. Within this collective, salary and other benefits are apportioned after requirements within the group. From this point of view, competition among the individuals in the group will be replaced by competition among the groups and not the individuals. The reward can be seen from two different perspectives: symbolic and material. An example of material driving forces that can be regarded as both, are rewards in the form of money. Money cannot only have the material value we are used to, but also a symbolic value in the form of a symbol of status, security and power. By applying the symbolic view on money we approach the social driving forces. As a result of this, social and material forces can rarely be separated from one another.

There are driving forces based on individuals' ideals, standards and values. These so-called *incorporated driving forces*, can, if not met, provoke feelings such as guilt. In contrast, if acting accordingly, it will result in satisfaction. The incorporated motive powers themselves can be classified as moral and ideological. The moral forces determine how an individual shall act in a specific situation while the ideological forces are based on engagement around certain ideas. While the moral driving forces show how an employee shall behave in various situations, the ideological forces deal with how goals and purposes should be achieved.

Driving forces that make an individual perform an action because of its rewarding nature, are called *inherent driving forces*. These motive powers are highly connected to personally, and lead to new experiences and reduce tensions. The key word for this driving force is self-realisation. To perform creative tasks requires a great deal of inherent forces. Studies show that these driving forces should not be rewarded with external rewards in the form of money, as it will result in a decline. There are also studies indicating that if the reward is liaised with how the task is carried out, the motivation will decrease. On the other hand, if the reward is a reflection of the effectuation, it will increase the interest for the task. Thus, the formation of the work plays a significant role in the possibilities to use the inherent driving forces. In order to be able to utilise the inherent motive powers to the maximum, the work has to be vertically

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<sup>38</sup> Svensson & Wilhelmson, 1988



and horizontally amplified. This implies that with a wider horizon and a more vertical perspective the individual will gain increased responsibility. Thus, the individual has to have control over the production process and be able to actively participate in planning and in the assembling of aims. The employee has to be able to choose how to execute his job assignments and be informed of his accomplishments. This results in prerequisites for self-actualisation. The most crucial way of achieving this self-realisation is the alteration of the work content. These prerequisites are often found on the higher levels of the hierarchical ladder where working conditions are especially favourable for the inherent driving forces. To create possibilities for inherent driving forces on lower levels in the organisation and decentralise power, it postulates that this is implemented at the expense of the favourable conditions at top levels.

The motive powers dealing with involvement and identification are the so-called *social driving forces*. The most significant aspect of these driving forces is the group's reaction. What the job assignment implicates does not constitute an important role for the individual. It is the satisfaction of the acknowledgement that is the crucial motive power. Important within the social motivation forces is the publication of the most eminent workers. It is this announcement that composes a social reward while it concurrently constitutes a driving force for co-workers to identify with these individuals and copy them as role models. These social driving forces signify that individuals have a need to obtain a liking from the collective and seek support in various situations with multiple options. All human beings have a need of liking but it varies in importance depending on the individual. It has come to be the dominating need for individuals whom are controlled from the exterior.<sup>39</sup>

After having deliberated on the various driving forces of individuals we find it important to present what needs individuals can have.

### **3.1.4 The needs of McClelland**

The theory that McClelland developed has its foundation in Maslow's Theory of Needs and the criticism it has been exposed to. While Maslow claims that the categories of needs are ranged hierarchically, McClelland states that the needs are arranged along a continuum where the individual has a possibility to move in both directions. Needs on a lower level do not have to be fulfilled before satisfying needs on a higher level when these become central and motivate the individual. In contrast to Maslow's five needs of motivation, McClelland states that individuals act from three fundamental needs.<sup>40</sup>

The first need is the *need of power*. The people possessing this need value control and influence on other individuals. They are drawn to situations able to present them with status and prestige. The tendency shows that these kinds of individuals tend to seek directorial positions within companies. These individuals are by character good communicators and enjoy speaking.

The second need is *need of affiliation*, which is strongly connected, with Maslow's social need. This states that individuals have an elementary need of socialising with others. This

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<sup>39</sup> Svensson & Wilhelmson, 1988

<sup>40</sup> Jacobsen & Thorsvik, 2002



implies that they have a great need of friendship and belonging to social groups. They show a greater tendency of wanting to be liked and popular. Their intent is to avoid conflicts and criticism, and what they fear most of all is being rejected. They are presumed to act in the way they believe a person is supposed to act.

The last need is *need of achievement*. Making things better is the natural incentive for a need of achievement, like food is the natural incentive for hunger. The factor that drives these individuals is the need to achieve and they are often creative if in the right situations. The individual driven by performance seeks challenges and is drawn to situations where he or she has to take personal responsibility in solving problems. They are strongly focused on achieving results and are afraid of failure. Another characteristic is that they minimise unneeded risks by analysing the situation before acting. The need of substantial and fast reaction to their achievements is of great importance and fulfilment of their criteria of achievement is more important than that of others.<sup>41</sup>

## **3.2 Aspects of risk**

In this section we are going to discuss the relationship between employer and employee, and the risks involved.

### **3.2.1 The relationship between management and personnel**

In order to be able to find an individual's motivating factors, we have acknowledged the problems facing the employee and his supervisor. Between the two there are factors that contradict each other. A theory that tries to explain this relationship is the so-called Principal-Agent Theory.<sup>42</sup> According to Kaplan and Atkinson there has to exist a so-called agency relationship for this theory to work. This relationship exists only when one party (principal) hires another (agent) to perform a service. It is also known that both principals and agents are profit-maximising individuals. The main aim in this theory is to answer the question how contracts can be constructed to motivate the agent to work in the best interest of the principal.

The agency relationship situation requires the principal to delegate decision-making authority to the agent. Within the field of management control systems there are two different types of relationships. Either owners or shareholders act as principals and hire a chief executive as their agent, or the firm's top management is the principal and hires division managers to manage the decentralised units in the organisation. These two are the most common situations but the principal agent relationship functions on all organisational levels.

The theory assumes that agents prefer more wealth to less. This means that the marginal utility, the satisfaction that every extra unit of wealth gives, decreases as more wealth is obtained. This implies that the agent is *risk averse*, meaning that they value the outcome of an investment as less than its expected value. The principals, on the other hand, tend to be

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<sup>41</sup> Jacobsen & Thorsvik, 2002

<sup>42</sup> Kaplan & Atkinson, 1989



risk-neutral, which means that they value the outcome at its actual value. This risk difference between agent and principal lead up to a source of conflict between the two parties involved.

The risk differences it not all that matters but also the agents are presumed to value their leisure. Leisure is defined as the opposite of the effort that increases the expected return to the firm. This implicates that agents who work hard sacrifice their leisure and in return the company increases its value. Another factor in the agent paradigm is that if an agent eludes his or her duties they can always be observed and disciplined. Outputs can be measured, but to *monitor* inputs (efforts and skills) shirking is in focus. This control has been introduced to verify that the agent lives up to the provisions of the contract. Thus, monitoring is an important element in the Principal- Agent Theory.

Before utilising the element of monitoring we need to define another issue in the agent principal paradigm. This is the so-called *adverse selection problem* implying the difficulty of selecting agents with the appropriate skills for required tasks. Frequently when agents are offered contracts these often appeal to agents who have opportunities that are equal to or lower than the level of skills and compensation represented in the contract. Howsoever the contract is carefully conceived it will encourage people, who are not qualified for the job, to apply. As there are differences in information and skills between the agents and principals the latter can never be certain how the agents' effort and skills contribute to the actual outcome. This difference, called *information asymmetry*, creates problems in contracting.

Information asymmetry forms the situation of moral hazard where the agent does not live up to the terms of the contract. An additional problem with information asymmetry is that the best information for control and planning is in the hands of the agent (the controlled), and not in the possession of the controller. The controlled do not always wish to reveal this information in fear of it being used against them. This information impaction or reluctance to disclose the information has led to a great interest in designing organisations to encourage agents to reveal what they actually know or believe.

Agents face a risk when having to decide whether to sacrifice their leisure for a potential increased outcome. Normally the owners should bear all the risk in the company but by rewarding agents by performance the principals project parts of that risk onto agents. This is done as the principal do not possess the same information as the agent. In designing the optimal incentive system it is meaningful to compromise between the desirability of principals bearing all the risk and the necessity of projecting some of that risk to the agents. This projection is made to minimise shirking and over-consumption of perquisites.

To overcome the adverse selection problem in the hiring process, contracts should be structured so that they weed out individuals who are not qualified. For example, high sales should be rewarded with high rewards. To avoid the burden of risk, the principal should be able to predict whether the outcome provides any information about the principal's input. This means that if the agent does not fulfil the contracted work, he or she should in this case be penalised and maybe fired. If this penalty is efficient enough, shirking can be avoided.<sup>43</sup>

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<sup>43</sup> Kaplan & Atkinson, 1989



### **3.2.2 Risk aversion**

To be able to control an individual's work and in this way obtain company goals you can within the walls of the organisation affect the individual's behaviour. An organisation utilising pay-for-performance is an outstanding example of an organisation implementing control of the employees' results.<sup>44</sup> This can be looked upon as result control as it rewards individuals who generate a good result while it at the same time punishes those who do not. Rewards interlinked to the result inform or remind employees that generating results for the organisation pays off. Result control influences actions of individuals as it makes them worry about the consequences of their actions.

Another way of executing result control is to utilise franchising, where all risk is being diverted to the franchisee. The franchisees wield some decision making power even if this is generally restricted by contracts. The advantages of franchising is that the use can be spread all over the world and earn fees and royalties through minimal risk control. This control is minimal as franchise rewards stem directly from the profits made by the franchisee. It is the rewards that motivate franchisees to work hard, be effective, responsible towards clients and be entrepreneurial.

Result control lead up to employees maximising their opportunities to generate the wished result of the organisation. This is because of the organisational objectives not accidentally being the ones resulting in maximisation of the individual's rewards. Result control can also inform the employees of what is expected from them.

There are several arguments why employees should not bear the company risk of uncontrollable factors. Most companies holding their employees responsible for these factors must bear some cost of doing so as most individuals are risk-averse. Being risk-averse means that individuals want their commission-based rewards to be based on their effort and thus not be affected by uncontrollable influences. This aversiveness varies with personal differences. Merchant states that marketing and sales personnel are more risk-tolerant than others.

Firms holding their employees responsible for effects or factors that they cannot control will bear the cost of doing so. The owners should according to Merchant hold company risks. These are better on bearing this risk, as they are risk-neutral through their use of the financial market. If the risk, ignoring this statement, is diverted to the employee, the employee should first and foremost be compensated through a higher expected income. If this is not successful the company will bear the cost in alternative forms, such as incapacity to hire gifted personnel, loss of motivation and probably in the end loss of profit. Secondly, the company will bear the cost of certain individuals' behaviour being created to avoid these uncontrollable factors at the expense of the company value. Thirdly, the company will bear the cost of lost time as the employees will spend time arguing to what extent the uncontrollable factors have affected their work.

Uncontrollable factors can be such as economic and competitive factors, acts of nature and interdependence. Economic and competitive factors can take many different forms. There can be a change in demand or prices, competitive products and services or the cost of doing

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<sup>44</sup> Merchant, 1998



business. Other factors that impact are the actions of competitive companies, changes in consumer tastes, boycotts and also changes in exchange rates. Acts of nature are huge unexpected one-time occurring situations that are totally uncontrollable. These may be tornados, volcano eruptions, earthquakes, floods and even good weather. Interdependencies refer to an organisation or an individual's area not being totally self-contained, but affected by others in the organisation.<sup>45</sup>

### **3.3 Incentive systems**

To be able to understand why individuals act and feel a certain way, we need to find out what motivates an individual and when motivated we need to know how to make him or her act in a desirable way. When acting in a way that pleases the management, it should be encouraged. How and why this is implemented is something we will look further into in this section.

#### **3.3.1 Motivation to work**

One theory that deals with work motivation is the Motivation-Hygiene Theory, developed by Frederick Herzberg. He presumes that there are two different factors that describe what people want from their work, these being factors of motivation and factors of hygiene. When people have a positive feeling about their job it is as a result of factors of motivation, conversely when people have feelings of discontent this is relatable to factors of hygiene.

Factors of motivation are factors that can be related to their work tasks, indicating if they are successful in performing their work, and to the possibility of professional growth. Thus, when appreciating their job, it is as a result of the work itself. On the other hand, when apprehending the job as unfair it is because of factors of hygiene. These are associated with conditions surrounding the performance of the job. Hygiene factors include supervision, interpersonal relations, physical working conditions, salary, company policies, administrative practices, benefits and job security.<sup>46</sup>

#### **3.3.2 Purposes of the reward**

There are many apprehensions about what the purposes of rewards are. Arvidsson presents three aims, which are to control the organisation, motivate people to desirable performances and to recruit and keep competent co-workers.<sup>47</sup> Svensson and Wilhelmson also confirm the last-named factor.<sup>48</sup> Furthermore, they believe that successful performances should be rewarded and thus incentive systems are a motivation factor. Just as accomplished actions are rewarded, so are the companies as they obtain more profitable results. Kaplan and Atkinson argue for three fundamental statements about incentive systems.<sup>49</sup> The first one is that they should be competitive so that they will attract and retain high-quality co-workers. The second is the fact that they should communicate and reinforce key priorities in the company. The substance of this is that companies should develop a performance-oriented climate by rewarding high achievement.

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<sup>45</sup> Merchant, 1998

<sup>46</sup> Herzberg, 1959

<sup>47</sup> Arvidsson, 2004

<sup>48</sup> Svensson & Wilhelmson, 1988

<sup>49</sup> Kaplan & Atkinson, 1989



All these authors' statements harmonise with each other and give a representative view of the purposes of the reward. Common to these statements is that they function as motivating factors and that they attract and retain competent workers.

### 3.3.3 Outline of incentive systems

To understand incentive systems it is important to demonstrate it in a comprehensive outline.<sup>50</sup> The main idea of the incentive systems is to motivate the employees to fulfil their assignments and solve problems in a satisfying way for the organisation. If employees act the desired way, they will be rewarded. Hence, if not acting the preferred way they will be punished or the reward will not be disbursed.<sup>51</sup> According to Arvidsson, receiving feedback from their achievements motivates individuals. Hence, it is essential that these are given within a reasonable period of time after the performance.<sup>52</sup>

According to Jacobsen and Thorsvik the incentive system consists of three elements shaped in the best possible way to reach the wished result. The model is illustrated below.

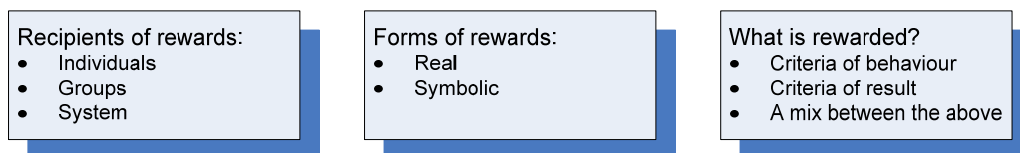


Figure 3.2: The system of incentives  
Jacobsen & Thorsvik, 2002, p. 303

#### 3.3.3.1 Recipients of rewards

According to Jacobsen and Thorsvik it is of great essence to distinguish between individual, group and system rewards. The individual rewards are the ones distributed to an individual for his individual achievement while group rewards are dispensed to individuals within a group because of the group's performance. The third recipient is the system reward, which is given to all individuals within the organisation.

The main idea with individual rewards is that it will result in a higher individual performance, as it stimulates and motivates the individual. This can lead to competition between individuals, which can function in a positive way but can also have a negative effect on cooperation. Rewards based on collectively achievement, are given to groups to stimulate the individuals to cooperate, but the competition among the groups will increase.<sup>53</sup> Another positive aspect of rewarding a group is that it creates loyalty and responsibility. Thus, there is a risk involved with people becoming so-called free-riders, which is a person that obtains the reward of the group even though he or she has not participated enough.<sup>54</sup> When utilising system rewards the internal competition will be overcome. These rewards are given to all

<sup>50</sup> Arvidsson, 2004

<sup>51</sup> Jacobsen & Thorsvik, 2002

<sup>52</sup> Arvidsson, 2004

<sup>53</sup> Jacobsen & Thorsvik, 2002

<sup>54</sup> Arvidsson, 2004





members of the organisation. This system is only motivation to a certain extent but plays an integrating role within the organisation.<sup>55</sup>

### **3.3.3.2 Forms of rewards**

It is possible to distinguish two different types of rewards. Firstly, we have the *intrinsic rewards* that manifest usefulness, meaning that they can be given a monetary value in one way or another. These can be such as different kinds of wage, an official car and newspapers. Secondly, we have the so-called *symbolic rewards* meaning that these cannot be given a monetary value, and if they could, it would not be of any significance. The symbolic rewards are such as commendations from an executive or special attention given for an outstanding achievement.<sup>56</sup> For example, these rewards are opportunities for career benefits, capacitating benefits and new or more job assignments.<sup>57</sup>

Companies today have different ways of rewarding their employees and many offer flexible wage systems. The intention is to connect the compensation to the human effort of the employees and the result of the company. From the company's viewpoint it can be attractive to constrain the stipends and let the profits affect the actual size of the wages in having variable wages. The variable wages are paid if some objectives based on results have been accomplished. If the objectives are performed beyond expectations the wages will be higher, but if the objectives are not achieved the wages will be lower. Within a line of business where the competitiveness has a strong connection to the employees' competence it is important to encourage workers who are active. They should have an incentive system that connects to the company but also to the individual development.<sup>58</sup>

### **3.3.3.3 What is rewarded**

There are according to Jacobson and Thorsvik two criteria used for distributing different incentives. The first is that employees are rewarded to the extent that they give in to the structure of the organisation. This means that a reward is given based on behaviour. Rewarding factors are such as punctuality, order and conformability with rewarded procedures and rules. The second base for reward is to reward the work achieved. This has its foundation in the industrialisation in the last century, where employees were rewarded after performance. Ever since that day, criteria for results have been elaborated to be utilised in different rewarding systems.

Lately, a new rewarding system has been advocated, as the behaviour-based reward only functions to a certain extent as a motivating factor to achieve something extra. The reward based on results can be seen as unfair as the individual does not always have control over obtained results. To ensure that use is made of the motivating factors, and at the same time offer security, a mix between the behaviour and result-based rewards has been developed. The outline consists of a partly fixed pay and another variable related to the result.<sup>59</sup>

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<sup>55</sup> Jacobsen & Thorsvik, 2002

<sup>56</sup> Jacobsen & Thorsvik, 2002

<sup>57</sup> Arvidsson, 2004

<sup>58</sup> Smitt et al, 2002

<sup>59</sup> Jacobsen & Thorsvik, 2002



### 3.3.4 Theory of Expectancies

As we stated earlier, the idea of using incentive systems is that individuals are instigated to make an extra effort when they are offered rewards. To be able to answer if individuals are motivated by this we need to introduce the Theory of Expectancies.<sup>60</sup> According to Jacobsen and Thorsvik it is presumed that high performance is obtained when an individual sees the possibility to achieve something that he or she has desired. The reward therefore has to be of the sort that it is something someone has a yen for and which is interlocked with gaining of a specific result.

There are three fundamental statements about the theory. The first one is that the reward has to be something that you desire. Secondly, the individual has to believe that there is a link between the work he or she puts in and that the result eventuates in a reward. This is interlocked with so-called expectancies. Many may be motivated to achieve something extra but not all have the prerequisites to attain the results. The third one is called instrumentality, which means that the individual has to believe that the achievement of a result actually leads to the desiderated reward. The theory states that if the corporate management wants to ameliorate the co-workers' performance by an incentive system, it has to link the results with higher valence to good performances and be sure that the employees understand the linkage between them. Correspondingly, the weak performances have to be linked to consequences with zero or negative valence.

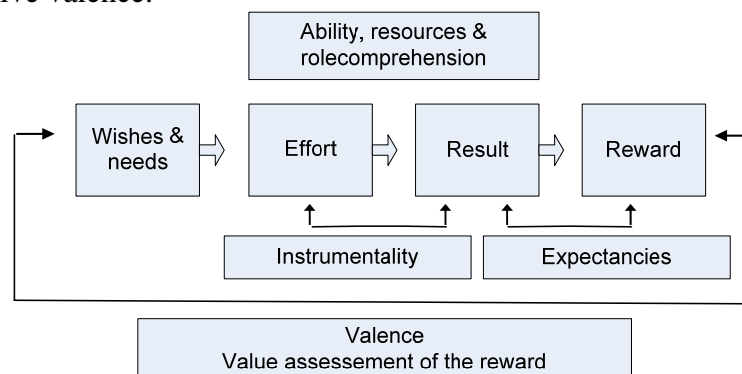


Figure 3.3: The central elements in the Expectancie Theory  
Jacobsen & Thorsvik, 2002, p. 307

The Theory of Expectancies is based on a basic formula of motivation. Valence, expectancy and instrumentality shape multiplicative relationships to each other. This formula means that if the expectancy is zero or the valence is zero the product also has to be zero.<sup>61</sup>

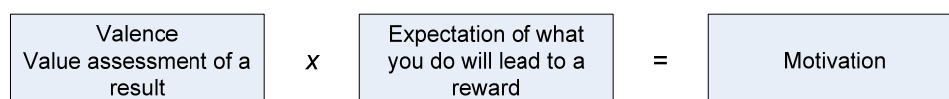


Figure 3.4: The formula of motivation  
Jacobsen & Thorsvik, 2002, p. 309

<sup>60</sup> Jacobsen & Thorsvik, 2002

<sup>61</sup> Ibid.



### **3.5 Résumé of the reference frame instalment**

In this section we present different theories, related to our research question, dealing with what it is that motivates individuals in this line of business. The focus will be on why individuals accept the risk involved in being paid by performance. From the presented theories we have been able to lay down the essential aspects presented in this epitomising section.

As earlier rendered, there is a risk relationship between agent and principal, thus consequently between boss and employee. This risk induces, according to Kaplan and Atkinson, different negative factors either for the agent or the principal. Through monitoring, it is possible to avoid so-called shirking, where the employee tries to evade his duties. This monitoring or control is something that Merchant advocates, but states that it can be achieved without present control. A form of control is pay-for-performance, where reward is given after the employee has achieved something. In this way the employee will also take the responsibility for factors out of his or her control. For the employee to accept this risk the company will have to compensate the employee, often through offering a high compensation when performing.

The question we ask is if this commission-based reward system is the only motivating factor making the individuals accept this pre-named risk. According to Svensson and Wilhelmson each individual reacts to different driving forces. These can be as follows: inherent, incorporated, material, social and constraint. It should also be mentioned that human beings' behaviour depend on what needs they have. According to McClelland needs can be divided into power, achievement and affiliation. Furthermore, Herzberg has developed a theory about what motivates individuals to work, based on two factors, namely hygiene and motivation.

An additional aspect of making employees willing to take the risk, except from the motivating factors we have already mentioned, is to reward by performance. This means that the company should reward when individuals work in line with the company aims. This reward should be based on either behaviour or achievement, but the ultimate solution should be based on both. A reward should, furthermore, be of symbolic or economic nature and have some kind of recipient. The crucial thing about rewards is that they should be ascribed to the work the individual has performed, be desirable, and the individual should be aware of the work resulting in a reward. These latter aspects are what the Theory of Expectancies is all about.



## 4 Empirical data

*In this chapter, we will firstly introduce the background to the line of business, which we have chosen to study. When we have presented this introduction, we will move on to accounting for the emerged results of the inquiry. This will be rendered in the most representative framing possible.*

### 4.1 Introduction to the broking-occupation

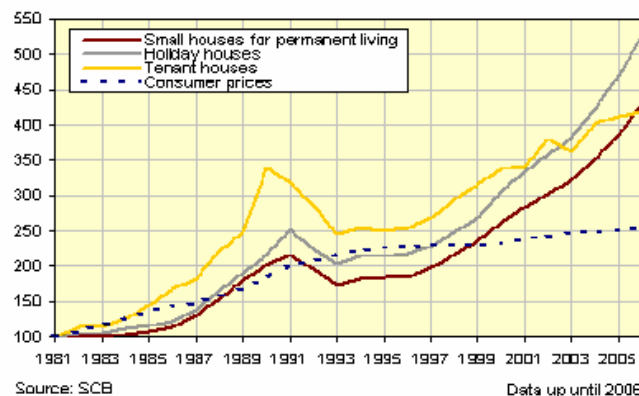
To understand the real estate business, it is essential to understand what an estate-agent really is and does. First of all broking is more than just selling, it is all about creating contacts between different parties. One interviewed estate-agent explained that “broking is the oldest occupation in the world, since someone had to bring Adam and Eve together, meaning that God is the first known broker.”

Real Estate Broking has found a more important role in society as people live an average of ten years in the same residence in comparison to 20 years a couple of years ago. As stated by an interviewee, broking has evolved as a result of the real estate broking system having reformed. The development has resulted in it today being easier to mediate real estate properties. The supply of brokers has not yet overtaken the demand and there is still a shortfall of estate-agents in Sweden. This is a result of the occupation having become more and more attractive coincidentally as the market has grown stronger and bigger. Every year 500 agents are requested but there are only 200 entering the market each year.<sup>62</sup>

During the past decades, real estates properties have also seen a powerful development in prices. Between 1995 and 2005 the prices of houses met an increase of about 110%. The sales having seen the highest augmentation are the ones located in the big city regions. Another important factor, to take into consideration, is the interest rate. In 1995 this was 8.5% and a decade later it was 1.7%.<sup>63</sup> The growing market has led to broking becoming a more popular occupation.

**Real estate price index**

Index 1981=100



<sup>62</sup> Malmö Högskola's homepage, 2007-05-06

<sup>63</sup> Statistiska Centralbyrån's homepage, 2007-05-05



The broking-occupation has not always been based on commission pay. One interviewee informed us that the company Spafab did not pay by performance, when the rest of the market used this strategy. Coincidentally, as the company realised they had to change their strategy, the employees contacted the union. As Spafab was owned by the mutual savings banks the employees argued that they should be regarded as bank employees. The union agreed, resulting in the collapse of Spafab, as the agents continued being paid despite not performing.

From the above stated we will continue to evaluate the responses from the interviewees.

## **4.2 Why the agents entered this line of business**

All interviewees have a degree in real estate broking and work as agents. The interviewees have worked from one year up to 33 years. More exactly, the spread consists of 1 year, 1.5 years, 5.5 years, 9 years, 11 years, and 33 years.

They all have different backgrounds and reasons for seeking the real estate agent profession. We wanted to know if they had any prior connection to the occupation. The outcome was that three out of six did not have any former contact with the profession. One of the other three had a grand-dad who had worked as an agent and another had remote acquaintance. Only one had any kind of real connection with the occupation before choosing the profession. This linkage consisted of a friend studying to become an agent and a friend of his parents working as a broker.

The most commonly represented reason for having entered this line of business is that it is very free and thus it is not required to spend all day in the office. Accompanying this reason are the motives of contact with human beings, broking being a combination between sales and economy. These views are represented by half of the interviewees. Additional brokers represent the view of the market being interesting and multifaceted. The rest are represented by the choice of changes in either career or educational choice. One interviewee started studying to become a land surveyor but changed his mind as he realised he was better-suited for the real estate line of business. The last representative grew up connected to new production of houses but coincidentally with the emergence of the banc crisis in the beginning of the 90's, changed careers from new production to broking second-hand houses.

## **4.3 Description of the system**

Based on the interviews it appeared that all agents work on a commission-based wage system, meaning that the salary is entirely based on performance. If employees do not achieve they will not be rewarded. The commission-based system can be predicated on individual or group constellations. It turned out that two agents worked after a team constellation with two or four brokers. Other rewards at the firms were bonuses, benefits, honours, journeys and happenings.

There are two factors that condition the size of the provision. The first is the percentage that the company takes as a fee towards the client. This percentage differs from client to client, depending on the price of the object. A more expensive object commends a lower percentage



towards the client as the sale brings in more money. The majority of the interviewees stated that they charged a rate between 3% and 5 %, but the interval extends from 1.5% to 8%. The other factor determining the size of the provision is how high the percentage is that the agents receive from the sale they have contributed to. This percentage differs from company to company but the majority lies within the range of 27% to 30%. One of the firms utilises a staircase for varying the percentages depending on the object's price. A communal factor for all firms was that the given percentage includes all costs of the broker such as taxes, employee expenses and social costs. Holiday compensation being included in the wage is the most represented among the firms. Thus, one broker understated that his firm disbursed holiday compensation in excess of the provision.

Several stated that new employees, during the first period at the workplace, receive a guarantee salary. Depending on firm, this salary will be administrated between three and six months. This is to ensure that the broker obtains a proper chance to get started with the work assignments. Another firm disburses upfront payment if any agent experiences a momentary dip. Thus, it is required from the agent that he or she has shown good results during prior months and that the advance payment will be paid back within a short period. As a broker it is of great essence to save up a buffer in order to be able to survive during less lucrative months.

#### **4.4 Apprehensions about the rewards**

The majority believed the purposes of incentive systems to be to make people work harder and generate money for the company. To be able to achieve that, an incentive system has to motivate the employees and make them thrive at the company and with their work.

Two interviewees informed us that they received *bonuses* from their firms. At one firm the agents were apportioned a part of the annual return. At the firm utilising different stairs for the commission, the agents received a bonus between every step. One interviewee wanted a part of the company's return to be shared among the workers, but this firm did not utilise this kind of reward.

Only one interviewee associated rewards with *benefits*. This agent told us that all agents have an official car at their disposal and that this can be bought out if the agent so wishes. As their office has a very central location, it is of advantage to have ethanol cars as they provide the firm with free parking. This firm did also offer other benefits such as the purchase of a computer, at the company's expense. The most appreciated benefit was the fact that the management was not greedy and that the agents were offered objects they needed. The only requirement for the purchase of the products was that they have to be connected to the work itself. If they found some supplement to their computer, this purchase would be discussed before buying it at the firm's expense. The majority of the firms had stylish premises, also mentioned as a type of privilege. In one firm the management team had funded a lounge and a health centre to make the agents thrive. The conception was that the agent, whenever he or she wishes, can exercise in a very flexible way. Unfortunately, it is not used as frequently as expected, but the agent appreciated the intention.



An interviewee said the firms' *honours* were related to performance. One honour was being appointed agent of the month, assigned to the best seller of the month. The winner received a bottle of champagne and the agent who has sold the most number of apartments receives a bottle of wine. Another reward, apprehended as the most appreciated, is assigned to the agent who has sold the most during the year. Apart from being named agent of the year the agent receives a vacation with his family. The vacations vary, but they have given away trips to Vienna, the French Riviera and golf trips to Spain. The other interviewees did not talk about honours, but stated that someone who has performed well is appreciated and congratulated.

All interviewees confirmed that they sometimes, in one way or another, spend time together with the rest of the group in the form of *journeys or happenings*. The number of times each firm makes efforts to organise these occasions tends to be more than three times for every firm each year. The communal purpose is to augment the cohesiveness and make the employees thrive at their workstation. For example, some of the firms arrange journeys for all employees. One interviewed broker spoke about what kind of different trips they have made during the years. For example they had visited New York and other big cities. They had also made journeys which were connected to health and another excursion was having climbed Sweden's highest mountain. There are also other things arranged for the employee of the firm. For example, all firms have something called "happenings" executed for joining the employees together. Some of these are arranged by the management team and some are arranged by the employees themselves. As stated by one interviewee, everyone has the opportunity to participate in activities like barbecue evenings, sport evenings or the annual golf competition. Another interviewee exemplified happenings like educations and conferences. Furthermore, happenings can be After Work, restaurant visits or personnel parties.

#### **4.5 Individual or collective rewards**

Most firms have a commission-based wage system based on individual performances, which is the most common way of rewarding employees in this line of business. Individual performances signify that all money the agent brings to the firm will be dispensed only to him, minus the percentage given to the firm. Two of the agents interviewed work in teams where the sum of the brokage is divided between the team members. The salary does in this way not directly depend on the individual's performances. Instead, it depends on the group's achievements. The two firms had different setups depending on the size of the team. One of the firms had a group constellation of four agents while the other had two brokers working together.

There are several advantages of constellating teams according to the concerned parties. The most important factor is that of the income becoming steadier. Instead of a high income one month and a low the following month, working in teams will result in the income becoming more stabile. Another factor is that the work itself becomes more satisfying, if shared with a colleague. It leads to a possibility to help each other and be two agents at the demonstration instead of one. To be an agent implicates independent work, but by constellating teams the work becomes more social. There are also other aspects, such as the clients being better off and the providing of empathy from other co-workers.



The agent, working in a team of four, thought that the team setup stimulates to action within the group without the colleagues competing with each other. All members of the group want to contribute and are watching over each other to ensure that they are all keeping up the pace. This setup will not work if someone provides for someone else and consequently people will act for this not to happen. The other agent, working in the group constellation of two, found it stimulating, but stated that he would feel too pressured if working in a constellation of more than two. The most important factor for this agent was that the two working together have equal ambitions.

Not one of the interviewees affirmed that there was competition among the agents at the firm. They preferred giving a picture of agents who share and help each other. Agents at two of the firms have to search for new objects on their own and do not have any particular area. The other four agents, representing different firms, do have a particular area to search for objects in. A few of the interviewees opined that there is no competition because of the divided areas.

#### **4.6 Apprehensions about performance pay**

The subject of fixed and variable pay was something that all agents had strict opinions about. All agreed on the fact that fixed pay would not work in a line of business such as this. One broker stated that a fixed pay is never the solution regardless of the size of the fixed salary. Eventually the motivation will peter out and in the end it will lead to the agent not working. This agent had previous experiences of working at a firm with a fixed pay. By exemplifying the situation the agent told us about two agents, with many years in the business, having a fixed pay, not performing during the days. At six o'clock pm they turned off their cell phones and went home. The following morning at nine am they had eight missed calls, without being the least worried about it. Our interviewee considered this behaviour to be the result of fixed pay and working hours.

A procedure such as this implies that a broker will lose clients and the aftermath will be that the company also will suffer decreased revenues. The same agent could also verify that even if having the intention of doing a great job with a fixed pay, it would in the end result in the agent not feeling motivated to put in the hours for a yearly raise, despite a high fixed pay. Having fixed working hours, which a fixed pay implies, could lead to a need of control for the executives. Some days this could mean working between eight am to ten pm and sleeping late the following morning resulting inevitably in a scolding from the managers.

Another problem defined by another broker is that despite fixed pay an agent has to perform. He compares real estate broking with a normal sales job, except that the product is the agent executing the services. This agent at the same time did not think that a broker would stop achieving with a fixed pay as he or she probably would not be able to keep the high salary the coming year.

Viewed from an employer perspective it is better to distribute a variable pay. If having had a fixed pay you would not have to endeavour to retrieve new objects, work week-ends and late nights. A variable pay means that one works harder and adjusts harder to what it means being





a real estate agent. One opinion that emerged, shared by half of the interviewees, was that a balance between fixed and variable pay was preferable. Hence, at the same time it was stated that this balance is hard to find. Having partly fixed and partly variable pay would have been beneficial during certain periods and situations.

#### **4.7 Opinions about risk taking**

The interviewees had different opinions about taking risks in this line of business. One agent did not consider it as a risk anymore because of his experiences in the occupation. He had become used to living without the feeling of security and had never been anxious about his income. Another agent claimed that people have always been taking risks and that this sort of risk is no different from others. People should also consider the future as an opportunity and therefore reduce dubieties about it.

Another agent did not look upon the situation as a risk taking. The only comment about the situation was that he thought agents have to be more careful about handling their income. It is of great importance to have a money buffer since incomes can differ tremendously. Thus, it is not just a job but a lifestyle to work in a situation such as this.

One interviewee was not prepared for the salary being based entirely upon commissions, when applying for this occupation. He had not understood the risk real estate agents take in this line of business. In the beginning he was very nervous about how it would end up, but as time passed he got used to the situation. Still, there is a vacillation when there is little to be done. At the same time, most months they are doing well and do not have to worry about the income.

The remaining two interviewees, who were the two in constellations, shared the opinion of the job being a risk-taking. However, they do not consider it to be a problem as the only thing to do when there is little work is to work even harder to find objects. They stated that taking the risk involved with commission-based income can generate great amounts of money, being the carrot.

#### **4.8 Factors considered motivating**

Everyone found a range of different factors that they considered motivating. The one motivating factor that all agents found motivating about the real estate line of business is that it is *“free” and unobstructed work*. This means that even though you work for a company, you are able to influence what you do and when you do it. If the agents do not wish to stay in the office all day no one will make them. If they wish to slow down for a period and not work as hard, no one will tell them to work. Obviously, you have to achieve something, thus one cannot be lazy, but the agents choose when and where the job assignments will be executed. Even though the work is free it will be compensated with negative aspects such as never being completely free and the need of having an understanding family. The freedom is jeopardised by weekend, late night demonstrations and never-ending phone calls. Accompanying this motivating factor comes the reason for giving the agent great responsibility. Several brokers



stated that this is the closest you can get to become self-employed without being so. Agents work as if being self-employed but do not bear all the costs normally connected with running a business. On the other hand, as stated by an interviewee, the most entrepreneurial individual would not seek employment at existing firms but open his or her own.

Another factor that motivates is the *contact with people*. It is not only the contact itself that is rewarding but the fact that the agents help people with the greatest sale in their life. According to the agents there is a feeling of contentedness interlinked with making the clients satisfied and helping them with the sale. One of the agents informed us that they work with client questionnaires, meaning that the satisfaction of the client is highly important.

Three of the six interviewed stated that *money* was a motivating factor. The older interviewees were the ones stating that money was not very important, as this was not anything they lacked. However, the younger ones considered this to be a motivating aspect. One called their situation “freedom with the possibility to earn more”. One, instead of mentioning money to be an important factor, mentioned bonuses, as this was not just a way of thanking the individuals for doing a good job but thanking them all and their mutual achievement by rewarding them with a share of the profit.

Half of the interviewees found the *social environment of the workplace* important. They found it important to be pushed by their co-workers and found it stimulating to share ideas and knowledge. One of the interviewees stated that the social bit is very important, as the result of not liking your workplace will result in difficulty in achieving. Another found doing things together to be a motivating factor as people would get to know each other and enjoy their working situation more.

Other views on motivating factors were such as being motivated by *achieving something and feeling important*. Another was the fact that, at the so-called intake, the motivating factor was the winning of the client’s approval to handle the sale. The intake is when the agents go to a client and introduce themselves and the firm they work for.

## **4.9 Driving forces and needs**

To investigate what kind of individuals who work in this line of business, we chose to take the opportunity of comparing the existing theories there are about driving forces and needs with the interviewees. Our choice was to concentrate upon theories about motive powers and the needs that McClelland has defined. There are originally, according to Svensson and Wilhelmson, five different driving forces, but we chose to apply four as a result of not considering the driving force constraint to be of relevance for the study.

### **4.9.1 Driving forces**

A third of the interviewees found the most important driving force to be the inherent factor. This means that the nature of the assignment is what gives the individual satisfaction solely by performing. The reason for choosing this alternative was according to one of them “if the clients feel safe and thrive it will pay off”. Everyone, except one, found money as the second



choice. The other one chose the social factor as he had enough money and did not find money to be motivating anymore.

Two of them answered that they found all of the forces to be of importance. When specifying why, their opinions diverged. One of them found the incorporated driving forces to be very important as they are important in a long-term perspective while the other did find the incorporated forces the least important of the motive powers. The agent stating that morals and ethics in long run are very important also mentioned the salary to be essential.

Only one of the agents considered the wage to be the most important driving force, but at the same time he considered the incorporate forces to be the most fun. An additional agent said that the most important motive power was the social power, signifying the feeling of belonging in a group.

#### **4.9.2 Needs**

The most represented answer was the need of achievement, meaning that they have a need to make things better. This answer was given by two thirds of the interviewees, but two of them took, as they stated, the social bit for granted.

The other two considered needs of affiliation to be the most important need. One claimed that to be able to perform, it is of great importance to fulfil the needs of affiliation. The other one said that you need affiliation but achieving something is fun.



## 5 Analysis

*In this chapter we will relate the theoretical framework to the collected material. To be able to answer our question, we can define three central conceptions having been highly important through the production of the study. The areas to be discussed are motivation, risk and incentive systems. This will be the foundation for the conclusions made in the following chapter.*

### 5.1 Factors of motivation

There are several aspects concerning what it is that motivate individuals to work. According to Herzberg, factors can be divided into hygiene and motivation, both explaining the motivation to work. Factors of motivation are factors that can be related to their work tasks, indicating if they are successful in carrying out their work and indicating the possibility of professional growth. Thus, when appreciating their job, it is as a result of the work itself. On the other hand, when apprehending the job as unfair it is because of factors of hygiene. These are associated with conditions surrounding the performance of the job. Hygiene factors include supervision, interpersonal relations, physical working conditions, salary, company policies, administrative practices, benefits and job security.<sup>64</sup>

From the interviews we could determine several motivating factors, but the most distinguished was the fact that the work was free and unobstructed. Hence, in employment at a company, there are possibilities to affect what, when and how the work is executed without involvement of executives. This represents a part of Herzberg's factors of hygiene. If this wage system would not have existed, neither would the motivating factors and the work would not be found stimulating. This interpretation is confirmed by one of the brokers, considering fixed working hours not to function in this line of business.

Other factors considered motivating were such as money and contact with people. According to Herzberg the salary is a hygiene factor as it is administrated by the employer based on work assignments and working hours. As the brokers work with a commission-based reward they can, to a certain extent, influence the monthly income. Thus, in this case, the salary can be considered a motivation factor. The same reasoning, being applicable to both factors, is also suitable concerning contact with people. It is a part of the work's surroundings but can also be administered through the motivation factors. The agents did not regard the contact itself to be motivating but helping people with the most important transaction of their lives. Another motivation factor was making the clients feel satisfied, with both agents and businesses. It can be considered that the significance of the work itself is more important and therefore it can rather be seen as a factor of motivation, according to the theory of Herzberg.

One factor the brokers opined as motivating, and that without afterthought can be applied to the motivating factors is; achieving something and feeling important. These can highly be connected with the work itself being motivating. From the interviews, we were able to deduce

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<sup>64</sup> Herzberg, 1959



that social environment of the workplace was considered motivating. We mean that this can be applied to Herzberg's factors of hygiene.

The four driving forces from Svensson and Wilhelmson that we found relevant for the study are; material, incorporated, inherent and social. Material incentives are rewards in the form of money where the most acknowledged driving force is that of performance pay. The incorporated driving forces are based on individuals' ideals, standards and values. The inherent driving forces are the ones that make an individual carry out an action because of its rewarding nature. Social driving forces suppose that the most important thing for an individual is the involvement, identification and acknowledgement of others.<sup>65</sup> Inherent was the most represented answer, which is interlinked to the occupation itself and what it implicates. To sell should therefore be the motivating factor. Material driving forces, referring to the formation of the wage system, was the second represented answer. We believed that the material driving forces would constitute a bigger part of the outcome. Even though the agents have given honest answers we believe that there might be a subconscious meaning of inherent driving forces. There might be other interests connected to the action as a sale will result in a higher income. This implies that the outcome representing material driving forces would have been lower, as it could have been replaced with the answer of inherent driving forces. The reason for all driving forces being considered as motivating may, according to us, depend on the versatility of the work.

As pointed out earlier, peoples' behaviour depend on their needs. Thus, it is of interest to study the needs controlling agents. The outcome of the interviews show that need of achievement was the most essential need, but need of affiliation was also represented. According to McClelland needs can be divided into need of power, need of affiliation and need of achievement.<sup>66</sup> Need of power is applicable to individuals who value control and influence over other individuals. Need of affiliation signifies that individuals have a need of socialising with others, while need of achievement is applicable to individuals who have a need to achieve and are afraid of failure. We believe agents to be individuals considering it highly stimulating to perform. We also believe the commission-based wage system to have an influencing factor, as agents depend on performing to obtain a salary. Brokers having a need of affiliation do not distinguish themselves from the crowd, as this need can be taken for granted as a result of everyone wanting to thrive at their workplace. The alternative, not given any representation during the interviews, was the need of power. We believe that this depends on brokers not having the possibility of exerting power on their surroundings. Agents can only control themselves and their objects.

Concerning the freedom of the work, we found many of the brokers to be motivated by working without the interference of external influences. They consider the free work and being able to decide over their work situation, to be of great importance in the daily work. As they often work late nights, they want to counterbalance this fact with freedom during the days. Many stated that this occupation is the nearest an individual can come to being self-employed without being so. It is for this reason the agents consider themselves self-employed. Thus, we argue that the agents take the role of an employee, as they reason, as an executive would have, despite having managers on higher levels within the organisation. Hence, this

<sup>65</sup> Svensson & Wilhelmson, 1988

<sup>66</sup> Jacobsen & Thorsvik, 2002



consideration of being self-employed, one agent stated that brokers in general do not possess the extent of entrepreneurial spirit required to become self-employed. He meant that if they had possessed this capacity they would probably not seek employment with a firm but aim for a career at their own firm. Today, there are several smaller agent-firms, meaning that there are brokers both capable and willing to bear the responsibility it requires. Thus, we believe that the majority of agents are people not willing to work under controlled forms. They prefer accepting the risk involved with being paid by commission in order to feel like self-employed. As an employee at a real estate agency, it is the company that bears the agent's costs, but in return for covering the expenses the firm is administrated a certain percentage of the agents' income. We argue that the real estate business can be compared with franchising, which according to Merchant is a form of control. The agents work under the company name and concept, while being covered for certain expenses.<sup>67</sup> It is for this reason we believe it can be compared with franchising.

## **5.2 Incentive systems**

As stated by Smitt et al, the real estate line of business constitutes an example of a situation where many companies find it profitable to apply commission-based salary.<sup>68</sup> By linking individuals' performances to their equivalent compensation, this strategy will result in a win-win situation, as long as sales are being executed. As a consequence, the company does not need to compensate employees who have not achieved a desired outcome. All interviewed estate agents agreed on the fact that the payments-by-result strategy appeared to be the most desirable, otherwise the estate agents will not be eager to do business. Furthermore, Kaplan and Atkinson argue that commission-based salary will steer clear of shirking, and thus escape the costs of non-performing employees.<sup>69</sup> Since the estate agents are the products of the company, they have a responsibility towards the company. As a consequence it is, according to Smith et al, essential to motivate people to work by linking an attractive payment to a desired behaviour, in a line of business where competitiveness has a strong connection to the employees' competence.<sup>70</sup> However, it was told by the estate agents that there are still estate agents who utilise a combined wage system with fixed and variable pay. This was considered by some a good solution. The reason for this was that it decreases the uncertainty that can be experienced for months. Thus, we consider this to be a way of reducing the risk this employment represents.

Salary is according to Jacobsson's and Thorsvik's categories regarded as intrinsic rewards, meaning that it constitutes an economic value.<sup>71</sup> The symbolic rewards represent a sought-after acknowledgement instead of an allotted monetary value. Referring to the interviewed estate agents, the rewards in addition to the actual salary could be classified as bonuses, benefits, honours, journeys and happenings. However, these rewards were not regarded as important as the salary. Salary being the most essential reward is linkable with the agents' opinions about what is considered motivating, as it was earlier derived as an important factor

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<sup>67</sup> Merchant, 1998

<sup>68</sup> Smitt et al, 2002

<sup>69</sup> Kaplan & Atkinson, 1989

<sup>70</sup> Smitt et al, 2002

<sup>71</sup> Jacobsen & Thorsvik, 2002



of motivation. In conformity with the theories, we consider a combination of intrinsic and symbolic rewards the ultimate solution, but this is not according to the agents applicable to this line of business. In this line of business the agents do not consider other rewards to be as relevant. Another consideration was that the management cannot value behaviour in the same way in this line of business, as in office-bound work. There is no possibility, seen from a fair point of view, to reward behaviour under these presumptions. Thus, rewards based on results are of greater importance. We can therefore come to the conclusion of intrinsic rewards being apprehended as more motivating and have a stronger connection to the implemented performance. According to Arvidsson, receiving feedback from their achievements motivates individuals.<sup>72</sup> Hence, it is also of essence that these are given within a reasonable time after performance. Thus, the intrinsic rewards are applicable as they can be related to the salary, which in itself is dependant on the performance.

Regarding the industry's design of wage systems, the Theory of Expectancies can be successfully applied. The basic conditions of this theory are as follows: a desirable reward, the individual being convinced that his or her actions will culminate in a reward and that the performance will result in a reward.<sup>73</sup> The interviewed estate agents agreed on the fact that these conditions are clearly linked to how an estate agent understands his or her working situation. To begin with, the reward can be considered as desirable since the estate agents apply a commission-based wage system strategy. Thus, an estate agent is aware that a desired output might result in an attractive income. Furthermore, the estate agent is conscious that an intake will almost certainly culminate in a sale. In order to achieve this motivation, there is a multiplicative condition in which valence and expectancy will result in motivation. This valence, referring to the strength of a person's wishes to obtain a result, multiplied with the existing expectancy of what the individual performs will lead to a result. Results referring to what degree of motivation the individual possess. Thus, increases in sales while the valence is at the same level as before, will still result in increased motivation. The theory being highly applicable is a fact, but we do want to highlight that we consider it to be more applicable in this line of business than in others, with different wage systems. An employee, with a fixed salary can expect a reward but does probably not have as strong linkage to the desires and needs the individual possesses.

Among the interviewees both recipients of commission-based rewards and on an individual and group level could be distinguished. It is for this reason interesting to analyse this situation. According to Jacobsen and Thorsvik recipients of rewards can be individuals, groups or systems.<sup>74</sup> There are pros and cons with each and every one of them but a communal factor is that the incentive system should be adapted to the company and its employees. Offering individual rewards is accompanied by higher performance, but the risk of it resulting in competition is according to Jacobsen and Thorsvik a negative influence. Thus, working in social groups can, as stated by Wagner, result in individuals' performing better as the individuals will compete with each other.<sup>75</sup> Being rewarded in a group may eventuate, if the group constellation functions well, in better results but can also, as stated by

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<sup>72</sup> Arvidsson, 2004

<sup>73</sup> Jacobsen & Thorsvik, 2002

<sup>74</sup> Ibid.

<sup>75</sup> Wagner, 2003



Arvidsson, lead to the emergence of so-called free-riders.<sup>76</sup> The opinion, represented by the agents, explaining why team constellations were created is that it makes the work more fun and levels off the income. Additional reason for utilising these constellations is to deal with competition. In contrast to the theories the agents state that there is no competition. The brokers working with a specific region stated that this was the reason for the lack of competition. Nor did the agents work without predetermined areas, experience any competition but did claim that it was necessary to be quick to answer the phone when having little to do. We believe that the interpretation of competition can be a result of how safe an individual feels. Many brokers felt secure despite the uncertainty connected with commission-based salary and did therefore not need to compete with their co-workers. An additional reason for not mentioning the existence of competition may be that they are not telling the whole truth. Nevertheless, we assume that the agents do tell the truth, and thus we have to accept the fact that there is not much competition in this line of business.

### **5.3 Aspects of risks**

For the individual a commission-based wage system is a risk, connected with the absence of income if the individual does not achieve. Thus, the individual has to take responsibility for his or her pay being earned each month. This system is favourable for the company, which in this way will transfer the risk to the employee, in similarity to the relationship in the Principal- Agent Theory. Through offering a reward system, found motivating by the agent, the principal will make the individual carry out activities in line with company goals and thus the principal. The agent's personal goals will therefore conform to the company aims, being one of financial management's main objectives.<sup>77</sup>

Despite being aware of the rewarding system's function and formation, the majority of the interviewees did not want to consider the commission-based wage a risk. They are aware of the company imposing part of its risk on the employees, meaning that they have to accept the situation, but did consider it to be more of an opportunity to earn more money. This demonstrates, as Merchant states, that to be able to impose this risk the employees must be compensated with higher expected rewards. This implies that in order to be able to impose this on the employees the company will in concurrence with Merchant, have to compensate these individuals with a higher expected outcome. The effects of the company offering too low compensation will, as Merchant states, result in a loss of competent personnel, decrease motivation and eventually lead to a worsened result.<sup>78</sup> The agents stated that if they are not sufficiently compensated, they will seek other firms for new employment.

According to the Principal- Agent Theory, the principal must exert some form of control over the agent to prevent him or her from evading his or her job assignments.<sup>79</sup> On the basis of Merchant's opinion, pay-for-performance is a way of controlling behaviours of employees, as the reward will only be received after performance.<sup>80</sup> Utilising this commission-based

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<sup>76</sup> Arvidsson, 2004

<sup>77</sup> Kaplan & Atkinson, 1989

<sup>78</sup> Merchant, 1998

<sup>79</sup> Kaplan & Atkinson, 1989

<sup>80</sup> Merchant, 1998





strategy, individuals will worry about the consequences of their actions and thus do his or her best as bad performance will affect them. In the real estate line of business it is difficult to exert control as the agents are responsible for their own performances. A result of the work being free is that it is complicated to monitor the workplace. The days vary from being intense to relatively calm. As an outcome of having these working conditions, it is hard for the company to keep employees from shirking. Thus, the line of business applies a wage system where the individual will have to endure the results of not performing. Concerning the control we would like to claim that Merchant has a more applicable theory for this line of business, discussing the control of results, as the employee is controlled by the wage system.

Something that we found surprising was that the brokers do not consider the risk taking to the extent that we thought they would. Thus, we do believe that the line of business finding itself in a blooming period affects their estimation. Owing to demand for agents having increased, the agents are not as likely to be without objects, resulting in a lowered income. If the future continues in the same direction as today, the agents' unwillingness to consider the risk as a risk will increase even more. In the end, this will result in the real estate profession not being considered a high-risk occupation, but more as one where the individual can influence his or her income. Would the times become worse the view of risk will be strengthened and the agents may obtain a more obvious feeling of insecurity. From this reasoning we would like to state that the crucial factor, explaining the view of the brokers' risk taking, is highly interlinked with the line of business having enjoyed a positive development.

Notwithstanding the fact that the agents find themselves in a prosperous period, we can distinguish a few risk-reducing commitments from the agents. First of all, we consider the team constellations a way of reducing the risk, through obtaining a more stable income from a long-term perspective. Despite an agent underperforming one month, it will not affect him or her as drastically as if he or she was dependant solely on him- or herself. Thus, the high-performing agents will provide for the others in the team, but this is not considered negative as these brokers will be provided for another month. It is also interesting to ascertain that they would rather reduce the risk instead of earning more money.

Another measure for reducing the risk is, as gladly confirmed by several agents, a combination of fixed and variable pay. Even though several agents did not consider taking a risk, the feeling of worry of not being able to pay the monthly bills was pointed out. Through designing a combined wage system, the risk of a month's pay being absent will be eliminated. Thus, the agents will feel more secure in their work.

During the study, attention was drawn to a news report where the discontent with agents was cast light on. This concerned a discussion about how trustworthy agents are today when it comes to specially reduced prices.<sup>81</sup> A broker is supposed to represent both buyer and seller, but the seller is the most represented party, taking into consideration the commission being based on the selling price. We believe that part of the trust in the agents can be related to the knowledge about their reward-system. The question is how much people have been affected by their awareness of the wage system. We believe that not only the agents are aware of the risk taken but also their clients.

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<sup>81</sup> Sveriges television's homepage, 2007-05-24



## 6 Conclusion

*In this conclusive chapter we will account for the conclusions drawn in the research. We will present the standpoints, found in prior sections and explain why they are of importance for this study. Finally, we are going to give suggestions for continued research subjects within the sphere of the essay.*

The ambition for this essay is to answer the research question:

- *What motivates individuals to be paid by performance and take the risk involved?*

With help from the three sections we were in light of the question able to come to the following conclusions:

- *The most important motivation factors were money, achieving something and feeling important.* The other stated factors of motivation were: the work being free and unobstructed, contact with people and the social environment in the workplace. These latter factors are not as highly connected to the fact that individuals jeopardise their safety through the applied performance-paid wage-system. On the other hand, achieving something and feeling important are strongly interlinked with what the performance can result in. This shows that individuals are willing to accept these risks. Achievement being motivating can be connected to the feeling the performance generates. These can, for example, be feeling important and needed, but can also be interlinked to what the performance means more concretely, for example the salary.

- *Individuals paid by performance work as if they were self-employed and take on a role as an employee.* As individuals have the possibility to determine their own work situation by controlling what, when and how the work is carried out, there is an obvious similarity with working as a self-employed person. This produces a feeling of being employed but also a feeling of being your own executive. Thus, they take on the role of an employer.

- *Individuals possess the need of achieving something and consider inherent need to be of importance.* This need and the named driving force are, as should be the case, strongly interlinked with the factors of motivation previously mentioned.

- *In a line of business such as this, the performance-paid salary is inevitably the most essential reward.* The rewards offered to the individuals were the salary, bonuses, benefits, honours, journeys and happenings. Among these the most significant, as a result of its strong linkage to the performance, was the salary.

- *The risk involved with performance pay, was not considered a risk but a factor to take into consideration.* There were divided opinions about to what extent the performance pay could be considered a risk. One aspect that all individuals find to be of significance is that of dealing with the situation linked to the risk.



- *Individuals are all aware of the risk and that it leads to a higher compensation.* As individuals are responsible for their work they have the opportunity to demand better compensation, which they do by working at the firm most favourable for them. Individuals change firms if they are not content with the compensations for performed work, confirming the awareness of the risk-taking they are faced with.

- *By being part of a team-constellation reduces risk.* This constellation provides a more evenly apportioned salary and a more secure income from a long-term perspective. Individuals being a part of these team constellations valued the reduction of the risk higher than the opportunity to earn more.

In summation, we found the most motivating factors for accepting the risk involved with a performance-based pay to be: money, achieving something and feeling important. The question is if individuals consider the risk as a risk. We were told that they do not consider the performance-paid system to be a risk but an opportunity to earn more, but we came to the conclusion of it being a negative aspect even though not verbally stated. Individuals have proven their awareness of the existence of the risk, by considering team constellations risk-reducing. In this line of business individuals are aware of the risks, but motivating factors such as money, achieving something and feeling important make the risk seem insignificant.

We would also like to take the opportunity to ease our conscience concerning the study. The purpose was to give a reviewable picture of the apprehensions about what it is that motivates an individual to be paid by performance and thus take the risk involved. We have been able to come to conclusions from the gathered material, but are at the same time aware that six real estate agents being representative for all, can be seen as a weak basis. Nevertheless, we do not consider this to have had any significant effect on the essay, but it should be mentioned.

## **6.1 Suggestions for further research**

Taking into consideration the fact that we observe an alternative to the existing commission-based wage system with a combination of fixed and variable pay, it would be interesting to continue the research in this direction. The increase in discontent among buyers and sellers has been augmented and can therefore also be considered a reason for continuing the investigation. Considering that real estate agents have a high-risk occupation and are aware of the risk they take, it may be seen as questionable to apply a commission-based wage system. Therefore, we find it of interest to study the effects that a combined fixed and variable wage system may provoke. It would also be of interest to investigate the possible outcome if today's system was totally eliminated from this line of business. It would also be interesting to implement a similar study when the line of business is not experiencing the blooming period the business is experiencing today.



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### **Interviews**

Real estate agent X, 2007-05-02, 1h 30 min

Real estate agent X, 2007-05-03, 45 min

Real estate agent X, 2007-05-03, 30 min

Real estate agent X, 2007-05-07, 30 min

Real estate agent X, 2007-05-07, 1h 5 min

Real estate agent X, 2007-05-08, 1h 10 min



## **Appendix**

### **Interview guide**

- Name and position?
- What made you chose an education to become a real estate agent?
- Have you any prior connection to the profession?
- For how long have you been an employee at X?
- What made you chose X?
- On what is your salary based?
- What do you think about your pay being based on performance?
- What do you think about the facts that you are taking a risk?
- In what way do you think it motivating to work with a commission-based salary?
- What other rewarding aspects, besides the wage, do you think important?
- Do you think these to be as important as your salary?
- How is the incentive system designed at your workplace? (group/individual)
- Positive/negative aspects?
- What do you believe are the purposes of an incentive system?
- In what way are you motivated by your incentive system?
- Are there any other factors that motivate you, but that are not included in the incentive system?
- Do you prefer being rewarded based on collective or individual performance?
- Are you stimulated or not by competing with your co-workers?
- Do you think your achievements to be interlinked to the reward?
- What is the best aspect of your profession and existing working conditions?
- The most negative aspect?
- Which of the following needs do you think correspond with you?
  - Need of affiliation
  - Need of power
  - Need of achievement
- Which of the following driving forces do you believe correspond with you?
  - Material
  - Incorporated
  - Social
  - Inherent
- When having talked about rewards and motivation, is there something you would like to add?