



**UNIVERSITY OF GOTHENBURG**  
**SCHOOL OF BUSINESS, ECONOMICS AND LAW**

# **Reward Systems – Motivating Different Generations**

## A Case Study of Volvo Cars Corporation



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*Thank you!*

*Gothenburg, May 2009*

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## **Abstract**

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**Title:** Reward Systems – Motivating Different Generations. A Case Study of Volvo Car Corporation.

**Background and research problem:** In today's society it becomes increasingly more common to find different generations working side-by-side. Each generation has its own characteristics and factors they are motivated by mainly based on experiences. Reward systems are often used to motivate employees to greater performance. We thought it to be interesting to study how managers from different generations perceive reward systems due to this area not being greatly explored in Sweden. Therefore, we consider this to be very interesting and worth to examine further. With this background our research question is as follows:

*Are managers motivated by a reward system and do generational differences exist concerning this?*

**Purpose:** The purpose of this thesis is to create a deeper understanding for whether managers are motivated by a reward system, and their thoughts and preferences concerning this. Furthermore we will also look at generational differences.

**Method:** The thesis is based on a case study of Volvo Car Corporation in Göteborg. The empirical data is based on twenty interviews with managers at the company. The empirical data have been analyzed from a theoretical frame of reference collected in advance.

**Conclusion:** Differences between the generations do exist, although they are not of enough importance to differentiate the reward system. Both generations consider salary to be the most important part of a reward system and non-monetary rewards to be of great importance. The variable parts of the reward system are not perceived as motivating as they are believed to be, although it is needed.

**Suggestions for further studies:** There are several possible approaches towards reward systems. We have been studying generational differences but we also consider that other interesting aspects to study could be in what life stage you are, gender, Generation Y and also study managers at other companies.

**Keywords:** Reward system, managers, motivation, generational differences and Volvo Car Corporation.

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# 1. INTRODUCTION

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*This chapter will give a background to our thesis, present our research question and purpose after an introductory discussion. Finally a disposition is given.*

## 1.1 BACKGROUND

*Rewards are used to motivate people, but are you motivated by the same things as your parents?*

The current financial crisis we are experiencing has made the reward system, with focus on bonuses and variable remuneration, a highly debated topic in media. The society of today has created a kind of “anti-bonus” trend. Strong criticism has been made against managers who receive high bonuses while regular employees are being given notice. This strong criticism and new regulations has led managers to now renouncing their bonuses which they are entitled to by contract for last year’s performance and some companies have even frozen their reward system.<sup>1</sup>

Every company has some form of reward system. Reward systems are often used as a management tool for achieving desirable objectives. One of the most common purposes is to motivate employees to perform better.<sup>2</sup> This can be achieved through monetary and non-monetary rewards. Monetary rewards can be either short-term incentives in form of bonuses based on one year’s performance or long-term incentives based on performances on a time period greater than one year and are often received in form of options or shares. A third type of reward is the salary increase. The non-monetary part includes rewards such as development possibilities, promotion and extra vacation days. If we develop this a little bit more, who says that we want the same things? Some people may want promotion and the extra responsibility it entitles while others may want extra vacation days.

We are all different; our needs, thoughts and experiences are different and we are all motivated by different things. Would it not be more correct if the rewards also were individualized? It is important for every employer to find what motivates each employee. In a perfect world, the company has resources to ensure that all employees have a meaningful job, but this is far from reality. People want to feel that what they do make sense. What motivates us will change over time. What was seen as meaningful 25 years ago may not feel as meaningful today. We are motivated by different things depending on where we are in our development. A young worker is likely to be keener on development possibilities, while an older one is more anxious about security and to be able to use his experience.<sup>3</sup> In today's society, it becomes increasingly more common to find four different generations working side by side in a company, the Veterans, the Baby Boomers, Generation X and Generation Y. Each

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<sup>1</sup>Cervenka Andreas, (2009) Bonusstop i SEB , Jacobsson, Cecilia (2009) SAS fryser och sänker

<sup>2</sup> Ax, Christian; Johansson, Christer; Kullén Ax (2006) *Den nya Ekonomistyrningen* (p. 75)

<sup>3</sup> Jäghult, Bo (2005) *Morötter: en bok om bonus, beröm och andra belöningar* (p.21,24,28)

group has its own characteristics and way of being, based on experiences.<sup>4</sup> Problems arise when their views collide, people with different ideals and values due to generational differences affect many things e.g. how to influence motivation.

## *1.2 PROBLEM DISCUSSION*

In a world where people have become more and more demanding about their lives and surroundings, the reward system could be used to motivate employees by satisfying these demands. However, there exists a lack of understanding in how to motivate all those high demanding individuals, making most of the reward systems sub-optimized. To create an optimal reward system, we need to better understand what really motivates, and what does not.

The demographic is today highly differentiated, and so is the workforce in Sweden. In the last century life expectancy has increased, and people tend to work longer. All people, ranging from the ones in kinder garden to the workers that are about to retire and everyone else in-between, have different conditions. They grew up with different movie stars, music and heroes. This led to their motivational triggers being differentiated too.

To gain a deeper knowledge in how to motivate people, and the motivation of different generations co-existing in the workplaces today, is an interesting subject for deeper studies. We believe that a reward system more focused on the individual gives a greater motivational effect, however there is also an extra cost connected to a more differentiated system. Is the extra motivational effect the company might get from differentiating their system towards different age groups worth the extra cost it probably brings? To take this factor into consideration while designing a system is something that we consider as important, because we believe the companies may have something to gain.

## *1.3 RESEARCH QUESTION*

The discussion above naturally leads to the following question:

*Are managers motivated by a reward system and do generational differences exist concerning this?*

## *1.4 PURPOSE*

The purpose of this thesis is to create a deeper understanding for whether managers are motivated by a reward system or not and their thoughts and preferences concerning this. Furthermore we will look at generational differences. By dividing the managerial workforce into different generations we will try to point out differences in perceiving incentives.

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<sup>4</sup> Jenkins, Jim (2007) *Leading the Four Generations at Work*

## *1.5 DISPOSITION*

Introduction	The first chapter will provide the reader with a background and a discussion that leads up to the forthcoming question, the purpose with the study and a brief disposition.
Method	In the second chapter it is described how we have conducted the study, including our choices and considerations made during the thesis.
Theoretical framework	In the third chapter our choice of theories are explained, which will help us carry out our investigation, analyze the acquired data and come to conclusions from our theoretical frame.
Empirical study	In the fourth chapter a brief presentation of Volvo Car Corporation is given, followed by the structure of their reward system. Presented are also the results from our survey and a compilation of the interviews we have done.
Analysis	In the fifth chapter the acquired data is analyzed from both a theoretical and empirical perspective. The similarities and differences are also presented.
Conclusion	In the sixth chapter we present the conclusions we have reached during the study and answer our question of the thesis.



## 2. METHOD

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*The purpose of this chapter is to clarify how the study was conducted. Considerations taken and choices made in the production of this thesis are described here, in a structured manner.*

### 2.1 CHOICE OF SUBJECT

The subject chosen to study was if managers are motivated by a reward system and if generational differences exist concerning this. The idea for the thesis has its basis in that our interest in reward systems has increased the last term mainly because of two factors. The first is that it has been mentioned frequently in media due to the current financial crisis and the second is that reward systems were a very interesting part of a course we had in management accounting this spring. The fact that we chose to look at how different generations are motivated by reward systems is due to the fact that there exists very little research within this area and we believe there are significant differences between generations.

### 2.2 RESEARCH APPROACH

With this thesis we will seek to understand how the generation people belong to affects how rewards are perceived and how to be motivated. We have chosen to conduct a case study of Volvo Car Corporation, which will from now on be referred to as VCC. The company is a Swedish organization owned by the American group Ford and is located in Göteborg, Sweden. What distinguishes a case study is its focus on a single survey unit. Concentrating on a single case instead of many we are able to obtain valuable and unique insights. With a case study, one can also consider things in detail by being given greater opportunities to go deeper and discover things that might not have been visible at a more superficial study.<sup>5</sup>

Further, we chose to make a qualitative research but also a limited quantitative research. What we tried to reach out for and find was not facts written in stone, but perceptions. Perceptions and subjective thoughts are not very easy to obtain by a survey, i.e. a quantitative study, so a qualitative one would help us to better achieve the purpose of this study. The number of interviews (20), are rather numerous for a qualitative study, and therefore it is also a limited quantitative study. This makes our conclusions not statistically ensured but nonetheless indicative. To obtain a statistically ensured study with qualitative interviews is a too laborious method. Where the frame of reference was contradicted by our empirical data we have tried to explain this in a qualitative way.

We have used our theories to set up a hypothesis which we have later put in relation to our empirical data to come to a conclusion. The deductive method is where conclusions are made by comparing empirical data against known theories, and this is the method we have chosen.

### 2.3 LITERATURE

The literature we have used in our thesis is mainly acquired through the Economic Library in Göteborg and the other part is privately owned. We have used many sources in various forms such as books, E-books and scientific articles, the last part mainly found in databases such as Emerald, Business Source Premier and Science Direct. One advantage of using these databases is that they have scientific credibility as well as often being more up-to-date than regular books. A large part of the material reviewed has not been used directly in the study but to provide us with more general knowledge within the subject. This type of material has

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<sup>5</sup> Denscombe, Martyn (2009) *Forskningshandboken* (p.59-60)

been used to determine if the information given is presented by only one researcher or is verified by several.

We have used both primary and secondary sources. In the majority of the thesis primary sources have been used. However, when it comes to the motivation theories the majority of the sources are secondary partly due to not having access to all the original works but mainly due to the secondary sources being more easily comprehended. In many cases we have also read the original or several secondary sources to make sure that the source is credible.

#### *2.4 SELECTION OF COMPANY*

We had the good fortune to come into contact with VCC by our tutor. VCC is now in quite a unique phase, as the company is in management transition, and therefore might change their reward system. At the moment their system is frozen, meaning no salary increase is made and no bonuses are paid out. In this time period where bonuses are quite a “hot topic”, we were given the chance to cooperate with VCC and thought this was an excellent opportunity. The HR (Human Resources) department at VCC wanted to investigate how the employees in the company generally respond to reward systems but also specifically to their own reward system. They were also keen to know if their reward system motivates the employees. The HR-department approved of our idea to also add a generational perspective to the study. We wanted to see if there are any generational differences according to the perception of motivational factors as well as the perception of the reward system.

#### *2.5 SELECTION OF RESPONDENTS*

The selection of respondents was made by VCC. They gave us a list of 27 managers’ names including their email addresses and telephone numbers, as it was this group we were to investigate. The persons were of mixed managerial rank, from LL5 (Leadership Level) to LL2, where LL1 is the highest, equal to the CEO. These managers furthermore came from several various departments in the company. However, it was up to ourselves how many we thought that we had time to interview and which ones. Of all the persons we received we chose to interview twenty, which we felt was the maximum amount of interviews we had time to perform during the thesis period. We strategically selected the 20 respondents where we tried to get a spread as widely as possible between the various managerial levels. The result of the samples was; 1 from LL2, 3 from LL3, 13 from LL4 and 3 from LL5. The reason that so many respondents belong to LL4 is that the vast majority of the managers chosen by VCC were from this level. We could not influence the age differences among the respondents and the result of the spread was 8 managers belonging to the Generation X and 12 managers belonging to the generation of the Baby Boomers. We thought it to be satisfying, because it is more common that people reaches managerial levels when they are older. We used the Swedish definition of the generations found in the forthcoming paragraph about generations. Finally, we also want to add that one of our 20 respondents was female, but we have not particularly separated her answers.

<b>Leadership Level (LL)</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Number of respondents n=20</b>	<b>1</b>	<b>3</b>	<b>13</b>	<b>3</b>

#### *2.6 INTERVIEWS*

Our process of collecting data has two parts, finding and understanding existing theories about our three subjects, reward systems, motivation and generational differences, and

collecting qualitative data through interviews. Our interviews were 1,5 hours with a few exceptions, when some managers had a lack of time. In the fourth chapter our results from these interviews are presented, the questionnaire however is found in appendix 1.

By retrieving data through interviews, we wanted to gain greater and deeper understanding about how managers perceive and feel about rewards. Therefore, a qualitative study had the best congruence with our purpose. A qualitative study is usually an interview, questions starting off quite open to see where they lead, and where the possibility to change direction is always available. Being well prepared before interviews is a great advantage, which we have been well aware of.<sup>6</sup>

To make our interviews more reliable, we have introduced some measures. Being two interviewers on each interview, both taking notes and being focused, therefore the risk of missing something important has been decreased. After each interview we had a pause of at least one hour, to discuss our impressions and write down our thoughts about the interview, to not forget these impressions at the end of the day. We did not record any interviews, which was a conscious choice, as we wanted to learn what the interviewees really felt and expressing true feelings about something is harder when being recorded. To avoid uncertainties concerning terminology we tried to explain when there was a term that might be misinterpreted. Designing the questions for the interviews, repetitions were inserted to a certain extent, to avoid the risk of slump errors. Another action taken during the construction of the questions was to have open questions, being neither positive nor negative nor with a value, in an attempt to not influence the interviewee with our thoughts. To the greatest possible extent the questions have also been asked as similar as possible in all interviews, to create a greater comparability.<sup>7</sup> We have also tested our questions on other people with positions that reminisce to the interviewees' before the interviews, to see how others would understand them.

## 2.7 CRITISCISM OF THE SOURCES

Objectivity, credibility and actuality are important aspects while writing a scientific thesis. It is important to bear in mind while writing a scientific thesis that the sources which are used are credible to make the outcome of the thesis credible. Throughout the writing process of the thesis, we have tried to be as objective as possible when it comes to interpretation of the information collected. We consider that objectivity is fundamental for a credible thesis.

A greater part of our literature derives from the United States. Many motivation theories are developed by American scientists but we consider them to be valid since they are internationally recognized. When it comes to the parts written about generational differences, the majority of the sources are American. We believe that there are similarities internationally, i.e. between Sweden and the United States, which is why we consider the sources used suitable in our thesis. We have put a lot of effort into trying to find Swedish sources, succeeding to find some but not as many as desired. The reward system is an American phenomenon and therefore the main part of the existing literature is American. We have also found Swedish sources concerning reward systems which have been taken in consideration to add a Swedish perspective.

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<sup>6</sup> Patel, R. & Davidson, B. (2003) *Forskningsmetodikens grunder*.(p. 78-79)

<sup>7</sup> Andersson, Bengt-Erik, (1994) *Som man frågar får man svar* (p.81, 130, 131, 181)

When it comes to actuality of the sources we have always tried to find the latest publication possible. Furthermore, to make the thesis more up-to-date we have also been using recent scientific articles which as opposed to books are often updated and published more frequently.

## *2.8 CREDIBILITY OF THE STUDY*

Credibility is important for all research, to be able to show that the results are valid is of great importance. The credibility of the research is something that cannot be taken for granted but needs to be a conscious reflection of the one conducting the study. Validity briefly means that data reflects the truth and reality. Regarding the research methods to obtain data the validity addresses the issue whether or not you have attached the appropriate indicators and to what degree accurate results are obtained.<sup>8</sup> All of our respondents were part of the reward system we examined, meaning that they had or should have had sufficient knowledge about the questions we asked. Furthermore, since they all knew the context of the interview (rewards and motivation), they were prepared to talk about these subjects. The fact that they knew this was a result of an email being sent to them explaining who we were and that we would conduct an interview and what our purpose was.

Our ambition is to offer opportunities to learn from the studied occasion in time and space, but the relation to future situations will be inherently connected to uncertainties. While conducting the interviews we initially asked the same questions to all, we had the ambition to not influence the respondents in different directions, so their different answers should not depend on how we acted. However, we did see to that all aspects of the study were covered during the interview by asking different follow up questions if the interviewee did not answer as exhaustive as the previous respondents.

## *2.9 DEFINITION OF TERMS*

The terms reward system, performance-based reward systems, incentive systems are all used frequently throughout the source literature. To eliminate any kinds of misunderstandings, the term reward system has been used. Our definition of this term is an official system where rewards are given. This is done by performance-based measures, objective or subjective. Our respondents are a mix of senior, midlevel and regular managers. We have chosen to refer to all of them as managers throughout the thesis to make it less complicated and to not differentiate them.

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<sup>8</sup> Denscombe, Martyn (2009) *Forskningshandboken* (p. 301, 378, 425)

### 3. THEORETICAL FRAMEWORK

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*In the following chapter we will present important theories regarding reward systems, motivation and generational differences. These theories will later be put in relation to our empirical data and be an aid to analyze this.*

#### 3.1 GENERATIONS

*Our age and what life stage we are in, impacts how we perceive and value a reward.*<sup>9</sup>

Generation is defined as a group of people which shares the same years of birth, a generation is also defined by common tastes, attitudes, and experiences. Moreover generations share a place in history, they have common events and images, which all make them create unique personalities.<sup>10</sup>

The majority of the world's current living population is divided into four generations called, the Silent Generation, the Baby Boomers, Generation X and Generation Y.<sup>11</sup> Today's organizations consist of a diversified workforce, it is common to find all four generations working side by side.<sup>12</sup> Today's workforce is dominated by two of these generations, the Baby Boomers and Generation X.<sup>13</sup> These four generations have unique work ethics, different perspectives of work, distinct and preferred ways of being managed and managing.<sup>14</sup>

We now know what a generation is, by the definition written above. The next question is; what causes generational differences? We are all different on the inside and one of the reasons is that we are raised at different times and under different conditions. We shall now look at the differences between the Baby Boomers and Generation X. By learning about the different generations and their backgrounds it may lead to a better understanding of the people belonging to them.

The following quotation illustrates how a historical event is perceived by people from different generations which we think is a good example of how generation makes a difference.

*When asked to recall how and where Kennedy died, the Veterans and Baby Boomers would say gunshots in Dallas, Texas; Generation X remembers a plane crash near Martha's Vineyard, Mass.; and Generation Y might say, "Kennedy who?"*<sup>15</sup>

#### 3.1.1 The Baby Boomers

Literature does not agree on the time period of the generations, there exists a slight difference on when they started. A Swedish definition of the Baby Boomers is that they are born in the forties and the fifties thus they are slightly older than according to the American definition.<sup>16</sup> According to the majority of the American authors the Baby Boomers are born approximately

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<sup>9</sup> Jäghult, Bo (2005) *Morötter: en bok om bonus, beröm och andra belöningar* (p. 24)

<sup>10</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 24)

<sup>11</sup> Dries, Nicky; Pepermans, Roland; De Kerpel, Evelienl, (2008) *Exploring four generations' beliefs about career*

<sup>12</sup> Nelson, Bob (2007) *One Size Does Not Fit All*

<sup>13</sup> Rodriguez, Raul O; Green, Mark T; Ree, Malcolm James (2003) *Leading generation X, Do the old rules apply?*

<sup>14</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 33)

<sup>15</sup> Hammill, Greg (2005) *Mixing and Managing Four Generations of Employees*

<sup>16</sup> Anders Kinding (2005) *Ung och chef* (p.45-46)

around 1946 to 1964 and they are the largest population of today's workers.<sup>17</sup> After the Second World War more children than ever before were born. Children that grew up in the 1940s and 1950s did so during optimistic and positive times. The belief in a brighter future and the expectations of new technology were great, no problems were too big for this generation. The children born in this era were seen as a symbol and fruit of their parents' victories. It was the start of a great economic expansion with roots in the United States which then moved to other parts of the world such as Europe.<sup>18</sup>

### 3.1.2 Generation X

The Swedish definition of this generation is also slightly different from the American, in Sweden they are defined as born in the sixties or seventies. According to the American mainstream, people born between 1964 and 1976 belong to the Generation X also called Gen X or simply Xers. This generation consists of a lot less people compared to their forerunners. Generation X grew up during a darker time period than the previous generation, they thought that things would never be as good as before. They grew up in times where divorces and absenteeism from their parents started to become common and this induced characteristics as self-reliance and independence. This was also the first generation of children that had both their parents working. Their parents devoted their lives to work, in their children's eyes their parents "lived to work" unlike the Xers who "worked to live". This generation remained for a longer period in the school system giving them more theoretical knowledge, they were also part of the IT-bubble making them confident around technology.<sup>19</sup>

### 3.2 MOTIVATION

Motivation is an important term, however hard to define. Motivation is something that determines how a person will handle a situation in terms of strength and psychological energy, physiological, intellectual and emotional processes combine to determine this.<sup>20</sup> A common definition of motivation is what drives people to behave or act in certain ways.<sup>21</sup> Introduced in the 1940s, motivation is a relatively new word and derives from the United States. All the related words have their origin in the Latin verb "to move", something that moves us to action, which can come from within or from external sources, or more commonly a mix of both.<sup>22</sup>

One of the primary purposes to use rewards in companies is to motivate the employees to perform well.<sup>23</sup> When we talk about motivation from a managerial perspective it is important to bear in mind that:

*You can't motivate other people. You can only influence what they're motivated to do.*

In other words, we do things because we believe that it will fulfil some current or future personal goal or desire we have. It is therefore important for the corporate management to identify what motivates their employees and try to join their personal objectives with the ones of the company.<sup>24</sup>

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<sup>17</sup> Nelson, Bob (2007) *One Size Does Not Fit All*

<sup>18</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 63-66)

<sup>19</sup> Anders Kinding (2005) *Ung och chef* (p.45-46) Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 94-99)

<sup>20</sup> Samuelsson, Lars A. (1999) *Controllerhandboken* (p. 122)

<sup>21</sup> Armstrong, Michael (1993) *Managing Reward Systems* (p. 22)

<sup>22</sup> Adair, John (2006) *Leadership and motivation* (p. 41)

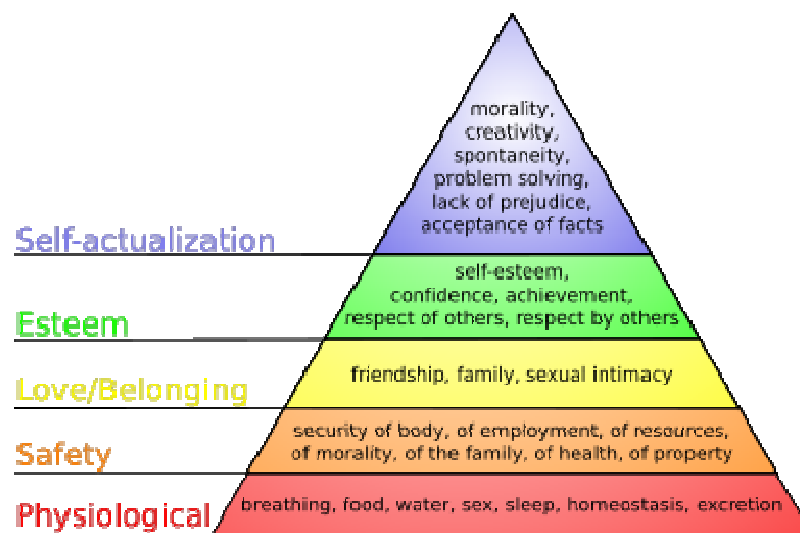
<sup>23</sup> Ax, Christian; Johansson, Christer; Kullvén, Håkan (2005) *Den nya Ekonomistyrningen* (p. 75)

<sup>24</sup> Pepitone, James S.; Bruce, Anne (1998) *Motivating Employees* (p. 1,3)

Many studies have been conducted within the subject of motivation. Theories of motivation explain why we act and why we do certain things rather than others.<sup>25</sup> We consider that the following theories are relevant to our study. The first two ones are Maslow's *Hierarchy of Needs* and Herzberg's *Motivation-Hygiene Theory*. These two theories are an aid to understand human nature and how individual needs influence motivation. They explain the internal needs and motivation that employees bring with them to work.<sup>26</sup> We think that this information is useful when a company wants to design a reward system. In order to know what motivates employees we need to understand what motivates people, we are after all firstly people then employees. The third theory we chose is the Fifty-Fifty theory that states that motivation comes from both within and external sources. We believe that by adding this theory we might provide a broader view of motivation. Further selected theories are the Expectancy theory and the Stewardship theory. In addition to this we have examined different factors which can motivate employees at work.

### 3.2.1 Maslow- [hierarchy of needs](#)

The motivation process can be described in terms of needs theory which states that it is an unsatisfied need that motivates behaviour. The best-known theory within this category is written by Abraham H. Maslow (1908-1970) an American psychologist in 1954.<sup>27</sup> Maslow's hierarchy of needs is one of the most famous theories in terms of individual motivation. The human needs are by him divided into five different levels; physiological, safety, belonging, esteem and self-actualization. Maslow's hierarchy of needs is often illustrated in a pyramid, shown in the following figure.



Maslow's hierarchy of needs

([http://en.wikipedia.org/wiki/Maslow%27s\\_hierarchy\\_of\\_needs](http://en.wikipedia.org/wiki/Maslow%27s_hierarchy_of_needs))

Maslow's needs classified into five categories:

- *Physiological needs*: are the basic needs for survival such as food, water and sleep.

<sup>25</sup> Nationalencyklopedin (ne.se)

<sup>26</sup> Adair, John (2006) *Leadership and motivation* (p. 39)

<sup>27</sup> Wikipedia

- *Safety needs*: consists of a variety of safety needs such as security of employment, health and family.
- *Social needs*: consist of friendship, family, love and intimacy.
- *The esteem needs*: presents the desire to be accepted and valued by others. Here we find concepts such as self-esteem, confidence, achievement, respect for others and respect by others.
- *The need for self-actualization*: here we find the motivation to realize one's own maximum potential, self-fulfilment and try to become everything that one is capable of becoming. It includes concept such as morality, creativity, spontaneity, problem solving and some more.

All the needs are according to Maslow fulfilled in a hierarchical order, starting with the physiological needs. When the first level of needs is relatively well satisfied new needs emerge as the dominate centre of motivation. The basic needs are stronger, that is why they have to be fulfilled first. The higher needs are weaker, but on the other hand they are the ones that make people different.<sup>28</sup>

### 3.2.2 Herzberg- motivation-hygiene theory

Frederick I. Herzberg (1923 - 2000) was an American psychologist. One of his most famous works was the Motivation-Hygiene Theory, also referred to as the *Two factor theory* (1957).<sup>29</sup> Herzberg applied Maslow's thoughts to a working environment, by studying working motivation.<sup>30</sup> The aim of his research was to discover which work situations and conditions were experienced positively versus negatively by the workers; the causes of work satisfaction. The study revealed that employees are influenced by two factors, known as motivator factors and hygiene factors. The motivator factor leads to satisfaction when they are fulfilled, contrary to the hygiene factors that trigger dissatisfaction when they are unfulfilled.<sup>31</sup> Reward systems are commonly based on the assumption that the only thing that motivates people is money. According to Herzberg money is a so-called hygiene factor that create dissatisfaction if not received in appropriate amount, but it is not seen as a potential satisfier or positive motivator. According to Herzberg the impact of salary gives a favorable short-term feeling. Furthermore, the motivators produce a more lasting satisfaction.<sup>32</sup>

The motivators which generate satisfaction and motivation are factors such as success, recognition, being challenged, sense of making a contribution, trust, independence, possibility of career development and responsibility.<sup>33</sup> The hygiene factors are needed to make sure that a worker does not become dissatisfied. They do not work to cause higher motivation although a lack of them can cause dissatisfaction. Typical hygiene factors are salary, working conditions, status, company policies and administration.<sup>34</sup>

### 3.2.3 The Fifty-Fifty Rule

John Adair developed a Fifty-Fifty Rule in motivation which says that; fifty per cent of motivation comes from within a person and the remaining fifty per cent comes from the environment, mainly from people around us. This rule is not used to declare the exact

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<sup>28</sup> Adair, John (2006) *Leadership and motivation* (p. 47-57)

<sup>29</sup> Wikipedia

<sup>30</sup> Adair, John (2006) *Leadership and motivation* (p. 39)

<sup>31</sup> Kressler, Herwig (2003) *Motivate and Reward* (p. 21)

<sup>32</sup> Armstrong, Michael (1993) *Managing Reward Systems* (p.21, 25)

<sup>33</sup> Ibid, (p. 23)

<sup>34</sup> [http://www.12manage.com/methods\\_herzberg\\_two\\_factor\\_theory.html](http://www.12manage.com/methods_herzberg_two_factor_theory.html)



proportions, but it says that a significant part of motivation lies within a person and the other part lies beyond personal control.<sup>35</sup>

You are according to this rule limited to influence a person's motivation to do something. The leaders in organizations are usually key factors in the environment of those who works for them, but their power is limited. As the proverb says; *You can take a horse to water, but you cannot make him drink.*<sup>36</sup>

### 3.2.4 Expectancy theory

Expectancy theory (1964) is a motivational theory written by Victor Vroom, born 1932, in Canada. The theory states that motivation will be strong if the individual can expect that their effort and contribution will give meaningful rewards. It means that motivation is more likely when a clear relationship exists between performance and outcome and the outcome is satisfying needs.<sup>37</sup>

### 3.2.5 Motivation at Work – Ways in which a company can influence motivation

Motivation at work can be reached in two ways. Firstly, people can motivate themselves by working with things that satisfies their personal needs. Secondly, people can be motivated by management using incentives such as pay, promotion, praise, etc.<sup>38</sup>

Two common ways to influence motivation are by incentive motivation and personal growth motivation. The first one is commonly used in companies and is supposed to work as a carrot. The company holds some type of incentive in front of the employees in hopes of making them move towards the reward in the right direction. The second one is when the company works with personal growth as a motivator. This can change the way employees think about work, making them more capable, which can give them a significant purpose in coming to work along with maximizing employees motivation.<sup>39</sup> The second theory is called the “Principles or rules of motivation” and according to the author they stand as pillars of encouragement. The first rule is that it is important that the manager is motivated because only motivated leaders can motivate others.

*For motivation is caught, not taught.*<sup>40</sup>

It is preferable if the company selects people who are highly motivated, since it is hard to motivate other people. It is also important for the company to find a balance between realistic and challenging targets. If the objectives are completely unrealistic to reach, this will probably de-motivate the worker. On the other hand if they are too easy to achieve they will not be stimulating. Progress motivates, to know that you are moving forward increases the workers effort. Feedback becomes an important tool here since it is a way for the worker to know if he or she is moving in the right direction at the correct speed. The organization can create a motivating environment, in both physical and psychosocial terms. The company should also find a balance between what the organization provides and what they are expected to receive, by linking performance to reward. It is also important that a manager gives their employees recognition which can be very motivating.<sup>41</sup>

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<sup>35</sup>Adair, John (2006) *Leadership and motivation* (p. 38)

<sup>36</sup>Ibid (p. 89)

<sup>37</sup>Armstrong, Michael (1993) *Managing Reward Systems* (p.29)

<sup>38</sup>Armstrong, Michael (1993) *Managing Reward Systems* (p.24)

<sup>39</sup>Pepitone, James S.; Bruce, Anne (1998) *Motivating Employees* (p. 24-26)

<sup>40</sup>Adair, John (2006) *Leadership and motivation* (p. 91)

<sup>41</sup>Ibid (p. 89-107)

### 3.2.6 Stewardship Theory

Stewardship theory is about managers whose motives are aligned with the objectives of their principals, known as the owners, rather than by personal goals. The focus is primarily on upper level managers. The theory was designed to examine when executives as stewards were motivated to act in the best interests of their principal. According to this theory, there is a strong relationship between the success of the company and the owner's satisfaction. A steward, who effectively improves the performance of the organization, which usually means increasing the organization's wealth, satisfies most groups related to the company. However, as well as other people, a steward needs an income to survive and this need is met when he realize the trade-off between personal needs and the organizational objectives. Furthermore, by working towards organizational needs the personal ones are met. The theory also highlights how identification between company and employee could be. A manager that interprets comments about the organization as if they were referred to him is seen as an identifying manager. The feeling of identification allows the manager to take credit for organizational success and feel frustrated when the organization is failing.<sup>42</sup>

### 3.2.7 How motivation is perceived by the generations

Several studies on the relationship between age and work motivation have led to the result that there are significant variations across age. Studies also show that job satisfaction varies more with age than by gender, education, ethnic background or income.<sup>43</sup>

Since the Baby Boomers grew up in optimistic and positive times they believed that the world was at their feet. This influenced their competitive nature and it is a generation that enjoys winning. They are also known for their want to be in charge, to make an impact and their focus on personal achievement.<sup>44</sup> Due to their competitive nature the Baby Boomers are motivated by factors such as to be given a chance to prove themselves, gaining name recognition in the company which often is shown through titles, as well as public recognition. Another factor that motivates this generation are different kind of perks such as being given a company car and health insurance.<sup>45</sup> Further the feeling of being valued and needed by the company are highly motivating factors.<sup>46</sup> One motivating factor is development opportunities given by the company.<sup>47</sup> The Baby Boomers are motivated by specific education which can help them make a difference.<sup>48</sup> This generation in Sweden is also characterized by a sense of safeness. They like long-term decisions, savings and have a great respect for authorities. Many company cultures reflect their ideals, in means by working and saving to build stability, which is a motivational factor.<sup>49</sup>

The Generation X is known to be self-reliant and independent, they were the first generation to have both parents working.<sup>50</sup> Some characteristics fitting them well are that they dislike rules, they prefer doing things their own way<sup>51</sup> and they are motivated by being given freedom to act. They like to have several projects allowing them to prioritize, giving them the

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<sup>42</sup> Davis, James H.; Schoorman, F.David; Donaldson, Lex (1997) *Toward a Stewardship Theory of Management* (p.2, 5, 6, 8, 9, 10)

<sup>43</sup> Clark, Andrew; Oswald, Andrew; Warr, Peter (1996) *Is job satisfaction U-shaped in age?*

<sup>44</sup> Frandsen, Betty MacLaughlin (2009) *Leading by recognizing generational differences*, Nelson, Bob (2007) *One Size Does Not Fit All*

<sup>45</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 83)

<sup>46</sup> Hammill, Greg (2005) *Mixing and Managing Four Generations of Employees*

<sup>47</sup> Samuelsson, Lars A. (1999) *Controllerhandboken* (p. 125)

<sup>48</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p.82)

<sup>49</sup> Anders Kinding (2005) *Ung och chef* (p.45-46)

<sup>50</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 94-99)

<sup>51</sup> Hammill, Greg (2005) *Mixing and Managing Four Generations of Employees*

feeling of being in control. Stimulating projects and tasks are very motivating. Regarding perks these are not perceived equally as important as for the previous generation.<sup>52</sup> This group seeks a workplace that is exiting, challenging and meaningful, they are also motivated by activities such as fun office events and sporting events arranged by the company. They are virtually self-developing meaning they develop skills on their own. However, they see development opportunities given by the company as motivating.<sup>53</sup> In Sweden this was the first generation to become materialistic, having boats and summer houses. Playing golf and going on charter trips is also something very commonly found in this generation. To have a career is something very important, that others perceive you as successful is something this generation strives for.<sup>54</sup>

### 3.3 REWARD SYSTEMS

*You get what you reward.*<sup>55</sup>

#### 3.3.1 Introduction

According to the person saying this phrase, a reward system is the world's greatest management principal. If the organization rewards a certain kind of employee behaviour, good or bad, that is what the company will get more of.<sup>56</sup> Every existing company has some form of reward system, whether it is outspoken or not, it exists.<sup>57</sup> People correspond positively to praise, and praise in the right moment creates loyalty and affinity.<sup>58</sup>

Rewards come in two different types it can either be in form of incentive motivation or personal growth motivation. The former is the kind that comes from within the individual, a feeling, being proud over something, feeling content and happy by something that you have done. The later is the type that is brought to you by another person or an organization,<sup>59</sup> and is the one that will hold our focus through this study. Furthermore, extrinsic rewards can be monetary or non-monetary. The monetary is usually a variable compensation, separated from the salary. It is received as a consequence for extraordinary performance or as an encouragement and it can be either individually based or group based. The conditions to obtain this reward should be set in advance and the performance needs to be measurable.<sup>60</sup> There exists a variety of purposes of a reward system, one very common is to motivate employees to perform better, but also for keeping the employees.<sup>61</sup> For a reward system to be ideally motivational the reward should satisfy a number of criteria; have value, be large enough to have impact, be understandable, be timely, the effect should be durable and finally the rewards should be cost efficient.<sup>62</sup>

#### 3.3.2 Purpose

A reward system puts together employees' natural self-interests with the organisation's objectives and provides three types of management control benefits, informational, motivational and personnel related. Firstly, rewards should catch the employees' attention

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<sup>52</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 123)

<sup>53</sup> Nelson, Bob (2007) *One Size Does Not Fit All*

<sup>54</sup> Anders Kinding (2005) *Ung och chef* (p.45-46)

<sup>55</sup> Nelson, Bob; Economy, Peter (2005) *Management Bible* (p.61)

<sup>56</sup> Ibid (p.61)

<sup>57</sup> Jäghult, Bo (2005) *Morötter : en bok om bonus, beröm och andra belöningar* (p. 15), Svensson, Arne (2001) *Belöningsystem* (p.10)

<sup>58</sup> Bernstein, Albert J. (1989) *Dinosauriehjärnor* (p.76)

<sup>59</sup> Kaplan, Robert S. & Atkinson, Anthony A. (1998) *Advanced Management Accounting* (p. 674)

<sup>60</sup> Jäghult, Bo (2005) *Morötter : en bok om bonus, beröm och andra belöningar* (p. 14)

<sup>61</sup> Ax, Christian; Johansson, Christer; Kullvén, Håkan (2005) *Den nya Ekonomistyrningen* (p.75)

<sup>62</sup> Merchant, Van der Stede (2007) *Management Control Systems* (p. 404)

and at the same time it works as a reminder for the person in charge of what results should be completed in different working areas. Organizations use reward systems to emphasize on which parameters their employees should exert the extra effort on by including them in their reward program.<sup>63</sup> This is a good way to emphasize and convince the employees of which performance areas that are important and create goal congruence within the organization and signals how the employees should direct their efforts. To motivate is the second control benefit. People sometimes need an incentive to perform tasks well and work hard. Last but not least we have the personnel related control benefit. Organizations give rewards for many different reasons e.g. to improve recruitment and retention by offering a compensation package that is competitive on the market.<sup>64</sup>

Reward systems refer primarily to things that employees value. It is important to bear in mind that a reward system can contain both positive and negative rewards. The negative rewards, often seen as punishments, usually manifest themselves through an absence of positive rewards. Examples of positive rewards would be autonomy, power, salary increases, bonuses and some negative rewards would be interference in job from superiors, zero salary increase, and no promotion.<sup>65</sup>

The three purposes mentioned above can be related to what have been said about the different generations. The Baby Boomers respond more to the informational purpose by valuing directions on how to make the most of every opportunity. The Generation X consider the third purpose, personnel control, important since training and development are significant attractors and retainers for this generation. When it comes to attracting the Xers they want to be evaluated on merits and not on years of experience. When it comes to recruitment of the Baby Boomers they want to know that their experience are going to be valued and they also want to get credit for their accomplishments.<sup>66</sup>

### *3.3.3 Different parts of a reward system*

While constructing a reward system there are certain criteria to consider, and commonly these are considered in most outspoken reward systems. A reward can be either an “add-on”, meaning that the employee has a normal salary, and the reward is just added on top, or the employee may go down in pay and have a greater variable reward. Corporations have, just as humans, different life-stages, and depending on where the corporation is at the moment it has different needs and this affects the reward system, needing to create goal congruence. What goals the company have in regards of profitability and growth, are the parameters you measure to see if a reward should be paid or not. This usually requires a break-down of the goals, making them easier to measure and more understandable for the employees, and there you also need to show them how their behavior affects the measured goals and parameters. Here the incentive system becomes a tool for management control and the choice of which goals you measure is important, since these are the ones the employees will put their focus on. Sometimes a monetary reward is given based on individual or on departments’ performance, although the company has losses. This can be avoided by adding a threshold requirement for the whole company, which then needs to be fulfilled before a bonus can be paid out in any departments. Factors such as when and how the reward should be paid out and if there should

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<sup>63</sup> Ibid (p. 395) Svensson, Arne (2001) *Belöningsystem* (p. 9-10)

<sup>64</sup> Merchant, Van der Stede (2007) *Management Control Systems* (p. 395)

<sup>65</sup> Ibid (p.394-395)

<sup>66</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 82, 118-122)

be a roof (a higher limit of the reward-amount) are things that always should be specified while designing the system.<sup>67</sup>

## Monetary

*It is certainly not the only form of reward, and it is not necessarily always the best one, but its use is so common that it deserves special mention.*<sup>68</sup>

People value money and therefore making money an important form of reward. Monetary reward systems can be classified into three main categories, performance-based salary increases, short-term incentive plans, and long-term incentive plans. The latter two rewards are common on managerial levels and are often linked to performance during a specific time period.<sup>69</sup> The first one, is often considered to be the greatest motivational factor of them all.<sup>70</sup>

Each and every organisation gives salary increase to employees at all organizational levels. This is normally a small portion of an employee's salary, but has a significant value due to its long-term perspective.<sup>71</sup>

Short term incentives in some form are however commonly used in organizations. A cash bonus is usually based on performance measured on a time period of one year or less. Why a company primarily uses a variable pay is to differentiate it among the employees, so that the most successful employees will be rewarded. By recognizing the employee's contributions to the company it makes it easier for the organization to encourage excellent performance. The employees appreciate the possibility of receiving a reward for their performance.<sup>72</sup> Using a variable pay can also be an advantage for the company in terms of risk-sharing. This means that the expense for compensation varies more with company performance when the total compensation is partly variable, making the cost lower when no profit is made and when there is a profit this can be shared with the employees.

Rewards based on performance measures over time periods larger than one year are long-term incentive rewards. By using this, a company can reward employees for their outstanding work performance to maximize the firm's long-term value. This also works to attract and retain key talented persons.<sup>73</sup> Types of these can be stock-option programs, restricted stock plans or by a reward that is put in a 'bonus-bank' that change according to result and runs over several years.<sup>74</sup>

A stock-option program is usually when a person is allowed to buy stocks in the future, but for today's price. This is an attractive way of rewarding a manager because the manager would want the value of the stock to increase and thus work harder on the long-term goals and commitments instead of focusing on short-term profits. Another advantage with this type of reward is, since the manager does not yet own the stock, he or she will still be taking risks with higher payoffs than they might had if they already owned them. There does, however,

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<sup>67</sup> Jäghult, Bo (2005) *Morötter : en bok om bonus, beröm och andra belöningar* (p. 117-141), Kaplan, Robert S. & Atkinson, Anthony A. (1998) *Advanced Management Accounting* (p. 681)

<sup>68</sup> Merchant, Van der Stede (2007) *Management Control Systems* (p. 396)

<sup>69</sup> Ibid (p.396)

<sup>70</sup> Samuelsson, Lars A. (1999) *Controllerhandboken* (p. 126)

<sup>71</sup> Merchant, Van der Stede (2007) *Management Control Systems* (p. 396)

<sup>72</sup> Ibid (p. 396)

<sup>73</sup> Merchant, Van der Stede (2007) *Management Control Systems* (p.396, 397)

<sup>74</sup> Samuelsson, Lars A. (1999) *Controllerhandboken* (p. 140), Kaplan, Robert S. & Atkinson, Anthony A. (1998) *Advanced Management Accounting* (p. 692)

exist one great disadvantage though with the stock-option program. A manager does not have enough control over the value. Too many external and non-responsive factors influence the value, making it less appealing as an incentive.<sup>75</sup>

A very popular type of long-term incentive is some form of a restricted stock plan. This reward is shares given as a bonus to the employee, however, they can only be sold after certain time period. After for instance one year, the employee will be able to sell one fifth of the shares, after two years he or she will be able to sell two-fifths and after three years three-fifths etc. This is a way to retain competence within the company, not to motivate employees, since if they choose to end their employment before the fifth year, they will lose the remaining parts. Some firms take this even further by withdrawing the shares you already received.<sup>76</sup>

### **Non-monetary**

Be given a thank you from you manager or to receive gratitude from your co-workers are both examples of non-monetary rewards.<sup>77</sup> Monetary rewards are often accused of being too short-termed, and not creating a long-term commitment which is normally what you want from your employees. To achieve long-lasting motivation for the employees the organization must pay attention to both the financial and the non-financial motivators, in order to provide the best mix.<sup>78</sup>

When it comes to how the generations want to be rewarded, the Baby Boomers prefer the monetary rewards. They work to be promoted and gain recognition. Further they prefer being given a bonus over extra vacation. Moreover, they want to receive appreciation for their long hours at work. The Generation X considers freedom to be the best reward in combination with working with likeminded people and greater pay equity. They also want immediate feedback meaning that it should be given as soon as possible while the Baby Boomers do not want feedback.<sup>79</sup> Xers have great knowledge about balance between work and leisure, they see work as work and they work to live and not the opposite.<sup>80</sup>

### **Individual-based vs. group-based rewards**

For a group reward to provide a direct incentive effect, the employee to whom the rewards are promised has to believe that they can influence the performance on which the rewards are based on to a significant extent.<sup>81</sup> Achieving something as part of a group usually strengthens the ties between co-workers. However, if someone has been part of the group without contributing in the same way as the rest, usually creates great dissatisfaction among the rest, and teaches employees that they get rewards without input. This phenomena is called the free-rider-problem. In many projects and companies, it is not possible to carry out a task by yourself but the task-completing-process is a process through the company, engaging many different people. In these cases a group-based reward is preferable since everyone has “pulled their weight”, although it is hard to see the individual impact.

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<sup>75</sup> Kaplan, Robert S. & Atkinson, Anthony A. (1998) *Advanced Management Accounting* (p. 686)

<sup>76</sup> Merchant, Van der Stede (2007) *Management Control Systems* (p.399)

<sup>77</sup> Jäghult, Bo (2005) *Morötter : en bok om bonus, beröm och andra belöningar* (p. 18),

<sup>78</sup> Armstrong, Michael (1993) *Managing Reward Systems* (p. 35)

<sup>79</sup> Saunderson, Roy, (2009) *Is it really so hard to reward and recognize a multi-generational workforce?*,

Hammill, Greg (2005) *Mixing and Managing Four Generations of Employees*

<sup>80</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p. 29)

<sup>81</sup> Merchant, Van der Stede (2007) *Management Control Systems* (p. 405)

Individual-based rewards often leads to sub-optimization. When introducing an individual-based reward system, employees tend to concentrate on their own performance instead of the company's performance as a whole. Asking co-workers and managers for help is suddenly something you think twice about, as you might need to share a future reward if you do. This leads to tasks fulfilled with an okay result, instead of a better result that might had sprung from a collaboration with co-workers more competent to the task or parts of the task, hence sub-optimization. However, an individual-based reward creates the greatest motivation and larger incentives for the individual.<sup>82</sup>

Increasing the responsibility for an employee usually tends to also increase motivation. This because increased responsibility makes the employee feel more appreciated and skillful. When in a group, people learn from each other, creating more and more positive actions, and also gets more effective. Rewarding a group using a monetary reward, often creates an intrinsic reward for the group-members, as they feel satisfied belonging to a group that has performed something extraordinary.<sup>83</sup> There is also a possibility to combine these two kinds of rewards.<sup>84</sup> This can be done by basing the total reward on group performance, and the individuals' shares of this reward on individual performance.<sup>85</sup>

The Baby Boomers are so many and because of this they learned at an early age about teamwork. It was common for them to share textbooks and school material with classmates, which have made them used to and comfortable with working in teams. They do not mind sitting in an office landscape while the Generation X prefer having their own workspace with walls and doors. Furthermore the Generation X prefer to choose their own team members and they are also perceived as more independent.<sup>86</sup>

### 3.3.4 Performance measures and goal setting

The connection between performance and rewards are the goals set and the performance measured in contrast to these goals. There are two types of measures, financial and nonfinancial, although both are usually used, the financial reward is the most common. A company needs to understand what runs their returns to be able to manage the factors that create it. Financial measures, such as return on investment, tend to be short-term which makes them partially sub-optimized. The nonfinancial measures such as quality on the other hand, could be used by the company for long-run financial performance. Financial measures are still however, very important since they correlate with the primary objective of companies, profit. A performance measure's purpose is to both make the employees focus on what is important, but also to be able to see and react when something is wrong. One way of connecting the non-financial measures and goals with the financial is by using a balanced scorecard for example.<sup>87</sup>

One definition of a goal is a description of a wanted, future state. This is usually an overall vision, that gets broken-down to different levels in the company, and if this process functions as it should, even at the lowest level and in the tiniest goals, there exists congruence with the vision.<sup>88</sup>

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<sup>82</sup> Jäghult, Bo (2005) *Morötter : en bok om bonus, beröm och andra belöningar* (p. 130-133)

<sup>83</sup> Jäghult, Bo (2005) *Morötter: en bok om bonus, beröm och andra belöningar* (p. 186,212)

<sup>84</sup> Samuelsson, Lars A. (1999) *Controllerhandboken* (p. 140)

<sup>85</sup> Kaplan, Robert S. & Atkinson, Anthony A. (1998) *Advanced Management Accounting* (p. 675-76)

<sup>86</sup> Zemke, Ron; Raines, Claire; Filipczak, Bob; (1999) *Generations at Work* (p.67, 73-75, 116)

<sup>87</sup> Kaplan, Robert S. & Atkinson, Anthony A. (1998) *Advanced Management Accounting* (p.368, 443)

<sup>88</sup> Jacobsen, Dag Ingvar & Thorsvik, Jan (2008) *Hur moderna organisationer fungerar* (p.33)

A theory developed in 1979 by Latham and Locke suggests that motivation and performance increases when people set specific and achievable goals, when the goals are difficult but accepted and when there is some kind of feedback on the performance. This makes the participation of goal setting important, giving the employee possibility to influence his goals.<sup>89</sup>

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Armstrong, Michael (1993) *Managing Reward Systems* (p. 23)



## **4. EMPIRICAL STUDY**

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*In this chapter our case study will be explained. Firstly we will provide information about the studied company, VCC, and then their current reward system will be briefly explained. Finally we will account for the results of our interviews. We have chosen to not present it question by question but several questions combined into the same paragraph since this is more suitable with our purpose.*

### **4.1 VOLVO CAR CORPORATION**

VCC is a major car manufacturer, with a production of about 360 000 cars in 2008. Having manufacturing plants in 3 countries and retailers worldwide, they employ more than 22 000 people directly or indirectly. In Sweden, Spain and California VCC have design centers, in Sweden, Belgium and China manufacturing units and in Malaysia there is an assembly-plant. The largest markets are the USA, followed by Sweden and Great Britain. The company is today, since 1999, together with Lincoln and Mercury part of the group Ford Motor Company. In 2008 the company had a total turnover of 89 591 MSEK and sold 374 297 cars. The company was founded in 1927 by Gustaf Larsson and Assar Gabrielsson and has since then produced more than 15 000 000 cars. The name Volvo is Latin and signifies "I roll". This was a name given by the former parent company SKF, and was initially a name of a ball-bearing. The production is based on a conveyor belt, where different models are built at the same production path, since it is a client-driven production components are delivered Just-In-Time. At the end of 2008 they had 10 different models in 4 different classes in their production program, and are striving to be Best-In-Class, which is to be one of Europe's leading and most cost-efficient premium car manufacturers.

### **4.2 CURRENT REWARD SYSTEM**

VCC has two different reward systems, one that includes management levels 5 up to 1, which is the one that we have been investigating and will be explained briefly next, and the other one is for the remaining employees which is a performance-based reward scheme. The current system is developed by Ford and has been used in VCC since the takeover. The compensation program includes both fixed and incentive elements. The fixed part is given as a base salary. Furthermore the incentive program is divided into two parts, the first one is called; Annual Incentive Compensation Plan, aimed to reward the short-term performance and achievement of annual goals that are set a year in advance and the second is the Long-Term Incentive Program focused on long-term performance. The AICP system is designed so that the whole company works together a pot, and the collection is distributed to the various leadership levels. The size of the bonus is divided around 50/50 between VCC's result and the group's result. How much as a percentage you as an individual receive depends on how you personally have achieved your goals. The Future Contribution Assessment value (FCA value) is calculated by an assessment made by the leadership team at VCC of an individual's likelihood of future contribution to the business. The reward is Restricted Stock Units (RSU) which are given where the shares gradually becomes available.

### **4.3 PURPOSE OF A REWARD SYSTEM**

*In this section we aim to explain what the managers considered was the purpose of a reward system and if the system of VCC meets this purpose.*

Twelve of the respondents, i.e. six of the Baby Boomers and six of the Generation Xers, consider that the purpose of a reward system is primarily to motivate the employees to greater performance. Another group with six respondents from the Baby Boomers and one from the Generation X considers that a reward system is primarily used by the board to inform the employees about which parameters are important and where they should put their focus at the time. Further two Baby Boomers and three Xers believed that a reward system primarily could be used to retain key performers as well as to attract competent employees. Several said that another purpose is that a reward system is a good way for the company to share profits with the employees and making them feel appreciated. If the company shares profits with employees in good times then it can also more easily require more of them when times are worse. Although several managers mentioned more than one of the purposes written above, nobody mentioned all four of them.

A corollary question according to us was to ask if they thought that VCC's system met the objectives they just had shared with us. The most common answer was that the system only met the objectives partly and some explained this by a sometimes weak correlation between performance and outcome. Few respondents believed that there was no correlation at all, mainly because they felt they could not influence their rewards due to the fact that they belong to an American group, whereas a few others considered the system to be perfectly corresponding to its purpose. Found was that the respondents of VCC considered motivation to be one of the main purposes with a reward system but that the current reward system of VCC not always met this objective.

#### 4.4 MANAGERS VIEW OF REWARD SYSTEMS

*With this headline we will try to explain what the managers thought about a reward system, if it is motivating, its upsides and downsides and if they had other ideas about how a better reward system could be designed.*

All respondents had different thoughts about what a reward system is, some saw only the monetary part, which we also had in mind, while some also counted factors such as career opportunities within the company and skills development as part of the reward system. When they were asked which benefits there were for themselves, the majority responded the extra money or no benefits at all. Others mentioned that being part of a reward system was a carrot itself. Few respondents also said that there were no downsides with the reward system. Their argument for this which was also added by several others was that anything in addition to salary is just "icing on the cake", it was not something they thought about in their daily work. The majority pointed out that their positions made many of them financially independent and that the need of a bonus to maintain their consumption habits did not exist. The same respondents also said that a bonus was not something that motivated them to do a better job. Most of the respondents considered the system to be too hard to influence by themselves, that a system based on only the result of VCC was desirable. They also considered the connection between the individual performance and the outcome to be too weak, not always understanding why they did or did not receive a bonus. Moreover, a third thought that the reward system should go further down in the organization, that when there was profit made, it should be shared with everyone. A bonus was not perceived to motivate to greater performance together with that the bonus in the current system is too hard to influence.

Different opinions existed of how a system should be designed. One fairly consistent opinion was that a system needs to be understandable and to have a clear connection to why you receive or do not receive a bonus is crucial for having any impact on the respondents' motivation. One question that was brought up was whether a system should be open or not.

Some thought that with our Swedish culture, a system should be more closed, whereas the majority wanted a system to be more open and transparent. This also led to a discussion about the time aspect, where some considered it to be good that the bonus arrived once a year, and you did not really know how much you would receive, whilst some wanted to be able to calculate during the year how much their bonus would come to or even have a bonus payout each quarter. In addition, two respondents thought that a bonus payout should be possible even though the company does not make a profit, which the others considered to be an impossibility. A part of the respondents also emphasized that the choice to put your bonus in retirement savings instead of a cash payout was important and something they valued. Continuing with the parts of a system, we asked if there should exist a higher maximum amount that you could receive (a ceiling) and to this the majority agreed. We also asked where they stood in the question of whether they would like a higher fixed salary and a lower variable part or vice versa, to which everyone preferred the higher fixed salary. Since the salary is the most important part of a reward system, to them an increase of this is something they prefer. Some added that if they were younger or if they had a sales job they probably would prefer a lower fixed salary with an opportunity to a higher variable part. A more open and transparent system together with a clear connection to why a bonus is received was preferable by the majority of our respondents.

When we begun discussing the individual vs. group-based rewards, different views existed. However all respondents said that a combination between individual and group parameters were preferable. Although, most of the Baby Boomers believed that having the rewards a bit more based on the departments' performance or a smaller group would be the most effective. They thought that a too individual-based reward mostly led to sub-optimization and a tendency to make decisions in favor for yourself instead of for the company's best. Three respondents of the Generation X distinguished themselves from the others, by saying that they wanted more individual-based rewards. One respondent wanted a reward for special and exceptional performance instead of a general bonus paid out only because you have a certain leadership level. Half of them further wanted a more diversified allocation among the salaries, meaning that a variable pay was well suited for marking differences among who performed good and who performed not so good. The other half instead, wanted a smaller spread among the wages, they valued equity and considered this more suitable in our Swedish culture. Baby Boomers seemed to prefer group-based rewards, a few Xers preferred more individual-based but both generations primarily preferred a mix.

Different views have also been pointed out regarding if there should exist a reward system or not. The majority thought that a reward system should exist, especially at this level. This mainly due to the need of attracting and retaining key performers. They consider themselves to have a value on the market and reward systems have become a tool to evaluate the employees' performance and to reward them according to this. Some thought that the cash-bonus was superfluous and that the salary alone should correspond to your job. Another point given was that if the company would remove the variable part of the reward system it would probably be de-motivating. This was explained by saying that to be given something that later is removed would almost certainly make the former receiver more dissatisfied than if he never received it in the first place. Good things are easy to get used to. A greater part of the responders said that even though it is a short-term incentive they personally preferred the cash-bonuses, over stock units, but from the company's perspective it was good to have both parts. A reason for the later part to be less attractive was explained by it being too far away which made it difficult to influence. A reward system should exist, to remove it would cause de-motivation.

The monetary part of a reward system is usually what first comes to mind when you speak of rewards, nevertheless as mentioned above many also had in mind other types of rewards, non-monetary. In fact, the non-monetary rewards were by three Xers and six Baby Boomers perceived as more important than any kind of monetary reward. The remaining managers of both generations said that this part was of great importance especially daily. The types of non-monetary rewards tended to differ among the respondents. Things such as being seen and respected by your manager, getting support for your plans and confirmation were considered to be of great importance. Continuously, three Baby Boomers thought that openly given praise was a good thing while two considered it to be a direct cause of jealousy, due to our Swedish culture. This result was very similar to the Xers, but no jealousy was ever mentioned. What five of the Xers said was also that if praise was constantly given, but the appreciation never showed in the payroll, it was rather worthless. The arguments for this were that only receiving praise without promotion or gratification through money would give a feeling of false praise. This part is equally important as the variable monetary part if not in some cases of more importance.

As we mentioned earlier VCC is part of the American group Ford and the reward system used at VCC is the one of Ford. Several have pointed out that an American system is not always to prefer in a Swedish context. Some of the managers have experience of an American reward system due to working at Ford in the United States. A common view among them is that the American systems put too much emphasis on the variable parts, while they as Swedes prefer higher salaries and lower variable parts. They have seen American co-workers build their lives around bonuses and when not being paid out this had a devastating effect, that they as Swedes prefer a higher salary they explained by saying that Swedish people may be less risk-prone.

#### 4.5 WHAT MOTIVATES MANAGERS?

*In this part we intend to explain the theoretical concept of motivation by asking what motivates managers and how VCC as a company could affect their motivation.*

The majority of the managers are motivated by praise and appreciation from their boss as well as from their co-workers, knowing that you are valued and needed is important. To be given recognition, and especially public recognition was said to be of importance by six Baby Boomers, whereas two of them also pointed out that this could lead to jealousy in the Swedish culture, one however, was totally against public recognition also this due to the jealousy. Another equally important motivation factor was development opportunities, the respondents value the individual development plan the company has for them. Five respondents of the Generation X actively participated in this plan, meaning that they ensured the plan to be updated with their wants and future goals and not waiting for it to be done by someone else. They see that development leads to promotion which in turn leads to wage increase. Most of them value to work at a large international company and sees the opportunity to try different jobs and to climb up the hierarchy as well as to have the opportunity to work abroad for some years. Feedback from the surroundings is motivating for many of them, such as getting support for good ideas. It is equally important to receive positive and negative feedback. Five Xers and five Baby Boomers have also pointed out that it is important to have a fun and challenging work to be motivated as well as problem solving. Although it is not the first they mention but it is said by many that money is a motivating factor. Many think that salary is the most important factor and that it should be equivalent to performance. More than half of the Baby Boomers also said that they valued perks such as company cars, travels and health insurances while less than half of the Xers mentioned this. The respondents added that in Sweden perks are not preferable due to the Swedish tax system which does not make them as

favourable as in countries such as the United States. Praise, appreciation and development opportunities are seen as the major motivational factors for the managers together with several other similar factors.

All managers, some more than others, believe that VCC has a great influence when it comes to their personal motivation. For many respondents it was important that the company had strong and clear leadership and a feeling of belonging to a winning team were pointed out by many. In their role as a manager they saw the information flow from the top and clear objectives from the company board as very important and motivating. If and when the company provides development opportunities, both internal and external, influences the motivation of many responders. The company can also influence their motivation through offering internal recruitment since this is perceived to be very motivating. The work environment is perceived as a great influential factor by almost everyone. The majority believes that the physical and the psychosocial environments are important and put a greater emphasis on the latter since this is believed to control the atmosphere. The relationships with your colleagues, to be respected and to have a good manager are all basic for creating an atmosphere where you can work well. They also thought that if the atmosphere is unpleasant and if you do not get along with your colleagues that would probably effect your motivation to work. The physical environment is also said to affect your motivation, having flowers and a clean tidy office can ease your job although the psychosocial environment is basic. However, a minorities group believes that the environment is not influencing their motivation. VCC can to a great extent influence the motivation of their employees through factors such as development opportunities, physical environment and psychosocial environment.

*I live in a nice home, why should I then work in a bad environment?*

*I would gladly give up half of my bonus to freshen up the work environment.*

Despite the fact that all managers think that the company can influence their motivation, it is also many who pointed out that it is the internal motivation which is most important. Their own satisfaction and inner motivation for their job is more motivating than outside factors.

*If I had not had internal motivation to work here, I would not.*

*It is not good with only external confirmation, as this may result in only a short-term thinking.*

*Internal motivation is more important than anything Volvo can do.*

#### **4.6 WHICH IMPORTANCE HAS THE COMPANY GOALS FOR THE VIEW OF REWARD SYSTEMS?**

*Here we will account for the importance of goals, their clarity and the process of setting them in relation to the functionality of a reward system.*

An overall guideline from the company board that gets broken down well to either a departmental or individual level is central according to many managers. The majority of the goals may be a subjective assessment. However, the opinions about whether this is good or bad are separated. One part of the respondents considered the subjectivity as bad. They said that the relationship with your manager as well as if you set easy or hard goals to reach influenced too much on your future ranking. As well as that there were too little cross-functional activities to ensure objectivity. The other group on the contrary appreciated a subjective assessment. They meant that by setting goals in a constantly and quickly changing environment, and where the business is about more than just the goals written on paper you

would have an organization focusing on only these parameters and not the wholeness. This made the subjectivity a good thing since it allowed you to overlook if some goals were not achieved but the overall performance was good. Of whether there existed congruence with the overall goals or not a disagreement existed. Some thought that it was very clear, while others could not see it from time to time, but pointed out that this was something important for knowing if you work in the right direction. To have subjective or objective assessments of performance seem to be clearly divided among the managers with no greater support for either one or the other.

*What gets measured gets done.*

Something respondents with higher level in the company pointed out was that the higher position you had, the more acceptable it was to have unclear goals. They meant that the top-management have great insight into the company and therefore should know what to do without exact and totally clear goals. While the employees and managers a bit further down might need clarity for understanding how to contribute with their work to the company's overall goals.

#### 4.7 MANAGERS IDENTIFICATION WITH VOLVO CAR CORPORATION

*Finally, we wish to highlight if the managers identify themselves with the company, the pride of working at VCC, how people experience the affinity in the company and the importance of titles.*

The majority of the managers are affected by what is written in media, both the negative and the positive comments. The negative critics often lead to irritation, while the positive is motivating. At the same time many managers emphasize that they are in a position which gives them so much insight into the company that they can distinguish between what is right and wrong in media. Many mentioned that they love their job and that working with cars is the best they know, adding that they want to work in a successful company.

*Depending on how well the company is doing so interesting are you at the dinner table.*

Everyone that we interviewed said that they are proud working at VCC. Further, they also thought that their co-workers are proud of working there.

*There is something in the walls here at VCC.*

When it comes to the affinity within the company the majority of the responders shared the view that it is good but has been better. The company has recently decreased resources on activities that are supposed to create affinity within the company due to the economic crisis we now are experiencing. Many said that affinity is time-dependent, i.e. it comes and goes and they believe that it varies across the company.

In terms of titles, all but one of the Baby Boomers considered titles as unimportant for them. However, everyone said that it is necessary in the company as they do business on the international market and titles facilitate external communication by placing the person in the hierarchy of the company and therefore remove unnecessary difficulties.



## 5. ANALYSIS

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*In this chapter we aim to discuss our empirical results, in relation to the hypotheses our theoretical framework has provided us with.*

### 5.1 MOTIVATION

According to our frame of reference one of the primary purposes to use a reward system is to motivate the employees to do a better job. When we asked the managers what they thought the purpose of a reward system to be, was this exactly what many of them said.

#### 5.1.2 Maslow

All people have different needs which make us behave and act in certain ways. This is consistent with the thoughts of a majority of the respondents that said that a reward system is affecting employees' behavior in both good and bad directions, depending on how it is used by the company. Regarding different needs people possess, the diverse classifications made by Maslow gives us a structured tool to explain people's needs in a hierarchic way. If we take a look at Maslow's ideas usually visualized by a pyramid, we find that the lower parts consistent of physiological and safety needs can be satisfied by job and salary. We consider the physiological needs such as food and home as well as the safety needs such as health insurance and employment security to be obtained with money and employment. According to the frame of reference the Baby Boomers value safeness and perks such as health insurance while the Generation X is considered to be a materialistic generation valuing boats and holiday houses rather than perks. Many of the managers, not only the Baby Boomers but also the Xers, said that they had a satisfying salary. More than half of the Baby Boomers said that they valued perks such as company cars and health insurance whereas less than half of the Xers mentioned this, making us believe that the Baby Boomers actually do value perks more. They considered their salary to be satisfying, we consider that this may fulfil the lower needs of Maslow. In the middle part of the pyramid we find the need of belonging. This part could be fulfilled through having good affinity with co-workers and supervisors and the feeling of belonging to a team. A greater part of the managers, of both generations, felt the affinity to be good within the company although they shared the opinion that it has been better. The upper part of the pyramid explains the needs of esteem and self-actualization. The people belonging to the earlier generation should be motivated by receiving specific development opportunities and by being given the chance to prove themselves. Whereas the latter generation is known to be more self-reliant and confident, they also want to be perceived as successful by the environment. When it comes to the esteem described as being accepted and valued by others, this was something the respondents placed great importance on. Not only was it the Generation X that emphasized this as according to the frame of reference but also the Baby Boomers emphasized this. They thought that it was very important to be respected and acknowledged by both superiors and co-workers to be able to perform their job well. Regarding the self-actualization, illustrated in the top of the pyramid, raises concepts as problem solving and creativity, the person here wants to realize one's maximum potential. Some said that they were motivated by solving problems as well as having a creative environment where positive feedback from the surroundings was greatly valued. The Baby Boomers ought to be focused on personal achievement and be motivated by education possibilities while the Generation X should be more self developing. When it comes to achieving your full potential, education and development becomes crucial, as many of the responders from both generations said they valued growth possibilities given by the company



in form of internal and external education. However, among the respondents of the Generation X we actually interpreted that five out of eight were more self-developing in sense of taking their own initiatives. VCC has an individual development plan for every employee, which these five respondents actively participated in. At the higher leadership level of our respondents an overall view was that the traditional education is not equally preferable to experiences such as field trips where valuable networks could be tied. According to Maslow the needs are fulfilled in a hierarchical order, starting with the physiological needs at the bottom of the pyramid. When the first need is satisfied new emerge as the dominant centre of motivation. As we mentioned above many managers said that they are satisfied with their salary. We cannot conclude that the needs are met in a hierarchical order because we believe that the respondents are in the highest part of the pyramid, self actualization, and we do not know if the climbing up have been in a hierarchical way.

### 5.1.3 Herzberg

The managers thought that the salary was the most important part of the reward system whilst the bonus and shares were seen as extra. According to Herzberg money is seen as a hygiene factor which means that if the company were to remove this part it would cause dissatisfaction. It is important to mention that we and the managers believe that money can be separated into two parts, salary and bonuses. Some managers said that removing the bonus would be de-motivating while others said that they would gladly give up part of the bonus if the money were used better in the organization. Furthermore they stated that the bonus was a short-term incentive which created satisfaction only when it was received, they said that the bonus was not something they thought about during the year, one jokingly added that he also was reminded by the bonus when he did his tax return. This statement was consistent with Herzberg's thoughts, he discussed that the impact of money was only a short-term feeling. Furthermore Herzberg states that money does not work as a motivation-enhancer, unlike the motivator factors which generates satisfaction and higher motivation when being fulfilled. These factors reveal themselves through recognition, possibility of career development and being challenged. According to the frame of reference the Baby Boomers are considered to be motivated by factors such as gaining name recognition as well as public recognition and titles. The Generation X is more motivated by a challenging work. Both generations states that they are motivated by the possibility of career development. Six of the Baby Boomers were in favour of public recognition whereas two of them also pointed out that this could lead to jealousy in the Swedish culture, one however, was against public recognition also this due to the jealousy.

Table 1 Should recognition be public?

	In favour of	Against	No opinion
Baby Boomers n = 12	50%	17%	33%
Generation X n = 8	50%	0%	50%
All respondents N = 20	50%	10%	40%

All but one of the Baby Boomers considered titles to be unimportant although necessary in a global company as titles facilitate external communication. We share the same opinion mentioned by two of our respondents above that a reason why the Baby Boomers go against the theory has to do with our Swedish culture. The Jante Law permeates some of our Swedish culture, it says that we must not stick out from the crowd and we shall not think that we are better than others. In our empery we found support for that Generation X were motivated by a

challenging work where five out of eight mentioned this. Among the Baby Boomers five out of twelve also mentioned that they were motivated by a challenging work. Both generations further thought that career possibilities were motivating.

Table 2 How many pointed out that they want a challenging work

	Yes	No	Not mentioned
Baby Boomers n = 12	42%	0%	58%
Generation X n = 8	63%	0%	37%
All respondents N = 20	50%	0%	50%

#### 5.1.4 Stewardship Theory

It is very common to use titles in companies. They are often used to explain what the person in question is working with. According to Stewardship Theory there is a strong relationship between the company's success and the managers' feeling of satisfaction. A majority of the respondents proved this to be right by saying that they wanted to work in a successful company. Some also added that in these difficult times with the current economic crisis we are experiencing it can sometimes feel a little heavy, but they look brightly on the future. The theory also talks about how the manager identifies himself or herself with the company, saying that a manager that interprets comments about the company as if they were referred to him is seen as an identifying manager. We perceive that a great part of the responders were affected by how the business was pointed out in media and what they wrote about the company. They said that they were glad when it was something positive written about the company but at the same time were they annoyed when something negative was written. However we did not get the feeling that managers took it on a very personal level. One said that if it is written something bad in the newspaper it is probably because we have done it ourselves. He did not refer to himself but to the whole company. Some also mentioned that they have reached such high positions in the company that they often know what is right and wrong in media.

Table 3 Affected by how the company is portrayed by media

	Yes	No	No opinion
Baby Boomers n = 12	75%	17%	8%
Generation X n = 8	88%	12%	0%
All respondents N = 20	80%	15%	5%

## 5.2 REWARD SYSTEM

### 5.2.1 Purpose

The reward system has according to the frame of reference three main purposes, informational, motivational and personnel related. The first purpose is meant to put focus and tells which parameters the person in question should emphasize. This is a way for the company to clarify for the employee which parameters and areas that is important. By doing this the board could create goal congruence within the organization. The Baby Boomers should according to the reference literature respond more to the informational purpose. This

fits well with how six of the Baby Boomers answered but only one of the Xers said this to be the primarily purpose. According to a few, the parameters are also used to put focus on areas you as a manager do not always bear in mind. One difference shown between the frame of reference and the opinions of our responders was that they added that the informational part also is used to set priorities. If the system works they considered this to be good since they have many things to keep in mind. The second purpose is to motivate. By giving the managers some kind of incentive this could be used as a carrot to perform the task well. Six of the Baby Boomers and six out of the Generation X said exactly this, that the primarily purpose is to motivate the employees to greater performance. Adding that it should also encourage and stimulate not only motivate good performance. The third purpose is personnel related, meaning that the organization works to retain and recruit competent personnel and doing this by offering a competitive compensation package. The Generation X can be put in relation to this purpose. Also this was said by some respondents to be one of the purposes to use a reward system in a company. However, only three out of eight Xers mentioned this which is contradictory to what the frame of reference says. Out of twelve Baby Boomers only two mentioned this. One particular respondent of the Generation X almost exactly quoted this phrase while a Baby Boomer added that he had a price at the market and wanted a compensation package responding to this. Several also said that another purpose not mentioned in the frame of reference is to share profits with the employees and making them feel appreciated.

Table 4 What is the primarily purpose of a reward system, more than one answer from each respondents can have been given. The numbers respond to how many that have mentioned each purpose.

	To motivate	To inform	Personnel related
Baby Boomers n = 12	6	6	2
Generation X n = 8	6	1	3
All respondents N = 20	12	7	5

### 5.2.2 Different parts of a Reward System

Reward systems are usually associated with cash, but in reality it has two parts, consisting of a monetary as well as a non-monetary part. It is well known that people have great appreciation for money. VCC has a compensation program only at higher managerial levels, but according to the frame of reference this is not only common but almost mandatory in larger organization, especially being part of an American group. Performance based salary, short-term incentive plans and long-term incentive plans are all part of a monetary reward. VCC are users of all three parts which made this relevant to have questions about in our study. The salary increase is usually only a small percentage but when it comes to managerial levels these percentages become a rather important part of the total compensation package. The majority of the respondents also expressed that the salary is to them the most important part of the compensation package, since this is what they build their life with. Salary increase or lack of it is a good tool to separate and differentiate exceptional performance from not so good performance. The Generation X ought to want a smaller spread in wages since they appreciate greater pay equity. Half of the respondents of the Generation X agreed on this while the other half preferred a more diversified allocation, this shows that the theory can neither be substantiated nor falsified. Further, a majority of the respondents from both generations considered a cash bonus or shares as “icing on the cake”, which we believe might

be due to two different reasons. Firstly, the Swedish culture that many pointed out is a culture where you should be satisfied and not stand out too much which might be more accepted in the American culture. Secondly, all our respondents have reached higher management levels that bring higher salaries making them less prone to be extra motivated by an additional smaller amount.

The short-term incentive plan in VCC known as AICP (Annual Incentive Compensation Plan) is usually received in form of a cash bonus. The frame of reference says that this is used to reward exceptional performance which should be appreciated by employees. From the company’s perspective the possibility of risk-sharing is an advantage which makes compensation follow the company’s performance. That the rewards are due to exceptional performance is not an opinion shared with our respondents. They perceived the reward as more general than performance based meaning that the bonus is too difficult to influence, wishing it to be more performance based. Short-term is defined over periods of one year or less. At VCC the AICP is annual based. The majority considered this reasonable with the supporting argument that a shorter feedback would be too short-term which promotes short-term thinking and therefore sub-optimization. However a minority wished for a shorter feedback or at least to have the possibility for calculate a future bonus. An overall view of the bonus is that it is only “icing on the cake” and not something that motivates them to do a better job. Many of our respondents are financially independent that follows by being a senior manager which we consider to be the reason for them not being extra motivated by a bonus.

Table 5 Was the variable part mentioned as “icing on the cake”?

	Yes	No	Not mentioned
Baby Boomers n = 12	75%	17%	8%
Generation X n = 8	63%	0%	37%
All respondents N = 20	70%	10%	20%

The long-term incentive plan in VCC is known as LTIP (Long Term Incentive Program). Long-term incentive is defined over periods greater than one year. Long-term incentives are primarily used to retain talented employees and create a commitment with the company, in order to promote long-term thinking to maximize the firm’s long-term value. Many believed that there should exist a long-term incentive especially from a company perspective due to that the intention of a company is to live on. One view expressed was that this part of the reward system was complicated to understand and that there exists a lot of external factors affecting the share rates that is beyond personal control. According to the respondents, one condition for the long-term incentive to function as intended is that the shares need to have a value which can be compromised in a financial crisis. At VCC the former long-term incentive was stock-options and these were exchanged into shares two years ago. This received positive response from the managers as they have a value when you receive them in contrast to the stock options which need to be traded to have a value. Through a personal perspective a minority thought that the reward should only consist of shares while another wanted mainly cash bonuses. However, due to these rewards’ shortages many respondents did not perceive them as greatly motivational.

*Non-monetary reward*

The frame of reference says that a non-monetary reward is usually more sustainable than a monetary which only gives a short favourable feeling. Therefore it is of great importance to

use also non-monetary rewards. The Generation X is known to want immediate feedback while the Baby Boomers do not see it as equally important. What all managers thought about non-monetary rewards, such as praise, was that for the daily job it was of great importance. Some even thought that it was far more important than any bonus or shares. The Baby Boomers should want more public recognition. However, when we discussed the question about praise being openly given or not, the opinions were spread. Only three respondents thought that open praise had a better effect while two considered this directly unfitting in the Swedish culture. We believe that the existing contradiction may have to do with that Swedes are known for not liking to stand out. Public recognition may also lead to jealousy among the employees.

A tendency among the Generation X was shown by five of them pointing out that the non-monetary rewards were quite worthless unless the appreciation also showed in the payroll, and that if it did not, the praise would not have the supposed effect. The arguments for this were that only receiving praise without promotion or gratification through money would give a feeling of false praise. Hence, a combination is preferable. The Generation X is supposed to be more materialistic according to the frame of reference. When asked how important non-monetary rewards are, more Baby Boomers than Xers pointed out that this was very important. This could indicate that the Xers are more materialistic than the Baby Boomers.

Table 6 How important is the non-monetary part?

	More important than the monetary	Extremely important but needs to be shown in the payroll as well	Important with no further explanation
Baby Boomers n = 12	50%	17%	33%
Generation X n = 8	37%	63%	0%
All respondents N = 20	45%	35%	20%

### *Group vs. Individual*

Rewards can be given based both on individual and group performance. VCC has a combination of these two, which all respondents were in favour of in some way. A large company does not exist of only one person, it is about collaborating among the employees. Group performance often leads to greater affinity among the co-workers. A great result and profit are not usually made by one person but often a group, many times making a group-based reward more suitable. The Baby Boomers ought to prefer group-based rewards since they are team oriented. The Generation X on the other hand, ought to prefer a more individual-based reward since they are supposed to be more independent. We found a difference among the generations. Eight Baby Boomers were in favor of a more group based rewards, i.e. team or department, some thought that a too individual-based reward could lead to decisions that are not optimal from the company's perspective which might lead to sub-optimization. The remaining four did not explicitly express to be neither in favour nor against it.

When it comes to individual-based rewards we found a tendency among the Xers to prefer a more individual-based reward over a group reward. All except one of the Xers preferred a mix

of individual- and group-based, however, three wanted it to be more individual. This does not support the theory fully, but we see a tendency that this inclines to agree with theory. What the Baby Boomers said above about that a too individual-based reward could lead to sub-optimization is also pointed out in the literature. However, an individual-based reward is known to be the one to create the greatest motivation. Two Xers developed these ideas by saying that a reward for exceptional performance was seen as better than just a general bonus paid out to everyone.

Table 7 Want rewards to be both group- and individual-based?

	Yes	No	No opinion
Baby Boomers n = 12	83%	17%	0%
Generation X n = 8	88%	12%	0%
All respondents N = 20	85%	15%	0%

Table 8 What is preferred, more group- or more individual-based rewards?

	More group-based	More individual-based	No opinion
Baby Boomers n = 12	67%	0%	33%
Generation X n = 8	13%	37%	50%
All respondents N = 20	45%	15%	40%

The manager also saw group-based performance from another perspective, where VCC is a company in a large group. As mentioned above fifty percent of the reward depends on the result of VCC and the other half of the reward depends on the group Ford. The majority of the respondents felt that fifty percent depending on the group was a too large part due to a feeling of not being able to influence this part. They illustrated this opinion by sharing their dissatisfaction over how they could receive a bonus or shares when VCC had losses, only because some other part of the group had a great year. It was also described the other way around, that when VCC made profit and they did not receive a bonus they experienced this as unfair. Simultaneously it was mentioned that as long as the company is part of a group some correlation needs to exist. A suggestion made was that two-thirds could be based on VCC's result and the remaining third on the group. This strengthens the expectancy theory which states that an individual is motivated if he or she believes that there is a positive correlation between performance and reward.

### 5.2.3 Performance measures and goal setting

The frame of reference says that performance and rewards are linked together by goals and an assessment of how they are achieved. VCC uses both financial and nonfinancial goal to do this. The financial measures tend to be short-termed while the non-financial usually has a more long-term perspective. References state that it is important to find a balance between realistic and challenging targets for them to be stimulating and not de-motivating. The goals are set in a dialog between the manager and the employee. Generally this is experienced to be a good working process although some commented that your relationship with your manager may influence how you set your goals. References also point out that if your goals are too

easy to achieve they will not be stimulating. The Generation X is known to be triggered by challenging work. A great part of the managers from both generations said that they had fairly challenging targets some even thought that it was important that your goals were partly not achievable. This was explained by that a more challenging goal probably would promote a greater performance than if they would be set lower and easily achieved. Rather than seeing generational differences in this matter we saw a tendency that the higher leadership level the more challenging goals were preferred. The degradation process is according to the text books an important process and to have congruence within the organization when it comes to goals. The majority of our respondents saw a thread running between the company's overall goals and their own ones but some could not visualize it equally clear from time to time.

It is worth adding that the managers reacted on the subjectivity in the assessment of the goals. Some perceived this as good since they want to measure the wholeness instead of only the goals set, while others perceived it as bad and wanted the assessment to be more objective.



## 6. CONCLUSION

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*In the final chapter the most important conclusions will be explained. Thereby the purpose with this study will be accounted for. Finally suggestions for further studies will be given.*

### 6.1 CONCLUSIONS

Throughout this thesis we have examined if a reward system is motivating and if the differences between the generations are as significant as theories states. This thesis is an indicative study and not statistically ensured. Nevertheless in the Swedish context and in our specific case study we consider our results to be relevant. We have done our research in collaboration with VCC. In our study we have conducted twenty qualitative interviews with part of the management. Thanks to the high number of interviews we believe that we have a good platform for our forthcoming conclusions and therefore we have reason to believe that they are significant. We will hereby discuss our research question and to remind you as a reader, it is; *Are managers motivated by a reward system and do generational differences exist concerning this?*

It has been clearly demonstrated that the managers are not directly motivated by a reward system. When we first thought about reward systems we only had bonus and maybe shares in mind. After our studies we are well aware of that salary is a part of a reward system. When adding this part to the reward system it becomes motivating. The salary is according to the Swedish managers the most and in some cases the only motivating part of the reward system. The salary should correspond to their performance, making an increase of the salary more desired than a one-time increased bonus. A bonus or shares are not perceived as very motivating, mainly because of them being hard to influence and they are not something the managers keep in mind in the daily work. The variable part is generally something that is considered to be “icing on the cake”, not really needed in the managers’ financial situations. This conclusion does not imply that the variable part can be removed, as we have reason to believe that this would be de-motivating both according to our frame of reference and to our empirical data. Companies today, including VCC, are competitors on a global market for competent employees. The reward system has its roots in the United States and might not always be suitable in the Swedish culture, however, we believe that today, having a reward system is standard also in Sweden. This is consistent with our conclusion that a bonus is not always motivating, but that the need for a reward system, including the variable part, exists. We consider that the purpose to attract and retain competent employee is more accurate rather than the one to motivate. We see a tendency in today’s society that the labour market is the employees’ market rather than the employers’ market which makes the purpose to attract and retain more powerful than ever.

Benefits and costs are many times contradictory, a more specified system might have better effect but at the same time it is often more costly. By studying the two generations Baby Boomers and Generation X we had strong grounds to believe that there would be significant differences between the generations. No great difference was found regarding how the generations were motivated, challenging work and non-monetary rewards are factors motivating managers while titles are not motivational at all although necessary to conduct your job. Developing opportunities were perceived as motivating by both generations, though we saw a inclination that the older part of the Baby Boomers did not equally value development opportunities as the younger and the Xers. We believe this to depend more on



age than generation. We were taught that they considered experiences and networking as more motivational than traditional courses. No significant differences were found regarding if rewards should be based on group nor individual performance, both generations preferred a mix, although the Baby Boomers slightly more group-based and the Xers slightly more individual-based. Therefore we consider a mix to be the most motivating.

Both differences and similarities have been found between these two generations. These are not important enough to give us reason to say that a reward system should be differentiated between generations. Respondents from both generations believe that salary is the most important part of a reward system. The non-monetary is perceived as more important in the daily work, but needs to go hand in hand with the salary increases and monetary parts.

We found another conclusion worth mentioning although being beyond our issue. The managers pointed out that a reward system is a way for the company to share their result with everyone that helped creating it, and it should therefore exist at all levels in the organization.

## *6.2 SUGGESTIONS FOR FURTHER STUDIES*

Swedish manager's perception of reward systems is a relatively unexplored area and we therefore saw many different areas to study. We saw several interesting approaches from the outset but other also emerged while conducting the thesis, presented below.

One very interesting idea would be to take our study one step further by introducing where in the life stage the employees currently are. We think that where you are in your life stage is important. It should, for example, be major differences between a 35 year old who has children and one who has not.

It had also been of interest to study women's perceptions of reward system. We only interviewed one woman and from this single interview, we already saw trends of differences between men and women.

The Generation Y will soon be a large group in the labour market. It had also been interesting to examine this generation's view within this subject. This generation will not reach managerial levels tomorrow but it may be of interest to examine the group as a preparatory measure.

Finally, it is also of interest to examine managers at other companies within the automotive industry as well as in other industries.

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# Appendix 1- Frågeformulär

Namn:

Datum:

Intervju nr:

Vilket är ditt ansvarsområde

Position på företaget:

Ålder

Antal år i företaget:

Utbildningsnivå:

## Öppningsfrågor (korta svar)

- Kan du kort sammanfatta det nuvarande systemet? (För att se vad de lade vikt vid, de delar de nämner och i vilken ordning kan säga ngt om vad de tyckte var viktigt/bra/dåligt)
- Fördelar ur ditt personliga perspektiv för dig?
- Nackdelar ur ditt personliga perspektiv för dig?
- Finns det något som du saknar

## Belöningssystem

- Vad anser du är syftet med ett belöningssystem
  - Anser du att det nuvarande systemet uppfyller det syftet?
- Är det nuvarande systemet grupp- eller individbaserat?
  - Vad upplever du motiverar dig bäst? Varför?
- Hur kopplas belöning till prestationer i företaget
  - Anser du att det är dessa prestationer som ska belönas? Om inte, vilka i så fall?
- Känner du att prestationerna som belönas är överensstämmande med företagets mål?
  - Anser du att målen är tillräckligt utmanande?
  - Upplever du dina mål som klara, eller luddiga?
  - Hur vill du att dina mål sätts/förmedlas till dig?
- Bara för att höra din åsikt, hur skulle du säga att du arbetar med feedback kopplat till belöningar?
  - Vilken sorts feedback ges?
  - Hur ges feedbacken?
- Hur anser du att ett nytt system borde vara utformat för att på bästa sätt motivera dig i Volvos organisation?
  - Blir du motiverad av ett belöningssystem?
  - Monetärt, bonus eller förmåner? Hur anser du att andelen mellan den kontanta utbetalningen och aktier borde vara? Finns det några förmåner som du skulle vilja ha?
  - Tak eller inte?
  - Hur viktig är den icke-monetära delen?

- Skall beröm vara synligt?
- Återkoppling, hur snabb?
- Vilka förväntningar har du på ett nytt system?

#### Motivation

- Vilka motivationsfaktorer påverkar dig bäst? (pengar, beröm, utvecklingsmöjligheter, belöningsystem, feedback från omgivningen etc)
  - Vad motiverar dig som person?
- Hur kan Volvo påverka din motivation?
- Hur anser du att det här med samhörighet på Volvo fungerar? (Diskuterar du ditt arbete utanför arbetsplatsen?)
- Hur påverkas du av media? Identifierar du dig med företaget?
  - Är de anställda stolta över att jobba här?
  - (Är du stolt över att jobba på Volvo?)
- Hur påverkar arbetsmiljön din motivation?
- Vilka viktiga motivationsfaktorer arbetar du med i din del av organisationen?
- Har du något förslag på någon annan typ av belöning som skulle kunna motivera dig?
- Sker många intern rekryteringar?
  - *Känner du att du har möjlighet att utvecklas i företaget?*
- Anser du att utbildningar är en viktig del av utveckling och motivation?
- Vilka motivationsfaktorer används för att få de anställda att utbilda sig mer?
  - Finns det externa och interna möjligheter?
- Hur ser du på frågan om en högre fast lön och en mindre rörlig del, eller om man vänder på frågan, en lägre fast lön med möjlighet till en större rörlig del
- Titlar, är det viktigt?
- Anser du att det bör finnas ett belöningsystem?
- Övrigt