Simple rewards in a complex world

- Incentive systems in management consulting

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Preface

It has been a very fun and interesting period working on this thesis. The thesis and the people involved have really made our interest for the subject and the work of management consultants grow.

We would like to thank Peter Beusch. We would also like to dedicate a special thanks to the companies that we visited and the respondents of our interviews who all have been very helpful and pleasant.

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Abstract

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Title: Simple rewards in a complex world - Incentive systems in management consulting

Keywords: Incentive systems, performance measures, rewards, management consulting, service sector

Research problem:

- Which performance measures are used and how are employees evaluated at two small management consulting agencies?
- Which rewards are used by these companies and in what way?

Purpose of this study:

This thesis will aim to give an explanation of how incentive systems are used by two small management consulting agencies in Gothenburg. The study will try to understand how performance measures are applied and how rewards are used in the investigated companies.

The method used:

A total of seven people were interviewed from two different management consulting agencies with same approximate size. Two of the respondents had executive roles and the remaining part was consultants at different levels of the firms.

Theoretical framework:

Theoretical material that has been used in this thesis is mostly concerning performance measurement and rewards. Some scientific articles have been used as well about agency problem, management and the service industry.

Conclusions:

We can draw the conclusion that the type of work conducted by management consultants is complex enough for subjective evaluation to be necessary to give a fair view of employee performance.

The major parts of the rewards that are used by the organizations are collective and practically all employees are entitled to them. The monetary rewards are the only ones that are not equal between employees in absolute term, though they are in relative terms.
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Chapter one – Introduction

This chapter will provide background information about incentive systems and the management consulting business. It will also present an insight to the problems concerning performance measures and rewards both in general but also in the management consulting business. The chapter will finish with the purpose of the thesis and the reason why we wrote it.

1.1 Background

In recent years there have been lively discussions about bonuses and incentive systems in large companies and organizations. Executives have been questioned by shareholders for the linkage between their performances and the rewards that are being paid out. Incentive systems might not always concern only large company executives but in many cases also employees at lower levels.

Generally incentive systems are used as a tool for avoiding the agency problem. Hence, corporate governance uses rewards as a way of managing the employees and encouraging them to work in alignment with the organizations strategic and operational goals.

To be able to get the employees to work in alignment with the organizations goals successfully, it is necessary for the employees of a firm to know on what basis the rewards are paid out. Hence, performance measures play a key role in the designing of an incentive system. Not only do the performance measures need to be relevant and understandable, they also need to be accepted by the employees who are concerned by the incentive system. In some businesses this is more difficult than others. One specific case where this is obvious is management consulting.

Management consulting is said to be one of the fastest growing businesses and the "world’s newest profession". The companies in this business are quite dependent on highly educated personnel and must therefore be able to attract and motivate the right kind of people for employment.

The rise of management consulting is the result of tougher competition, slower growth and technology that is getting more and more advanced. Companies bring in management consultants to their organizations when they need expertise in an area beyond what can be

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2 Simmons, Robert. (2000) Performance measurement and management control systems for implementing strategy
3 McKenna, Christopher D. (2006) The world’s newest profession: Management consulting in the twentieth century
found within the organization. This makes management consulting a very complex business with custom made solutions and projects that are practically never the same.

One of the areas that management consulting agencies are supposed to work with is management control systems. This includes helping clients cope with the agency problem and aligning the employee’s performances with company goals. This should in reality make management consultants experts in the area of incentive systems. Thus an interesting aspect is in what way incentive systems are used at management consulting agencies internally.

For many companies and their employees the foundation of the incentive systems have been built upon goals related to financial measures. But in many years the companies have been trying to shift focus to measures concerning quality and customer service. This is partly because financial measures have a tendency to encourage managers and employees to shortsightedness, but also because most companies have a strategy that involves terms like quality, customer service and innovation, but do little to measure performances within these areas.

Small companies are often associated with a short distance between executives and employees. This could mean that the executives and supervisors can have a better insight to the everyday work of their subordinates. This could also mean that supervisors can do a better job evaluating subordinates qualitatively, which might be highly appropriate considering the type of work and results that are distinguished in the management consulting business.

1.2 Problem discussion

Studies made on large service companies have shown that there is a lack of knowledge among employees in these firms about performance measures and rewards. This is caused by the distance between executives and employees and poor communication and might lead to misunderstandings about company goals and how to work to achieve these.

In a business like management consulting, questions about the incentive systems become very interesting and relevant. Problems can occur when one wants to measure how successful the implementations of new systems are in the short run. Other issues could be how to measure the results of reorganization. The performances that are involved in this kind of work will probably be very difficult to evaluate.

When the issues about the measurements of performances in management consulting has been solved, another problem becomes relevant; the rewards must be appropriate to use as motivators for highly educated and coveted employees with very complex and client oriented assignments.

5 Altman, Wilf. (2008) *What’s the point of management consultant?*. Engineering & Technology
7 Jädal, Elizabeth & Ohlsson, Matilda. (2001) *Belöningsrätt – nå målen! : Belöningsrars inverkan på de anställdas motivation att nå företagets mål*
8 Ibid
Small firms with the supervisors and subordinates working closely together might give a different perspective of how performance measures and rewards can be used and also on what basis they could be given and to which performances they are linked. This is why we are going to look at how two small management consulting agencies are using incentive systems. We are going to discuss what performance measures they are working with and how the managers use rewards connected to the performance measures to motivate and encourage employees.

In our field of education, management control system plays a significant role and is a common area for graduates to work with. As a matter of fact, the companies we are going to look at have a history of hiring students from the school of business and law at Gothenburg University.

To learn more about the issue, we will focus on the following questions:

- Which performance measures are used and how are employees evaluated at two small management consulting agencies?
- Which rewards are used by these two companies and in what way?

1.3 Purpose

This thesis will aim to give an explanation to how incentive systems are used by two small management consulting agencies in Gothenburg. The study will try to understand how performance measures are applied and in what way rewards are used.

This study is going to investigate two small management consulting companies in the Gothenburg region that practically share the same market. They both have fewer than 50 employees who are all highly educated. There is not much written about this type of companies though there are many studies and theories concerning rewards and performance measures in other contexts.
Chapter two – Method

In this chapter we will provide an insight to which methods that have been used to complete this thesis. The sections below will be a guide to the material that has been used to find the answers to our problem formulation. Delimitations and validity of the thesis will also be presented in this section.

2.1 Starting point
This study will be based on the views of some employees at different levels of the chosen firms. The reason for this is to gain deeper understanding for the perspective of each interviewee and thereby be able to get an insight to how the incentive systems work rather than just what the opinions are about these. Hence a qualitative approach will be the most appropriate way to investigate the case and find answers to our questions.

2.2 Case study
A case-study is made when a sample from a larger population is chosen and inspected. Hence case studies are more relevant to use when trying to understand something rather than explaining it.

Since the motive of this thesis is to try to understand how incentive systems and performance measures work at two specific companies, a case study has been the most relevant approach. This method means that the study will cut down to the inner core of our specific case and therefore give a more solid base for analysis.

2.3 Selection of organizations and interviewees
This thesis aims to give a new perspective of incentive systems by applying existing studies and theories on to a new type of company. The chosen companies are in the same business, sharing the same market in addition to the fact that they share the characteristics of being of limited size in matters of both turnover and number of employees. They are both rooted in Gothenburg, Sweden and dependent on highly educated personnel. Both of the agencies are attractive employers, fighting for the same potential employees from the local universities.

The student coordinator at company A was contacted at the beginning of the study when the choice of companies had been made. This contact resulted in five interviews, one with the company CEO, one with a team leader and the remaining three with consultants with different backgrounds.

For interviews at company B, we came in contact with the vice president who instantly gave us a time for an interview. After the interview we were referred to a junior consultant who

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10 Ejvegård, Rolf. (2003) Vetenskaplig metod
agreed to participate in an interview for the thesis. This was the second and last interview at company B.

The personnel that we got in contact with at both companies were very helpful, accommodating and interested in the issue. It took a while to get the interviews at company B, which is also the explanation to why there was no time for further interviews with more employees from the agency.

Since this specific thesis does not have any comparable purpose between the two companies, the decision to involve two similar companies was to increasing the reliability of the thesis and avoids eventual deviations from other companies in the same category and with the same features.

2.4 The data collection process

2.4.1 The process of collecting empirical material

The focus of the empirical part of this thesis is on primary data collected through interviews. The reason for this is that the questions and problems that are being investigated are of such nature that interviews are necessary for the data to be complete and useful. A questionnaire was used during the interviews and was supposed to function as a guideline for discussion rather than questions to be answered directly. We also got some useful charts from the companies that explained how the evolution process looked like. Also we looked at each company’s homepage to get some information about the operation and service areas they were working in.

The interviews for the gathering of empirical material were made by two interviewers and one interviewee at a time, although the interview with respondent two was made by only one interviewee. A total of seven interviews were made at our case companies’ office-buildings in isolated rooms. Each interview lasted for approximately one hour and started with a short presentation of the subject and briefing about the background. The questionnaire was sent to the interviewees at company A in advance because they requested it.

Interviewees started by giving a short presentation of themselves and their job. This was necessary to be able to understand the different components of the organization scheme of the company. The questionnaire was always on the table for both interviewees and interviewers during the entire time. The interviewees were free to talk about whatever they felt relevant and interesting about the subject with regard to the main questions that were asked.

The companies and the people involved in the empirical part of this thesis are all anonymous and will therefore be referred to as company A and B with interviewees from one to seven. The reason to why we are not going to separate the employees of company A from B is that the purpose is not to compare the companies.
2.4.2 The search for theoretical material
Literature that has been used in this thesis was found through the university database GUNDA and through the national literature webpage Libris. For access to articles and thesis, the thesis archive of the school library was searched through. Also the database of EBSCO (Business Source Premier) has been used frequently in this thesis. Along with the above mentioned, a significant part of the articles and thesis used were found through searches in Google scholar. More sources of secondary data have been the web-page www.uppsatser.se, colleagues and supervisors.

Keywords that have been frequently used during the searching process are incentive system, reward, performance measures, and motivation. These words were then combined with words to match our case such as, management consulting, service sector and SMEs (small medium enterprises).

2.6 Delimitations
A gap can occur between the view of employees about an incentive system and the purpose of it, as of the way it is meant to work by executives. To fully understand the issue and get a more complete picture, both executives and employees have been interviewed. To be able to get a view that is as valid as possible with the given time restriction, two rival companies from the local region with approximately the equal number of employees were chosen.

2.7 Validity of this study
Concerning the validity of the interviewees and the risk of biased answers during the interviews, we have tried to eliminate the risk as much as possible by making both organizations and all of the interviewees anonymous. Our aim has been to get as honest answers and reflections as possible, so that the thesis can be as reliable as possible.

The fact that questionnaires were sent out to some of the interviewees in advance, could mean that they got time to prepare and therefore give an untrue picture of what they knew about the incentive system and how it worked.

The interviewees had different backgrounds and could therefore start comparing their present system with former employers, but we have tried as hard as possible to keep the interviews within the subject and keep the track. This is because this thesis is not aiming to compare different companies or systems, but rather describe how incentive systems and performance measures work in our specific case.

During the collection of data, we have tried to as much as possible keep to valid and reliable literature. One problem that has occurred is that much of the literature and theories concerning this subject is relatively old. Still we have seen that it has been used in other recent thesis and mentioned many times in recent books and articles. The article What are the best ways to

motivate your top performers?, *HR-focus, vol. 82, issue 6, 2005*, is not peer reviewed but we still see that the content can be of some value since it has shown to relevant in our case.
Chapter three – Theoretical framework

In this chapter we will deliver the theoretical background which we have used in the analysis of the empirical data we have gathered. It will start with theories about management, and particularly Swedish management theories. We will then explain the agency problem and what it is that motivates people and after that we will present information about performance measures and to finish this chapter we will explain how incentive system work and what management consultants do.

3.1 Management

Management is not older than a century and practically the product of the rising industries. Earlier, managers were seen as those who in some way were responsible for other peoples work. A manager has five main tasks and operational functions. These are to set the objectives for employees, to organize, to motivate and communicate, to make measurements and finally to develop people including both employees and themselves.  

To set the objectives includes formulating goals and how to achieve these. The organizational work includes structuring, creating and managing groups and units within the organization. The motivation and communicational work of a manager means that a constant dialog has to take place through an organization concerning decisions about personnel for example. The measurement is crucial for a organization and is much relying on individual performances, therefore also these must be measured.

3.1.1 Swedish management theories

Swedish management style is often unitized with the bigger perspective namely the Nordic management styles. According to a study made by Smith et al. there are differences between the Nordic countries and management in Sweden is described as social individualism by Hampden-Turner and Trompenaars. The decision making process in Sweden is according to Lawrence and Spybey participated and it is not unusual that managers in Sweden to consult their subordinates. It is also important for Swedish managers to have consensus in the group and that their some democratic order in the decision making according Bjerke.

In the study made by Smith et al. showed that Swedes relied more on rules than the other Nordic countries. The study also showed that Swedes does not work after informal rules as

13 Ibid
15 Smith, Peter B., Andersen, Jan Aarum & Ekelund, Bjørn. (2003) In search of Nordic management styles
17 Lawrence, Peter & Spybey, Tony. (1986) Management and society in Sweden
19 Smith, Peter B., Andersen, Jan Aarum & Ekelund, Bjørn. (2003) In search of Nordic management styles
the Finnish does. According to Holmberg et al.\textsuperscript{20} Swedish managers also put focus on teambuilding and collaboration.

### 3.2 Agency theory

The agency relationship can be described as the contract between a person or a group of people who are principals and an agent, who have a commitment to do something on the principal’s behalf.\textsuperscript{21}

The theory is based on the assumptions that people in an organization have self-interest, bounded rationality and an aversion to risk. This could lead to moral hazard and a divergence between what the principal wants the agent to do and what the agent actually does. The agent usually possesses more information than the principal which creates a knowledge asymmetry between the two parts.\textsuperscript{22}

Different tools can be used to align the interest of the agent with the interest of the principal. Incentives and monitoring can be used to limit the agent’s deviations from the principal’s goals.\textsuperscript{23}

### 3.3 Incentive systems

Incentive systems play a major role in the matter of making employees focus on what is important for the organization. One of the significant functions of an incentive system is to inform and remind employees about what performances are desired. A second function is to motivate employees to strive to achieve or even exceed desired results. The third function is to keep employees satisfied and minimize the loss of skilled personnel by being a competitive employer in terms of remunerations and rewards. In addition to mentioned purposes, incentive systems that are based on performance helps smoothing out a company's earnings since periods of lower performance leads to lower costs of compensation.\textsuperscript{24}

### 3.4 Motivation

To gain effective motivational control, it is necessary for the rewards to be tightly connected to the behavior that is wanted. The difficulty lies in using the right measurements of performance to evaluate the achievements and thereby reward the employees.\textsuperscript{25}

#### 3.4.1 Maslow’s motivation theory

According to Abraham H. Maslow’s, human beings have certain kinds of needs. These must be satisfied in a specific order for a person to appreciate the satisfaction.\textsuperscript{26}

\textsuperscript{20} Holmberg, Ingallil & Åkerblom, Staffan. (2006) Modeling leadership—Implicit leadership theories in Sweden
\textsuperscript{21} Jensen, Michael C. & Meckling, William H. (1976) Theory of the firm: managerial behavior, agency costs and ownership structure
\textsuperscript{22} Eisenhardt, Kathleen M. (1989) Agency theory – an assessment and review
\textsuperscript{23} Jensen, Michael C. & Meckling, William H. (1976) Theory of the firm: managerial behavior, agency costs and ownership structure
\textsuperscript{25} Emmanuel, Clive R., Otley, David & Merchant, Kenneth A. (1990) Accounting for management control
Physiological needs are basic needs related to a person’s survival. These needs are often referred to as food, water, air and sexual activity. Safety needs are the second category of needs a person strives to satisfy. These are related to financial security, personal security, health and safety against illness. The next type of needs to be fulfilled involves human emotions at a relational level. It includes such needs as friendship, family and intimacy. The fourth level of needs include the desire of being appreciated and accepted by people in one's surroundings. It is the need of being needed and respected. The last level of needs are in a way related to how humans fulfill their full potential by being creative, having a good morality or having the ability to solve problems.27

A person’s basic need must first be satisfied for an incentive at a higher level to be significant and desirable. This means that a person who has physiological needs will not as much appreciate rewards aimed to satisfy social needs.28

3.4.2 Herzberg's hygiene-theory
The two-factor-theory was developed in the 60's by Frederick Herzberg. It suggests that there are two types of factors influencing a person’s motivation.

Motivating factors are dependent on each individual employee and are influenced only by what the individual wants. These factors such as performance, acknowledgement, responsibility and good opportunities for a career, are the motivators that drive employees in

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28 Hutson, Darryl. (2000) New incentives are on the rise
their work\textsuperscript{29}. The single most motivating factor according to Herzberg is achievements and quality performance\textsuperscript{30}.

Hygiene-factors are factors that does not bring any motivation by themselves, but bring dissatisfaction if absent. These are things that set the basic conditions for employees at a company. Examples of hygiene-factors are corporate policy, surveillance, salary and the employee relations. Hence an increase in salary will not by itself motivate employees, but a cut back will definitely lead to dissatisfaction among employees. Corporate government should focus on the motivating factors rather than the development of the hygiene-factors.\textsuperscript{31}

3.5 Performance measures

3.5.1 Financial measures and the problems with these
In the old days you measured a company’s performance through the lines in the financial statement. But in later time managers have realized that these measures often undercut the overall strategy of the companies. This is because company strategies often consist of words like customer satisfaction and quality but financial statements do not say anything about that.\textsuperscript{32}

Financial measures based on the financial statement also encourage the managers to be short sighted and to manipulate the figures. They do not help in determining what new markets or technologies companies should invest in either. Employees and managers have for a long time felt dissatisfaction with financial performance measures when evaluating business plans.\textsuperscript{33}

3.5.2 Another point of view
Neely et al claims that many authors are wrong in there believe that the old performance measures are obsolete. They claim that in order to have the right measures you have to develop these in context with the company's objective.\textsuperscript{34}

They have out of that believe developed a performance measure record sheet that make up of ten points you have to consider in developing the right measures. These ten steps are: \textsuperscript{35}

- Measure

  It should be clear what it is you are measuring and the title of that object

- Purpose

\textsuperscript{29} Eriksson-Zetterquist, Ulla., Kalling, Thomas & Styhre, Alexander. (2006) Organisation och organiserings
\textsuperscript{30} Herzberg, Frederick., Mausner, Bernard & Bloch, Snyderman, Barbara. (2004) The motivation to work
\textsuperscript{31}Eriksson-Zetterquist, Ulla., Kalling, Thomas & Styhre Alexander. (2006) Organisation och organiserings
\textsuperscript{32} Eccles, Robert G. (1991) The Performance Measurement Manifesto
\textsuperscript{33} Ibid
\textsuperscript{34} Neely, Andy., Richards, Huw., Mills, John., Platts, Ken & Bourne, Mike. (1997) Designing performance measures: a structured approach
\textsuperscript{35} Ibid
The measure needs to have a clear purpose

- Relates to recommendations
  The business objectives should relate to the objective that is being measured

- Target
  Set a target that is satisfying, not too hard nor too easy to achieve

- Formula
  Get the right formula so the employees do not act in the wrong way

- Frequency
  How many times should you do the measuring

- Who Measures
  The person who is doing the measurement should be identified

- Source of data
  What raw data should be measured, this is important so you can compare data over time

- Who acts on the data
  The one who needs the data should be identified

- What do they do
  How do the persons react on the information?

3.5.3 New measures

3.5.3.1 BCS (Balanced Scorecard System)
Kaplan and Norton introduced the BCS in 1992. The BCS is based on the company’s financial results. But is complimented with performance measures such as quality and customer satisfaction, it is these measures that are going to be the future drivers of income.\(^{36}\)

BSC takes it starting point at 4 main perspectives the managers can look at. The perspectives are customer, financial, innovation, internal work and learning. The measures in each

perspective are based on the company’s strategies and are supposed to help the managers set the right goals.\(^ {37}\)

Customer perspective consists of general measures that are usually based strategies which consist of goals like time, quality and cost. To achieve customer satisfaction internal measures are based upon goals that are critical for achieving this. The ability of coming up with new innovations that makes the company gain more customer satisfaction is crucial for future income and therefore consist of measures such as rate of new products. Financial measures will show if the previous three perspectives have had any effect at the last row in the financial statement report.\(^ {38}\)

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**Figure 2:** A model describing the different parts of the balanced score card.

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\(^{37}\) Laitinen, Erkki K. (1999) *A dynamic performance measurement system: evidence from small Finnish technology companies*

\(^{38}\) Ibid
3.5.3.2 Performance pyramid model
Another model is the performance pyramid model which was originally created by Judson 1991. This model takes it starting point at the company’s vision, that is the first level of the pyramid, and then work its way down the four remaining levels.\textsuperscript{39}

With help from the first level, the companies vision, you get the second level in the pyramid and here you have very intangible measures which is market and financial. At level three you break down these goals in to somewhat more distinct measures and at level four you even further break down these measures to specific operations goals. This is a very helpful method when the managers want feedback how the whole organization is doing or how the communication down the chain is working in the company.\textsuperscript{40}

![Image of the performance pyramid model]

Figure 3: The performance pyramid model

\textsuperscript{39} Laitinen, Erkki K. (1999) A dynamic performance measurement system: evidence from small Finnish technology companies
\textsuperscript{40} Ibid
3.5.3.3 PMSSI (Performance Measurement System for Service Industries)

Companies in the service industry can use PMSSI (Performance Measure System for Service Industries) which were originally developed by Fitzgerald et al 1991. They pointed out that companies usually use quantifiable measures such as cost and productivity and base PMSSI on six main performance measures namely competitive performance, financial performance, quality of service, flexibility, resource utilization and innovation.

You can categorize these measures into two distinct categories namely results and determination. Results consist of competitive performance and financial performance and reflect the choice of strategy and the result of that. The remaining measures determine how the outcome of result is going to be.

3.5.4 Key-figures commonly used in the service industry

In most service companies, the focus of the financial performance measures lie often in the linkage between personnel and results and not the linkage between results and balance-sheet. This is due to the fact that these companies often have insignificant balance-sheets since the firm value lies within personnel.

Net margin is a commonly used key figure which is the operating profit including depreciation and interest costs.

Turnover per employee is an indicator of how much every employee is selling on average.

Operating results per employee is an indicator of how much profit or loss every employee is bringing to the company.

Personnel costs in relation to turnover gives an idea of how much of the company costs that are related to personnel and also how sensitive the company is to changes in salaries.

3.6 Monetary vs. non-monetary rewards

There are different types of rewards in terms of the time aspect, what is actually being given and to whom it is being given. This leaves a set of options for the designer of an incentive system in the matters of bonuses, organizational base of bonus, the criteria, the time period, the formula and benchmarks concerning the composition and features of a reward.

The two major categories of rewards that are mostly used are monetary rewards, with a distinct financial characteristic. Typical monetary rewards are bonuses and stock-options.

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43 Ibid
monetary rewards mainly consist of psychological and social rewards. These rewards can often be referred to as benefits, further education or recognition and appreciation. In a study made by SHRM, only half of the HR professionals say that money is the best reward to top employees. Both monetary and non-monetary rewards tend to be ineffective in motivating under performers.

"Rewards should be unique and relevant to the recipient, providing tangible evidence of achievement and fulfilling the needs for acceptance, recognition and personal esteem." This signifies that monetary rewards are not always the most appropriate kind of incentives.

When using variable pay, commonly used mechanisms called cutoffs are used to eliminate the risk of rewards being paid to employees for performances that are not considered to be over average. This is the main function of lower cutoffs. Upper cutoffs are also sometimes used for different reasons. These could for example be to avoid myopia, avoid paying a high provision for employees who have just got luck or to keep the compensations consistent over time.

3.7 Subjective vs. formulaic based rewards
One important aspect of incentive systems are the determinants of the rewards. Either they are based on formulas or on subjective judgment. The use of subjectivity as a base for incentives leaves an open space for evaluators to take in to account relevant factors that are not incorporated in formulas.

Formulaic based rewards create a direct link between the employee's performances and the incentives. It is important to note that compensations that are heavily based on bonuses make employees bear a risk if the results are not completely controllable by employees. Hence for an incentive system to be effective, it is necessary that employees are paid a risk premium.

3.8 The service industry
The idea of a knowledge-based company is to sell its know-how as a service. Therefore these companies are often classified as a category within service companies. Service company is a very wide concept which may include everything from standardized mass-produced services such as fast-food to customized services such as consulting.

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48 (2005) What are the best ways to motivate your top performers?
49 Hutson, Darryl. (2001) New incentives are on the rise
51 Ibid
A chart can be used to clarify how different types of service industries are depending on personnel versus capital and knowledge versus routine.

The lower right side of the chart represents services which include capital as well as personnel, but where the personnel are in most cases not of any higher education. Common industries associated with this category are transportation, aviation and shipping companies. Typical features of the workforce in these industries are that their competence is mainly based on experience and routine.

The upper left side of the chart is where the knowledge-based firms can be found. This area of the chart indicates that the enterprises are highly dependent on personnel. The personnel possess higher education and the work is customized and based on knowledge rather than

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55 Annel, W. Elisabeth & Bruzst, Gabor. (1986) *Det kapitellösa företaget - en beskrivning av ekonomin i serviceföretag*
standardized and based on routine. Between these extreme points, there are scientific industries, intermediary industries and maintenance industries.\textsuperscript{56}

Scientific industries are both heavily dependent on capital and highly educated personnel. Intermediary industries are based on a combination of knowledge, routine, capital and both highly and not highly educated personnel. Maintenance industries are personnel intense and do rarely require personnel with higher education.\textsuperscript{57}

\textbf{3.8.1 Management consulting}

There are two general approaches as to what management consulting is. The first approach is more general and claims that management consultants are helpers. This means that a manager who helps or gives advice to another manager in his own or another organization is a management consultant. The second approach means that management consulting is a professional and special service that posses a couple of specific characteristics. The basic characteristics are:\textsuperscript{58}

- By transferring knowledge they are adding value to an organization
- Management consultants are generally an assistance and advisory service
- Management consultants work in time-limited projects
- Management consulting is a full time profession

With the two approaches in mind the following definition can be used when describing what management consulting is:\textsuperscript{59}

"Management consulting is an independent professional advisory service assisting managers and organizations to achieve organizational purposes and objectives by solving management and business problems, identifying and seizing new opportunities, enhancing learning and implementing changes."

\textsuperscript{56} Annel, W. Elisabeth & Bruzst, Gabor. (1986) \textit{Det kapitallösa företaget - en beskrivning av ekonomin i serviceföretag}

\textsuperscript{57} Ibid

\textsuperscript{58} Kubr, Milan. (2002) \textit{Management consulting: a guide to the profession}

\textsuperscript{59} Kubr, Milan. (2002) \textit{Management consulting: a guide to the profession}, page 10
Chapter four – Empirical evidence

This chapter will show the information we have collected through interviews. We will also provide information about the companies and their area of services.

4.1 About company A

Company A is a management consulting agency with 43 employees at the moment. The organizational structure includes functions such as CEO, Business development, coordination and human relations, support, team leaders, senior recruitment, junior recruitment, information systems and identity and brand. The organization is based on a matrix model with team leaders leading a group of consultants and experts, responsible for specific business areas.

Figure 5: The organization scheme of company A.
The overall business areas that the agency is working with includes leadership development, cost-cutting, process development and strategic supervision. The agency is emphasizing that their role is to be present during the entire process of each project, from start to result rather than just making recommendations and reports.

**Strategy**

- Vision
- Business development and strategic work
- Risk analysis
- Evaluation of strategic decisions
- Strategic corporate evaluation

**Process- and organizational management**

- Development and streamlining core and support functions
- Reorganizing
- Outsourcing
- Development of informal organizations
- Shared service centres

**Core values and leadership**

- Visionary work
- Cultural transformation
- Systematic cultural work
- Identifying and developing common core values
- Leadership
- Process and communicational work

**Performance management**

- Accounting models
- Planning and follow-up work
- Calculating models
- Support for decisionmaking

**IT- management**

- IT-strategy
- IT-governance
- Organizint IT-resources and system management
- IT-outsourcing
- Business development with IT
- IT-project management
- Negotiate, set requirements and implementation of systems

*Figure 6: Description of company A:s operations and services*
Figure 7: Description of company A:s evaluation model
4.3 About company B

Company B is a management consulting agency situated in Gothenburg, Sweden. The number of employees is 34 including both consultants and administrators. The company was founded in 1985 by a group of people studying at the local business school. The company has no limitations as to which sector they are focusing on in the matter of clients. Some of the mentioned sectors are industrial companies, service oriented companies, healthcare, the public sector or real estate companies. The core values that are emphasized by the company are passion, competence, results and a comprehensive view.

Management control
- Strategic development
- Leadership management
- Control systems
- Balanced scorecard
- Information management
- Management accounting
- Leadership

Systems
- Mapping
- Procurement
- Implementation

Operational development
- Business development
- Process development
- Organization development

Figure 8: Description of company B’s operations and services
Figure 9: The evaluation model of company B
4.2 The interviews

4.2.1 Interview person one

4.2.1.1 Performance measures
The focus of the performance measures depends on the role that each individual has at the company. Everybody has a responsibility to sell and make sure that a good level of quality is kept, but more than others, project leaders have a bigger responsibility for each project.

Commonly used measures at company A are occupancy, meaning the time that each consultant is involved with an external project and average price. These measures are indirectly affected by coworkers through doing a good job and keeping customer satisfaction.

The follow-up work on projects is done through feedback from customers and the head of a business unit. The internal follow up is through dialog with coworkers and team leaders.

There are generally two individual development reviews each year plus a meeting considering each consultants wage. During the projects, a feedback model is used to give guidelines, although the feedback model is not always used consistently. The purpose of the feedback model is to create knowledge and development for the individuals, the groups and the entire organization.

The work that is done is broadly consistent with the Manifest that the company has developed. The Manifest explains the basic ideas and the culture of the company and how it is supposed to work.

The company is a living organization and so the everyday work is varying and developing all the time. The goals for the company are set up at the beginning of the year and are sufficiently clear and realistic. It is then the feedback that makes employees work in the right direction rather than performance measures.

One of the cornerstones of the company performance measurement and incentive system is the flower that is used for overall evaluation of employees’ skills and development. One part of this flower is internal work and this part is not always very easy to measure or evaluate. Therefore it should be more obvious how much focus that should be laid on internal work.

4.2.1.2 Rewards
The rewards that are used are a variable pay that is connected to the company’s overall result and revenue and a sales bonus. The sales bonus is connected to how much each consultant is selling including the additional sales within a project. An important part is the total sales, i.e. not only the consultant’s own time, but colleagues’ time sold. Other than these many social and nonmonetary rewards are used such as positive feedback and encouragement, flexible working hours and vacation.
The variable pay is based on a model that has a lower cutoff and an upper cutoff. The variable pay is collective and not something that is different for each individual besides the individual pay, which is used as a base. A total of one third of the entire profit is distributed once a month among employees through this system with an adjustment if necessary at the end of the year.

As encouragement the interviewee mentions the celebrations that occasionally happen at the office when for example someone has done a good job or when a tough period has passed. Besides these occasions some regular rewards are used at the office such as free coffee, breakfast every morning and occasional after work on Fridays.

A more fundamental incentive is the possibility for employees to become partners. To be able to achieve this, the consultant must fulfill some requirements such as worked at the company for at least one year and completed a certain level on the evaluation model. Factors that are considered are for example the cultural role at the company and future potential.

The sales bonuses are divided between all consultants that have been involved in a project. The allocation of this bonus is decided by those who are entitled to it through dialog and discussion based on how much work each consultant has done in each project which includes the whole process such as sales, offering and overall responsibility. For the bonus system to work properly, those involved must be prestige less and act professionally.

The general control of the reward system and incentives are in the hands of the CEO and team leaders, but everybody at the firm can take initiative and help making arrangements and celebrations.

For respondent one the best reward is when positive feedback and encouragement is given, to do things together and the fact that it is fun working at the specific agency and knowing that the work leads to something greater than just a salary.

The present system is motivating because it includes some of the rewards that really motivates respondent one.
4.2.2 Interview person two

4.2.2.1 Performance measures
A performance model which is called the flower is used to evaluate the employees at the firm. The most important part of the flower is called "to make a difference for real". Earlier the agency had a more financial and quantitative focused performance measurement but has now switched focus to more qualitative measures. The model used at the moment is a bit too detailed, but yet not as clear as it can be. This is because the work that the consultants do is very different from project to project and completely dependent on each situation. There is a good correlation between the evaluation model and the company Manifest.

Each employee has their own individual goals, both short term and long term. The goals are set by the employees themselves together with supervisors. The supervisors try to make sure that the goals that are set will result in a challenge for the consultant.

In the operational work, the consultants are supposed to report their time spent at a customer. The focus lies on average price, occupancy and total amount of invoices. A follow-up is made by an account manager.

To make the system better than it is today, the qualitative follow-up should be more systematic and involve clients more.

4.2.2.2 Rewards
The incentive system has monetary compensation as a base including the salary and the variable pay, but the more important rewards is the meaningful work, appreciation, development as individuals and other non-monetary rewards.

The purpose is for everyone to take part of all rewards and participate in common group activities. Often those who have been involved in a successful project are those who will take the initiative to celebrate and if not someone else will probably do it for them.

According to the interviewee, the most important motivators are the meaningful work and the fact that the performances are a part of something much bigger. Something that would be appreciated is more development of competence for the employees at the firm and a greater chance for them to evolve as individuals through their employer.

The system could be better if it was a bit more clear what is being rewarded and why. The respondent says that the present model is not older than a year and a half and that it will be evaluated and probably modified to become more structured and clear in the future.
4.2.3 Interview person three

4.2.3.1 Performance measures
At the company they use both non financial and financial measures. To illustrate how the employees are developing and performing they are using a flower. This "flower" consist of six leafs and every leaf symbolizes a cornerstone of the company’s way of thinking and working. Examples of the cornerstones are "making a real difference", communication, analyzes, leadership and culture carrier.

Respondent three feels that the financial measures are clear and that there are descriptions of what one has to accomplish when one has reached a certain level. The measures and goals are realistic and adjusted after the economic situation; hence factors that are affecting the performance but are not within the control of the workers are taken into consideration.

Every year they have an individual performance evaluation where the employees are being evaluated based on the flowers six different leafs. But they also have follow-ups with the customers and internal in the project group during the project.

After every project respondent three would like to have an assessment in writing and an overall more formal evaluation.

4.2.3.2 Rewards
Company A uses a fixed salary and they can also have up to twenty percent bonuses on their yearly payment, but they can also have a ten percent deduction if the firm is performing poorly. The bonuses are collective and everyone takes part of them. They also have voucher at agency, breakfast every morning and coffee breaks.

The interviewee feels that personal development is the greatest motivator. Respondent three also gets motivated by doing a good job and get positive feedback from clients. The existing reward system is motivating enough, but a more formal evaluation would be an improvement for the system.
4.2.4 Interview person four

4.2.4.1 Performance measures
The interviewee says that the most important performance is the external work that is being done in projects. Different roles in a project means different kinds of responsibilities, also different projects are hard to compare, hence it is very difficult to measure performances at different projects in the same way. The two main ways to measure performances are by average price and occupancy.

Many of the goals that are set for the consultants are qualitative and are objectively evaluated by supervisors. Some goals that are quantitative are much easier to measure and also more clear and understandable. The goals are often set at a realistic level and can be adjusted to the current conditions and situation. This makes deviations from the target quite rare. Many of the goals set are not only financial but non financial and related to the internal work at the agency. Some of these goals are supposed to work more as guidelines than targets. The flower that is used as an evaluation model and the goals that it involves are correlated with the overall Manifest and vision of the company.

The financial follow-up work is done at least once a month after the invoices are sent out; this is done by the consultants themselves. Then once a year an individual overview and evaluation of the consultants are done together with supervisors. One improvement for the present system would be to also involve written feedback along side with the dialogs that consultants have with supervisors. Generally it would be appreciated with a system that in a positive way makes employees ask for more feedback in a natural way.

4.2.4.2 Rewards
Breakfast, fruit and coffee at the office, a flexibility in the matter of working hours, the increase in salary connected to the wage model, sale bonus which is 1% of sales of a projects, but also social rewards such as after works, parties and celebrations, are some of the rewards used at the company.

The result of one month will give effect on the salary of the next month concerning the variable pay that stretches from salary minus 15% up to salary plus 20%. Half of the sale bonus is paid out at the beginning of a project and the rest is depending on how the project turnover is in the end and will then be paid out. The social rewards are approximately occurring a couple of times each month.

All of the employees are not included in the same system, for example the CEO. The consultants are all entitled to the same system, but some also have internal celebrations in their project groups. The team leaders together with the CEO are those mainly responsible for the rewards. The system however has not been designed by executives only, but by random consultants.

The best motivator for the respondent four is confirmation and encouragement. The partner program is less significant in the beginning as a reward. One of the most important parts of
the incentive system at the company is the free breakfast, although it is ok to make cut downs on luxury when necessary.

According to respondent four the system is clearer now than it has been earlier. Though there are still some parts that can be even better and give a clearer picture of the performances, for example all the time that is being put down on internal work at the agency.
4.2.5 Interview person five

4.2.5.1 Performance measures
At different levels of the company, consultants have different types of responsibility. For example, more experienced consultants have a greater focus on sales whereas the overall performance that is considered important for every employee is the quality of delivery at each project.

A feedback model is used which is based on subjective judgment by supervisors. The feedback given will result in a position for the consultant on the evaluation model. The performance measures that concern occupancy and average price are clear and easy to understand, though they are not always as easy for an individual consultant to affect, especially when you are not that experienced and new at the firm. Along with occupancy and average price, consultants get feedback from customers and colleagues at each project.

The goals that are set are realistic and feasible. Still it can be difficult for a single consultant to influence the outcome of the company for reaching the goals. To achieve what is said in the Manifest, consultants have sub targets to reach. Overall the company and the employees are working in alignment with the Manifest. The main goal of the Manifest is to make a difference for real and that is quite what is being done.

The consultants have two performance reviews with supervisors per year. A reporting system is used continuously by the consultants to report their performances. Every month a feedback dialog is supposed to occur with team leaders, but this is not always the case. The consultants have a duty to crave feedback from supervisors and to be evaluated regularly rather than the other way around. This system does not always work very effectively.

4.2.5.2 Rewards
Both monetary and non-monetary rewards are used in the incentive system. Generally a collective reward system is used which means that all employees get the same rewards at the same time. Some examples are Christmas gifts, summer parties, variable pay that is connected to the overall performance of the agency with a range from -15% of salary to +20% of salary. The result of the company is very difficult for individual employees to influence if they are not experienced and possesses a broad clientele. Also spontaneous celebrations occur with champagne when someone or something needs to be celebrated. One incentive that is set for each individual is the sale bonus that is related to each project.

One percent of each project turnover is split among the consultants according to agreement between them. Half of this bonus is paid out at the beginning of the project and the other half when the project is finished. When deciding on how the bonus should be split consultants take in consideration each individuals performance concerning who had the contact and made the sale, earlier performances for the same customer, the offering work and additional sales.

The interviewee is not sure but believes that the board of executives is responsible for the incentive system but believes that the CEO has the final call concerning rewards.
The most motivating reward is positive feedback and appreciation by customers and coworkers at the agency. The existing rewards and incentive system is definitely motivating, but if it did not exist from the beginning and the employees did not have any knowledge about it, the interviewee would probably perform in the same way as today, but if the rewards were taken away now, it would have a negative effect on motivation. The evaluation system is quite clear, but the feedback system is not always working the way it is supposed to.
4.4.1 Interview person six

4.4.1.1 Performance measures

The overall goal at this company is to achieve customer satisfaction. At year one and two the specific goal consultants need to achieve is additional sales in current projects. At the third year the consultants have to sell in new project to existing clientele but also to new clients. Every consultant must have occupancy of 80 percent or more according to person respondent six.

Respondent six thinks that it is hard to reward performances that are linked to delivered quality since this is a very difficult value to measure. Since sales are much more easier to measure this is where the focus is. If the customers are not happy about his performance they will not return to the agency in the future.

Respondent six feels that the goal of having 80 percent occupancy is high, but at a realistic level. The 80% level is something specific for junior consultants, hence the occupancy target differs for different consultants depending on which role one has.

Respondent six implies that it is a hard thing measuring the performances in the management consulting business. One of the hardest parts is to keep a good balance between internal and external work. On one hand the company needs to be profitable internally, but on the other hand they need to have customers that are satisfied with the work that the consultants do externally.

The managers make sure that the employees are occupied at a normal level at least. They do this with a resource planning system where the employees can fill in their everyday time schedule. In this program they also fill in there expected time schedule.

The interviewee would like that the customers to be more involved with the evaluating process to make the present system better.

4.4.1.2 Rewards

If the organization reaches its goals the employees will get a monthly salary in bonus. At the company they also have a good pension provision and a good health support. They have this so the employees can feel secure in their work. Besides that they do not have any formal rewards according to the respondent.

Some rewards are definitely used as a tool for attracting good employees. In this matter respondent six mentions the free selection of telephone, but the respondent does not think that this has any motivational effect in the everyday work of the consultants.

The employees of the firm are practically in charge of the non-monetary and social rewards in matters of when to do things together and what to do, but at the same time, the consultants know that the money that will be spent on social rewards and arrangements will affect the
bottom-line result of the company and thereby also the bonuses that the employees are entitled to.

The best motivator for respondent six is partnership. This is the best way to motivate personnel in the long run and make them work in accordance with the company’s long term goals and growth.

The present incentive system is not clear enough and makes it difficult for employees to understand what is being rewarded and why, but at the same time all consultants know that in the end it is all about quality in your work and occupancy.
4.4.2 Interview person seven

4.4.2.1 Performance measures
Occupancy is the most important factor for the consultants at the agency. The consulting business is very sensitive for disruptions in occupancy; a couple of months without any projects could jeopardize the whole company. The evaluation of the consultants can be done when the invoices have been sent. Every month consultants report their performances and once a year there is a performance review with individual coaching concerning how the consultants can evolve in their roles at the agency.

Consultants at different levels have different goals and different expectations on them. Junior consultants are generally expected to be more occupied with external work at customers than senior consultants with more internal responsibility, but overall the goals are realistic. The general guidelines that are used can be found in a manual with the relevant goals in it.

One improvement of the current system would be to introduce a formal program for partnership. At the moment the company is owned by six consultants. To become a partner, one must achieve something great for the company and really deliver.

4.4.2.2 Rewards
If the consultants are performing well and achieving the goals, bonuses are paid out. These bonuses concern all consultants equally and are based on company results rather than individual performances. Also informal rewards are used at appropriate occasions. The present system is not clear enough, thus there is a need of clarification when it comes to performance measures and the linkage between these and incentives and rewards.

The system is generally very informal and almost invisible, salaries and promotions are mainly based on subjectivity and the judgments of supervisors. Those who are formally in charge of the incentives and rewards are mainly the board of executives and the board of directors together, but employees are free to take initiatives.

The best and most important motivator for the interviewee is feedback from customers. Good results are motivating in themselves, says respondent seven.
Chapter five - The analysis

*Here we will supply the analysis of the empirical data we have collected from the firms. Focus of the analysis will be on incentive systems. We will also analyze what it is that motivates both the employees but also the executives in both firms.*

5.1 Management

5.1.1 Swedish management

Although each part of the evaluation models that are used has detailed descriptions, it is still a qualitative estimation that makes the consultant land on a certain level. The consultant however does not get a single verdict by a supervisor. According to the interviewees, a dialog takes place between a consultant and a supervisor once a year, which will lead to a positioning for the consultant in the evaluation model. Different levels in the evaluation model means different levels of salary. This means that consultants are able to have an influence in their evaluation and thereby also their salary. This is very typical for the Swedish management model according to Bjerke\(^{60}\).

From what is said by the interviewees a Swedish management approach to decision making can be seen. For example: In company A the employees determines how the selling bonus should be divided in the project group by those involved in a project. In company B it is up to the employees how much luxury goods they should have at the office. Both of these exemplifies a democratic decision making process, which according to Bjerke\(^{61}\) is very typical for Swedish management style.

5.2 Performance measures

5.2.1 Financial vs. non financial measures

Occupancy and sales are the quantitative measures that are used frequently at both companies. Occupancy gives a fair view of how much the consultants are occupied in external work and can hence be used in the long run as an indicator of how coveted a specific consultant is.

Sales and turnover are financial measures and the only financial measures mentioned by the respondents in this thesis. Though these measures might have a significant effect for the companies, not too much focus is around these measures for the individual consultants at neither of the companies. This might be because the supervisors are aware of that other work than external has to be done for the agencies to be successful.

\(^{60}\) Bjerke, Björn. (1999) *Business leadership and culture: national management styles in the global economy*

\(^{61}\) Ibid
5.2.2 Making a difference - A balanced scorecard approach
Clear similarities can be found between a balanced scorecard and the evaluation model of company A. Their model involves a flower with different leaves. These leaves represented different skills that employees at the company were supposed to possess. The desired skills are not only focused on sales and financial measures, but also qualities such as "making a real difference", which practically means performing well and delivering good quality in projects. Other parts of the flower include developing company A, which is a more internally oriented part of the model. The model states that internal work is important as well as external and to be able to advance, one must develop in all areas.

The evaluation model used by company B is formed like a staircase with each step representing a new level for the consultants to achieve. Each level includes a new set of responsibilities and different tasks. To move up on the staircase consultants must have gained some experience and then been evaluated by supervisors for a new positioning in the model. A very obvious feature for the model is that the higher position, the better pay, more internal focus and also more focus on sales and less occupancy.

In the end the two models from company A and B were not very dissimilar from one and other, though they were shaped differently. Both models included a range of responsibilities that differed for consultants at different levels in the same way concerning junior and senior consultants.

One of the respondents from company B means that the consulting business is a complex world. A consultant agency both wants to make money through selling their services, but they also have to make a difference in the companies they are working for and keep customers satisfied. In this regard, some form of BSC might come well in handy for the employees at a management consulting company to give guidelines for the balance between internal vs. external work and profits vs. quality.

5.2.3 A structured approach to performance measures
The use of performance measures at the companies in this thesis are not perfectly aligned with the model that has been developed by Neely et al. Some of the important points that are deviating from the theory are the purpose of the performance measures and the measures themselves. Also the formulas used are in a way, hard to understand for the employees. This makes it difficult for many consultants to see a connection between performance and incentives which might take the edge out of the system and the rewards. Concerning some of the other points of the theory of Neely et al., both companies have good targets and they have frequent measurement of at least the quantitative measures.

63 Ibid
5.2.4 Financial performance measures in the service industry

It is very common according to BAS Nyckeltal\(^{64}\) that companies in the service sector uses performance measures focusing on the linkage between the personnel and the result. You can see a clear linkage in both companies between the financial performance measures and the employees. For example both are using occupancy as their main measure, but they are also using other measures like average price and additional sales.

5.3 Motivation and rewards

5.3.1 Herzberg – The hygiene theory

The hygiene theory of Herzberg\(^{65}\) is said to be old and outdated, still it is quite evident that the theory applies well to the personnel at the companies examined in this thesis. The organizations in this study include both extensive hygiene conditions for the employees such as breakfasts, free coffee, benefits such as cell phones and flexible working hours and motivating factor such as variable pay and bonuses. Although all of these equals extra costs for a company, they do not seem to have any direct motivating effect for the personnel. None of the interviewees said that the free coffee or the cell phones had any motivating effect and that they would probably do a good job even if they did not get these benefits from the beginning, though if the benefits were taken away from them now, it would probably cause dissatisfaction. Some of the interviewees mentioned that, if cutbacks are necessary and considered justified by employees, this would not have any major dissatisfying effect.

5.3.2 Non-monetary rewards

A fact that is quite astonishing was that none of the interviewees claimed that monetary rewards were the most motivating. As a matter of fact all of the interviewees without any exception said that non-monetary rewards such as positive feedback from customers and other employees, acknowledgement and encouragement by supervisors and coworkers were the most motivating rewards and incentives to perform well. According to Abraham Maslow’s\(^{66}\) theory concerning the hierarchy of needs, these incentives are not motivating unless the prior physiological, security and social needs have been satisfied. Hence the interviewees are striving to satisfy the two highest levels of needs in the hierarchy. This might be linked to the fact that the consultants get a salary that is sufficient enough for them to feel secure and that they can have a sound relationship to colleagues and coworkers, but also flexible working hours and vacations. In the end it is all about striving to satisfy the next level of needs.

The fact that non-monetary rewards are more coveted than monetary rewards also gives empirical evidence from this particular case study to the earlier studies about how desirable monetary and non-monetary rewards are.\(^{67}\) Obviously monetary rewards are not always the best rewards both in matters of motivation and in matters of what employees really want.

\(^{64}\) Karlson, Sören. (2006) BAS Nyckeltal: för bättre analys och effektivare ekonomistyrning


\(^{67}\) (2005) What are the best ways to motivate your top performers?
5.3.3 Monetary rewards

Appropriately enough, since non-monetary rewards were the most motivating, the major focus of the incentive systems at the studied companies are not on the monetary rewards but on the non-monetary rewards. A very simple model for a collective variable pay is used by both companies which in the end is dependent on the result and turnover of each company. This was pointed out by some interviewees who said that it is difficult for a non-executive junior consultant to singlehandedly significantly influence the bottom-line results. This is much due to the type of work that is expected by consultants at different levels and with different experience. More experienced consultants tend to have greater focus on sales, networking and building relationships with potential clients, but also be more involved in the internal work at the firm. Junior consultants on the other hand are more occupied in projects. Hence junior consultants can contribute to the results by doing a good job in projects and maybe in some cases make some additional sales.

The monetary rewards that are used are mainly the variable pay and the sale bonus. The variable pay is concerning all employees with the same percentage, which means that the absolute amount of money for each employee might differ since the variable part of compensation is based on the individual salary. According to Merchant, cut-offs are necessary for a variable pay to fulfill its purpose and not be too risky for employees. The lack of lower cut offs could mean a decrease in compensation that could be too much and thereby have a negative effect on motivation. The lack of an upper cut off on the other hand could mean that the cost of the variable pay will be too high for a company to be beneficial to use. The companies in this study had both cutoffs. Company A has a model for the variable pay which has an upper cut-off at 20% and a lower cut-off at -15%. Company B uses a more informal model which can result in a month’s extra pay, but couan not have any negative effect on basic compensation.

5.4 The subjectivity in the evaluation models

Because the work as a consultant is complex and the performances are heavily dependent on each project and client, it is very difficult to evaluate specific performances in projects. Hence a great portion of subjectivity must be relied on in the evaluation, which is partly based on customer satisfaction. The subjectivity brings as is mentioned by Merchant, a safety for the employee in terms of factors that a formulaically based evaluation could miss. Though subjectivity is used, still some of the interviewees believe that the feedback could be more useful as guidelines if they were translated into more quantifiable terms.

With subjective evaluation the risk of misjudgment would seem very obvious, but this seems not to be the case at the two organizations studied in this thesis. The reason to that might be the close and open relationship that supervisors and consultants seem to have. Many of the supervisors or evaluators that are supposed to qualitatively evaluate the consultants are team

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69 Ibid
leaders and project leaders, this means that they are themselves consultants and involved in the everyday work in projects. Hence the evaluators also have a great insight to each consultants work and thereby a fair basis for evaluation.

Although the interviewees were all agreeing about the fact that they have great freedom to participate and influence the incentive systems, they were all aware of the fact that the executive’s have the final call.

5.5 Employee's view vs. executives

5.5.1 The overall view and clarification about partnership programs
The overall view of executives and employees did not seem very dissimilar. Both parts had the same view concerning incentives, what incentives that are appreciated and the deficiencies of the present incentive systems. This might be due to the fact that employees have a great influence on the design of the incentive system and a wide involvement in taking part of and making decisions about the rewards.

In some matters the need of clarification and understandability is obvious. One case where this is specifically pointed out is the partner programs. Some consultants were not very well informed and had practically no idea on what basis one could become a partner, or if it even existed a partner program. One of the interviewees who actually was a partner did not even know how it worked. Since partnership was one of the major motivators according to interviewee six, this might be of great significance for the agencies.

Partnership and promotions are generally a commonly used incentive in many industries and has the potential to give a long term commitment by employees and thereby over bridge the agency problem. Partnership programs can be seen as motivators that satisfy the esteem and self actualization needs presented by Abraham Maslow.70

5.5.2 Monetary and social rewards
In the matters of monetary rewards and other social rewards, there was a conformance between employees and executives. They both appreciated the same kind of rewards and they shared mentality about how rewards should be used. This could be due to the similarity in the work of an executive and a consultant, both are working with complex issues, both are relatively well paid, both are in most cases highly educated. An executive is practically doing the same job as management consultants, but with internal focus at the company he or she is employed by and with the mandate to make decisions while management consultants are working externally, helping other companies with management problems.

The deficiencies that are pointed out by both employees and executives are similar. The core of the issue is that there is a noise in the linkage between performance and rewards. This noise is by some interviewees described as the lack of systematic feedback and more structured

evaluations via quantifiable variables. Although, this does not necessarily mean that a more financial focus is requested, but maybe more understandable linkages between performance and rewards.

The executives interviewed were well aware of the above mentioned deficiencies. They admitted that they were thinking about ways to eventually develop the systems concerning performance measures and follow-up.

The goals set for the employees at the company were all at realistic levels according to the interviewees. Since the market can be very volatile and the volatility can have devastating effects for the firm if recessions are long lasting, the goals are often adjusted to the current state of the market. This makes consultants feel secure and confident about reaching the goals at the same time that goals are supposed to be challenging. The challenge itself can have motivating effects which could be seen in Maslow’s or Herzberg’s theories about motivation.
Chapter six – The conclusion

Chapter six will illuminate our conclusion about the subject and answers to our original questions as presented in chapter one. We will provide the limitations of our study and suggestions to further research.

6.1 Conclusion

The main questions that were asked in the problem discussion of this thesis were:

- Which performance measures are used and how are employees evaluated at two small management consulting agencies?

- Which rewards are used by these companies and in what way?

Now that the study has been conducted and the analysis has been made, some conclusions can be drawn about the subject. In part 1.3, it is stated that the purpose to this thesis is "to try to describe how incentive systems and performance measures work in a new context concerning management consulting agencies with highly educated employees and a limited size".

The incentive systems that are applied by the investigated companies show great similarities in the way they are used. It remains though that they are different in the way they are communicated and presented to employees. One of the companies for example showed to have an incentive system that were not really pronounced as an incentive system, but more an invisible way of encouraging and rewarding employees.

The main performance measures used were occupancy and average price set by the consultants. Other than these it showed out that more informal and qualitative measures that were linked with individual development and internal work were used as well. Hence we can draw the conclusion that the type of work conducted by management consultants is complex enough for subjective evaluation to be necessary to give a fair view of employee performance.

The evaluation of employees is mainly done by supervisors, but also involves coworkers in projects and clients. The individual evaluation of development and salary is done once or twice per year. During these sessions the consultant and the supervisor are having dialogs about how the consultant will be positioned and how the consultant can develop which gives the subordinates great involvement and ability to affect the outcome. The short distance between supervisors and executives has a clear effect on the rewards and the incentive system, both in matters of rewards and in matters of performance measurement. The availability of supervisors makes it easy for consultants to get feedback at will. This is something that could be jeopardized as the company grows and with it, the distance between regular consultants and evaluating supervisors and executives. The greater the distance is, the more will a formal and standardized system of evaluation and incentives be needed.
The major parts of the rewards that are used by the organizations are collective and practically all employees are entitled to them. The monetary rewards are the only ones that are not equal between employees in absolute term, though they are in relative terms. This makes competition within the firms very rare and contributes to a collective way of thinking among employees. Helping each other will give more results in terms of rewards than competition and individual focus. Combined with this is the common activities that are occurring at both companies, including for example after works and celebrations. These factors make the employees have a very close relationship to one another and to supervisors and executives since they practically are part of the team.

With this in mind we can now also see why the bonus system, with one percent of total revenues from a project, can be divided between the involved consultants, by the involved consultants, without problems in one of the companies.

The type of people that are working at the two chosen companies did not show to have much interest in the monetary rewards, especially not the variable pay or the bonus in terms of motivation. Instead the best motivators showed out to be abstract rewards with little or no money value, such as encouragement and positive feedback. Since this is mainly what is being considered as a part of the rewards system, we can conclude that the rewards are motivating enough and having the desired effects at the studied companies.

6.2 Limitations of our study
The anonymity of the respondents is a limitation in this study. Although the companies are anonymous, the interviewees have spoken freely which is why the position and background of each interviewee cannot be revealed.

A total of seven interviews were made with people from different levels within the companies. The ten weeks that we had at hand for this thesis and the disadvantage in timing concerning the workload of the companies in the business in the specific period, led to the outcome of the two chosen companies.

6.3 Suggestions to further research
When we did our study we found some interesting questions that could be looked in to. We have now got an insight in the work consultants do and knowledge about how the two agencies in our study work. The questions we would like to highlight are:

This thesis has had a qualitative focus to understand the case. A quantitative study about incentives and rewards in the small management consulting agencies could give an indication of to which extent this theories and conclusions would apply on other firms.

We have only studied small agencies in Gothenburg, with a typical Swedish way of management. It would be interesting to investigate the differences between large and small management consulting agencies.
During the process of our thesis, we have seen that monetary rewards are not as motivating as other types of rewards. This makes a good basis for a study about what would happen if monetary rewards were removed.
Bibliography

In this section we will present the literature, the articles and other types of information we have used in our thesis and how to find them.

Literature


**Article**


(2005) *What are the best ways to motivate your top performers?*, HR focus, Vol. 82, Issue 6,

**Thesis**


**Electronic and Internet Resources**
Ekonomifakta: [http://www.ekonomifakta.se/sv/Fakta/Foretagande/Naringslivet/Naringslivets-struktur/](http://www.ekonomifakta.se/sv/Fakta/Foretagande/Naringslivet/Naringslivets-struktur/)
Published: 2010-04-13

Ekonomifakta: [http://www.ekonomifakta.se/sv/Fakta/Foretagande/Naringslivet/Foretag-per-bransch/](http://www.ekonomifakta.se/sv/Fakta/Foretagande/Naringslivet/Foretag-per-bransch/)
Published: 2010-03-25

**Figures**


Figure 3: Ibid

Figure 4: Annel, W. E. & Bruzst, G., (1986) *Det kapitallösa företaget - en beskrivning av ekonomin i servicesföretag*, Svenska arbetsgivarföreningen
Attachment 1 – Interview Guide

Performance measures

Question 1 - Which performance measures is in focus at your company and how do you measure these?

Question 2 - Do you feel that the performance measures and goals are clear and easy to understand?

Question 3 - Do you feel that the goals are to high or to low put for you?

Question 4 - How many times do you report your achievement and how do you compare these with the overall goals of the firm?

Question 5 - Do you feel that these goals collaborate with the firms overall philosophy?

Question 6 - Are there any better ways of measuring these goals on?

Incentive systems

Question 7 - What kind of rewards do you use in your work and why these?

Question 8 - At what times does these rewards come in hand to you?

Question 9 - Who take part in the rewards?

Question 10 - Who has the control over the rewards, concerning for example what they should be and when they should be given?

Question 11 - What kind of rewards does motivate you the best?

Question 12 - Does the current incentive system make you fell motivated?

Question 13 - Is it clear what it is that is being reward and for what?