Individual versus Team Based Reward Systems

- A Study on How Organizations Argue For Their Choice

Authors:
Anna Ahlgren
Isabel Andersson
Hanna Sköld

Preface and Acknowledgements

In this essay we will investigate differences in reward systems based on individual or group performances. Through existing research one can not decide which kind of reward system is the most efficient; therefore we want to see how organizations make their decisions regarding what reward system to use. In this essay we also want to shed light on the advantages and disadvantages with the two different types of reward systems.

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The authors wish you a pleasant reading

Anna Ahlgren, Isabel Andersson & Hanna Sköld

Abstract

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Authors: Anna Ahlgren, Isabel Andersson and Hanna Sköld
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Title: Individual versus Team Based Reward Systems – A Study on How Organizations Argue For Their Choice

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Research Question: In the light of choosing between individual, group or simultaneous reward systems; how do organizations argue for their chosen reward system?

Swedish organizations have during the past decades had a strong tendency towards rewarding collectively. This has its routs in that the Swedish federations of labour unions have had a penetrating power in most sectors of Swedish commercial and industrial life. Central agreements and solidarity has been a part of the Swedish working life for a long time. On the contrary America has during the past decades had a clearly defined direction towards rewarding on an individual level and having well developed bonus-programs for the management of the organization.

In the **introduction** the organizations difficulties with choosing between rewarding individuals or groups is described.

In the **methodology** the approach to solving the research question is described. The selection procedure for the interviewed organizations is presented and also a short description of their actual reward system and the interviewees.

In the **theoretical framework** data on individual as well as group based rewards and the advantages and disadvantages that arise from these is presented. Existing motivational theories and theories on the relationship between employer and employee are also presented as these are tightly connected to the subject on reward systems.

In the **empirical study** the different organizations thoughts on how to reward employees is presented. Thereafter future possibilities to how the organizations feel that they can create an even more efficient reward system are presented.

In the **analysis** the theoretical framework and the empirical studies are intertwined. The theories are strengthened with what has been said in the empirical studies.

In the **conclusion** we will answer the research question and from this draw possible conclusions and propose recommendations.

School of Business
Economics and Law
GÖTEBORG UNIVERSITY

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1 Introduction

1.1 Background

1.1.1 Management Control

A company is an association where people work to reach a certain goal. In most cases an organization's goal is of economic nature, namely to generate money for the owners. Economy can be defined as economizing with limited resources, and this is something all organizations have to deal with. To be able to reach the economic goals a company needs management control. Ax et al defines management control as follows; *"Management control concerns a deliberate influence on an organization and its employees in direction of certain economic goals"*.[1] Economic goals can for example be profitability, liquidity and solidity. To be able to govern a company towards these economic goals you will need something called management control measures. Management control measures consist of all the methods you use to reach the goals. There are several different ways of governing a company and most companies use many of these ways. Management control measures can be divided into three groups, formal management control measures, organizational structure and less formalized management control measures. This essay concerns the subject of reward systems which enter into the group called organizational structure. In this group you can also find distribution of responsibility and decision-making processes.[2]

When it comes to how you should reward your employees there are two different schools that advocate two different ways of solving the issue. The first one claims that you should recruit good people, pay them well and expect that they perform well. The other one states that you should recruit good people, and then expect them to perform well. If they manage to do this they should be paid based on their performance. The first school does not recommend the use of reward system, the other one does. Today most companies have some sort of reward system which shows us that the second school is more frequently used than the first one.[3]

Reward systems have different aims; the main aim is however to motivate ones employees to perform better and over expectations. Some organizations also find it as a good way to keep their employees within the organization, which builds up a high level of competence. Rewards can be either financial in the form of a bonus or non financial in the form of for example promotion. Reward systems can also be designed to compensate on a group level or individually.[4]

Reward programs are traditionally built up after three main criteria; first of all the reward has to be internally legitimate, organizations must consequently reward their employees in scale to their performance. Secondly the reward has to be externally competitive, for example the reward should be paid in proportion to the market price of the achieved performance. The third and maybe most obvious criterion is to serve some form of personalized motivation on the personnel. Companies often find great difficulty when trying to fulfil the three mentioned

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[1] Ax, C., Johansson, C. & Kullvén, H. 2002 p. 65 Direct translation by the author.
[2] Ax, C., Johansson,C. & Kullvén, H. (2002).
[3] Anthony, R.N. & Govindarajan, V. 1998
[4] Ibid.

criteria as fulfilment of the first often leads to a sacrifice of fulfilling the second and vice versa. [5] Therefore it is more interesting to see how organizations motivate their choice of reward system.

1.1.2 The Origin of Reward Systems

Swedish organizations have during the past decades had a strong tendency towards rewarding collectively. This has had its routs in the penetrating power of the Swedish federations of labour unions in most sectors of Swedish commercial and industrial life. Central agreements and solidarity has been a part of the Swedish working life for a long time.[6] On the contrary America has during the past decades had a clearly defined direction towards rewarding on an individual level and having well developed bonus-programs for the management of the organization.[7]

Many Swedish organizations have also started to see the benefits of designing their reward systems on a more individual basis, mainly through the high motivational effect it can have on individuals.[8]

1.2 Problem

Personnel has become a more and more important asset for today's growing organizations, due to this, motivating ones personnel has become of high priority for the directors and managements of these organizations. It is critical that the employees of a firm work for the best of the organization both as an individual and as a group. How to employ and foremost keep and motivate qualified and competent personnel is often seen as a strategically important question for organizations.[9]

The premier aim with having a reward system is to motivate the employees in an organization in the right way, mainly to enable efficiency of the activities performed within the organization. It is desirable that all the employees work for the benefit of the company always keeping what is best for the organization in mind.[10] If the contributions are not rewarded, the efforts of the personnel can become less, which will lead to a negative effect on the outcome. One of the difficulties when designing a reward system is to identify if the reward should be based on individual or group performances or perhaps a mix of them both. To reward group members it is not enough to look at the outcome of the group; it is also of high priority to see to and measure the individual efforts. In reality this can be difficult to implement, and if so maybe the collective reward becomes the solution. How do today's organizations reason about these difficulties? Are they making a deliberate choice where they are aware of the disadvantages but experience that the advantages conquer the disadvantages?

Today there is no existing ultimate reward system for all organizations and their employees, and it is therefore important that every organization designs their own reward system taking the organizations specific situation as a starting point.[11] Creating a well functioning reward system requires several strategic steps, starting with the one previously mentioned. The

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[5] Wolf, M. G. 1999
[6] Paul, A-S. & Alm, O. 1991
[7] Wolf, M. G. 2000
[8] Paul, A-S. & Alm, O. 1991
[9] Arvidsson, P 2004
[10] Ibid
[11] Ibid

chosen reward system will have significant importance for the organization in question of how the organization will be steered towards its goals. One important factor to make the reward system successful is to make sure that it is well communicated to the employees, mainly so they know which results are expected from them to receive the reward in the future.[12] Studies show that monetary compensation will affect a human beings performance in a positive way, if the employees attain the goals that the reward system advocates this will promote higher efficiency, lower costs and better results for the organization.[13]

The main reason to why organizations find difficulties with designing one perfect reward system is mainly because the employees have different preferences and are motivated in various ways. Some employees will prefer to be rewarded on a group basis whilst others prefer to receive individualized rewards; some will prefer financial rewards whilst others will prefer non-financial rewards and so on.[14]

As mentioned earlier reward systems can be designed on either a group basis or on an individual basis. These two systems result in both advantages and disadvantages. An existing problem is for organizations to locate these advantages and disadvantages which may conclude with many organizations unconsciously choosing to keep their present and in some cases maybe inefficient reward systems. Another problem arises when organizations have to confront the choice of basing their rewards on individuals or on groups, as the organizations may struggle with designing the reward system that is most practically useful and effective for the personnel in the organization.

Making the decision of having reward systems based on individuals or groups often balances between on one hand, the assumption that individual rewards will restrain group activities, and on the other hand the assumption that group rewards restrain individual motivation, mainly because the individual easily can loose the sense for how his or her performance contributes to the overall performance. Another factor to take in consideration is if the reward system should be built on short- or long-term achievement bonuses.[15] Today many organizations see that team based pay can be used as a complement or an alternative to the individualized reward system, which many times mainly consists of individual salaries; this has been widely accepted and many times more appreciated by the employees as it will not only shine light on the manager but also on employees on lower positions.[16]

The purpose of this essay will be to see how organizations refer to the advantages and disadvantages that the two different designs of reward systems bring about. How do they cope and deliberate with these difficulties in the commercial and industrial life? We want to hear the organizations opinions on this subject so that we as authors will be able to create our own opinion. In the finishing chapter we will draw conclusions based on the accumulated knowledge and facts.

1.3 Research Question

In the light of choosing between individual, group or simultaneous reward systems; how do organizations argue for their chosen reward system?

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[12] Smith, R., Wiberg, L., Olwig, B., Reignell, G., & Sjöstrand, M. 2002
[13] Wolf, M. G. 2000
[14] Arvidsson, P. 2004
[15] Ibid
[16] Reilly, P 2003

2 Methodology

2.1 Alignment

The method of an essay is the path one has decided to follow to collect, organize and structure the information that one meets along the way. This is our tool for trying to solve the main problem which is formulated in our research question. All things that are contributing to solve the problem are defined as the method. All the data that has been collected is supposed to contribute to the final product.[17]

Our interest is to see how organizations take a standing point regarding the advantages and disadvantages with rewarding their employees on an individual or group basis, and also how they make their final decision to what design of reward system to use. As a starting point we will investigate if today's organizations are aware of the advantages and disadvantages with rewarding individually or on a group level. We will also investigate if the organizations are designing their reward systems with the existing motivation theories as a foundation or if their reward system builds on old traditions within the organization.

We will during our work with data on the current area look at empirical studies and different theories on the area and see how these are used in practise. We have carried out eight interviews with companies that have different types of reward systems, some which have reward systems on an individual basis, some with group based rewards and some with a mix of both. This shows, according to Martyn Denscombe on a qualitative attempt. The qualitative attempt in an essay has one main purpose, namely understanding. To make an essay of qualitative character one should be achieving understanding with words in contrary to quantitative studies that analyse numbers.[18] The central issue for us when carrying out the interviews has been to get a deeper comprehension on the area of reward systems used in organizations mainly using primary data, which gives us a better closeness to the source. The researching process and the emergence of results have come to us through continuous interaction between existing theories, and empirical studies.[19] The reason that we have chosen to have a spread of interviews with companies with different types of reward systems was to get a deeper understanding for the different designs, we also felt that we could add a width to our essay by trying to have at least two companies with resembling design.

2.2 Data Collection

2.2.1 The Process

We started our work by obtaining a deeper understanding for the theories behind motivation and reward systems. We also learned about the advantages and disadvantages that exist with having reward systems built on individuals respectively on groups. To receive this deeper information for our theoretical framework we have read a great deal of books on the subject. After we had done a thorough review of the already existing data on reward systems, the motivational theories that lie behind many of the existing arguments for reward systems and known arguments for using reward systems based on groups versus individually, we carried out eight interviews with different organizations in several different branches within the

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[17] Merriam, S. B. 1994
[18] Denscombe, M 2000
[19] Trost, J. 1997

commercial and industrial life in Sweden.

2.2.2 Quality of Research Design

We decided to use ourselves of interviews with employees that have great knowledge about the reward systems in their company. This touches the part of validity in the essay; validity can be divided into two categories, namely internal and external validity. The internal validity is the one affected in this essay and focuses on that us as researchers are measuring what we expect that we are measuring.[20] For our essay this implies making sure that the interviewees have wide and deep knowledge on the area of their company's reward system so that we as interviewers get the correct information.

In qualitative studies aspects such as validity and reliability are difficult to put into practice. These aspects are very important in quantitative studies, but not to say that they are completely irrelevant for qualitative studies such as our essay. Above all reliability plays an important role for the reader of qualitative studies. This creates some difficulties when a large part of the empirical studies of this essay build on personal interviews. In this case it is impossible to avoid personal preferences as we as researchers are interpreting the respondent's answers. We have therefore focused on trying to have few but well chosen questions that we felt were easy to answer and therefore easier to interpret and of high relevance to our essay.[21] To make sure that we catch everything of importance in the interview we have been at least two present at the interviews and made sure to put what has been said in the interviews down in a journal. In this way we have been able to make objective conclusions to help strengthen our empirical study.[22]

2.2.3 Interviews

There exists several ways of designing an interview; the structured, the unstructured and the standardized interview. Our interviews have been of the unstructured type. This indicates that the interview does not have fixed questions.[23] Our interviews were designed in a way that the person answering the questions, had the opportunity to elaborate and formulate their own answers. This also opens up for an open discussion on the area which can help give us a deeper understanding. We saw this as the best way for us to get the information we needed as we did not have enough knowledge about the organizations reward systems in the beginning of our interview process. We also wanted to have an open discussion with the respondents where there was a possibility for resulting questions. The unstructured design of the interviews also showed to be helpful as the respondents had more knowledge on how their reward system is designed than us. This gave them the opportunity to increase our knowledge on the subject.

As we did not have to carry out any comparisons of the answers that we received from each respondent, we did not see many problems implementing this type of interview. The main difficulty was to sort out which information that was relevant for our empirical chapter of this essay. As mentioned earlier, when choosing who to do the interviews with we decided to ask for employees at the companies that have good knowledge on how their company's reward system works. Preferably we have tried to get interviews with people that also have some

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[20] Jacobsen, D. I. 2002

[21] Trost, J. 1997

[22] Merriam, S. B. 1994

[23] Ibid

right of determination when it comes to the companies reward system. All these factors were taken into consideration to make sure that the answers are as accurate to the truth as possible as we are not looking for personal opinions, but rather the company's opinion about the reward system.

The interviews carried out in this essay are classified as primary data. All the primary data used in this essay derives exclusively from the interviews carried out. Interviews are used to receive certain information that one can not observe directly.[24] We decided to use interviews to give the essay a good connection with how reward systems are designed and work in reality. This gave a positive result and gave the essay the depth we wished for. The interviews also gave us the practical information that we needed to be able to see how companies work with their reward systems and how they deliberate about the advantages and disadvantages that exist with rewarding individuals or groups. They were also given the opportunity to explain how they make their choice of what type of reward system to use. This would have been something that would have been hard to do on basis of secondary data solely.

2.3 Selection Procedure

2.3.1 Selection of Organizations

We will present eight different interviews, made with personnel working in different companies and authorities operating in several different branches. The majority of the interviewees are employees that either have the final say in the decision of how to reward the personnel at each company, or they have the capacity to influence the design of the reward system that they are using. By interviewing companies that are operating in several different branches, we wished to get a wider and deeper perspective of how different firms are rewarding their personnel today. Our choice of organizations was a strategic selection. We decided to interview employees from these specific organizations as they had different types of reward systems. The fact that the organizations were working in different fields, was something we saw as important to give the essay a width and objectivity. We decided to choose three organizations with individual reward systems and three with group based reward systems. We also chose to interview two organizations that have found that a mix of both the individual and group rewards as the most effective design of their reward system. By making this choice we felt that we could achieve the most actual picture of how organizations look at and argue for their reward systems in reality.

2.3.2 Organizations with Individual Rewards

Following organizations all have individually based reward systems but they are different in their shaping. The reason why we have chose so different designs of systems is because we thought that it would be interesting to see how the different types were motivated by the organizations.

We interviewed Teddy Glans, who works with Human Relations and personnel politics at a public authority called Vägverket. We were interested in knowing more about how the reward system functioned at Vägverket. Teddy has worked many years at Vägverket as a personal manager. For a short period of time he was employed at Arbetsgivarverket but recently he returned to Vägverket. We have looked at the specific unit within the organization that is

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[24] Merriam, S. B. 1994

called Vägverket konsult a consultant firm which is exposed to high competition from other consultant firms. They clearly see the individual salary as the most effective and fair way of rewarding their employees. They also have a yearly bonus on top of the salary that is variable but with a limit of maximum twenty thousand Swedish Crowns. This bonus is split equally and every employee receives the same amount of this extra bonus. An interesting factor and one reason to why we decided to interview Teddy at Vägverket Konsult was that they have decided to keep the manager outside of the extra bonus; he or she is only rewarded through the individually based salary. [25]

We interviewed a Human resource responsible at an estate agency which in this essay will be referred to as; Estate Agency 1, in Gothenburg. The interviewee has been working for the Estate Agency during the past year, before that the interviewee worked as Human Relation responsible for another organization and before that studied an upper strategic personnel education.

To begin with, all of the estate agents working at Estate Agency 1 have a six-month wage guarantee. After these six months, they have an absolutely incentive based salary, a so called brokerage. There are three different levels of these, depending on 1) selling results 2) customer satisfaction 3) good colleague and representative for the company. If the agents reach up to these criteria they have the possibility to increase their monthly income.[26]

We also got in touch with an audit firm that in our opinion had an interesting reward system. The firm wishes to be anonymous in this essay. The person interviewed has been working at the audit firm for two years as HR-Controller and has for the past twenty-five years been working with issues concerning reward systems. On behalf of the audit firm we will not leave any closer information about the company, nor on the person interviewed. This firm has focused more than the other companies represented in this essay, on the non-financial rewards, such as for example career possibilities, international work and more developing work within the firm. Their monetary compensation is the salary that is individually put depending on the personnel's position and their performances at the company. They do also have variable parts of their salaries that one can get by achieving specific goals. [27]

2.3.3 Organizations with Group-Based Rewards

Here we will present the companies in our investigation that have group based reward systems. We have chosen three different companies that all interact in different markets. The reason for this was that we wanted so see how different types of organizations motivate the same type of reward system.

We decided to interview a prominent estate agency in Gothenburg, in this essay we will refer to the firm as Estate Agency 2. The person that we interviewed was one of the owners. On behalf of the agency we will not leave information in the essay on the name of the part owner and neither on the name of the agency. The part owner has been in the company for the past 20 years and is also one of the grounders of the agency. The person being interviewed has actively designed the reward system that is in use today and has influence and control over possible changes and development of the reward system. In this agency they prefer to call their compensation program for bonus program instead of referring to it as a reward system.

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[25] Teddy Glans, Vägverket. 2007-05-24
[26] HR-Responsible, State Agency 2. 2007-05-28
[27] HR-controller, Audit firm 2007-05-21

The bonus program is highly integrated in the everyday work and builds on continuous work to achieve the goals that generate the bonus. The bonus is put on top of the base salary and falls out when sales exceed the budgeted sales level. All estate agents are included in the bonus program and the bonus is split equally between all agents. By using these types of bonuses, Estate Agency 2 is unique in their field and we will later on in the empiric part of this essay discuss why they have chosen to design their reward system in this way. [28]

We felt it would be interesting to have Swedbank AB in our investigation so we got in touch with them and we got the opportunity to make a telephone interview with Torbjörn Lundh, market manager at Swedbank, private sector, west region. He has been working for Swedbank since 1974 but it was only two months ago he started his work as market manager. Before that he has worked both as activity- and office manager. Today, Swedbank applies a system labeled as a result shared system, called the "copper coin". This system is built on the return on capital employed of the entire bank in Sweden, in comparison to the three other major banks in Sweden, which are Nordea, SEB and Handelsbanken. The aim for Swedbank is to show better results than the average of these three banks and achieving this, all personnel working at Swedbank will get a gratification. In 2006, Swedbank carried out an incentive program based on the banks results both in different regions, different activity areas and at different offices. This program consists of a financial reward to groups working at the bank, based on their local development. Somewhere between 33-95% of their monthly income was to be paid out, depending on how well they measured up to their ambition. Each region and office has their own goals and measurements, which are followed up at least once a month by a local manager. At the moment, the workers have continuous wage negotiations with each office manager. If they have performed well, they here have a say in the matter of their income.[29]

In our opinion Diplom-IS Sverige AB was an interesting company to look at. Diplom-Is Sverige AB is a subsidiary to Diplom-IS AS in Norway that is included in the TINE group in Norway. We were lucky to get an interview with Magnus Larsson, financial director at the department. Magnus has been one of the leaders when designing and implementing the reward system at Diplom-IS. He was recruited to Diplom-IS in 2004 and started as financial director in 2005. He graduated from School of Business, Economics and Law in Gothenburg as an economics school graduate not many years ago. Magnus has during the past year been active in designing Diplom-IS new reward system that take effect just in time for the companies peak season; the summer. In this new system Diplom-IS has divided Sweden into different regions in which they are active and these regions are rewarded as a group. If these groups reach the prognosis set up by the company, each and everyone within the group will receive a bonus consisting of fifty percent of a monthly income. One can also receive a yearly bonus when surpassing budgeted before-tax profits, if this goal is fulfilled one will receive an additional bonus also consisting of fifty percent of a monthly income. If both of the goals are reached an additional bonus of twenty percent of a monthly salary will be paid out. This altogether can result in an employee receiving 1,2 monthly salaries as a total yearly bonus. This bonus will however not be in the hands of the personnel during the current year, but is to be paid out in January the following year.[30]

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[28] Part owner. State Agency 1. 2007-05-02
[29] Torbjörn Lundh, Swedbank AB. 2007-05-16
[30] Magnus Larsson, Diplom-Is Sverige AB. 2007-05-15

2.3.4 Organization with Both Individual and Group Based Rewards

Two of the companies that we have interviewed are using a mix reward system where they are rewarding individuals as well as groups. These companies will now be presented.

One of the companies that we really wanted to have in our study was SKF, and we were very pleased to interview Peter Johnson working at the Human Resource department at SKF via telephone. His main area is salary and benefits but he also does a lot of work with marketing towards students. He has been working at SKF for three years, since he graduated from Karlstad University where he studied Human Resource Management and working life. SKF has chosen to divide their employees in two groups and reward them in separate ways. The white-collar workers have individual wage setting, including different levels of bonuses that are put on top of their salary, and are tied to both individual- and group performances. Peter explains this as a way of preventing the whole system from collapsing in bad times. The blue-collar workers have a different design and also background to their reward system. Peter explains that the philosophy is: "One for all, all for one". They have a bonus that is connected to the yearly results of the company as well as the result of the unit that they work at. Based on these results, a percentage of the yearly income is paid out once a year as a bonus. The bonus is also drawn to their position at the company. They do not have any individual goals put up for the employees, but to be able to hand out the bonuses in a reasonable way, they look to different parameters such as numbers of "broken promises", unit goals, production goals etcetera.[31]

We got the opportunity to interview an employee at AB Volvo Corporate Function HR, Sweden   and we were much exited when we went out to Arendal to meet Svante Ljunqvist who goes by the title Country Process Manager. He is in charge of benefits, working closely with another co-worker that is in charge of compensations. He has been working at Volvo since he graduated from high school, starting his career as a blue-collar worker at a Volvo plant. He took his degree in Behavioral Science from Gothenburg University and later on continued his work at Volvo as personnel manager at the company Alviva, which is within the Volvo group. He has only been working as country process manager for the past one and a half years. When we interviewed Svante, he first talked long about their wage-setting system. The white-collar workers have individual wage setting, which is connected to their position in the company. The blue-collar workers on the other hand do not have the same type of wage setting. Here, Volvo has chosen to use something more of a tariff-wage system which suggests equal salaries to the employees. In contrary to other companies mentioned above, Volvo does not have just team-based or individual rewards, but have chosen to use a mix of both. Besides the individual wage-setting all the employees take part of a bonus program that is based on how well the different corporations run, which here is seen as a group reward but on a larger scale. If the corporation has met up to the goals that are set, all of the employees working there will get a bonus consisting of 6% of the yearly income. This is called Company Variable Salary. Another type of bonus program is the Volvo Profit Sharing, which is handed out to the 80 000 employees working at Volvo all around the world. The bonus is decided at shareholder's meeting, but there is a roof of the bonus which is put at 450 million Swedish Crowns and is equally split between the employees. The employees can either choose to place this bonus in Volvo-shares or in pension funds and can be handed out first after four years.[32]

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[31] Peter Johnson, SKF. 2007-05-21
[32] Svante Ljungqvist , AB Volvo Corporate Function HR, Sweden. 2007-05-21

2.5 Method of Interpretation

An essay's method of interpretation can be of either hermeneutical or of positive character. Our method of interpretation is of the one that is defined as hermeneutic character. The word hermeneutic means science of interpretation. The hermeneutical character is a scientific method where you study and try to understand the existence of human nature. The word hermeneutic stands for a qualitative understanding and open, subjective and interested researchers. The hermeneutic alignment claims that it is not the explanation of the phenomenon that is important it is the understanding and the interpretation of the phenomenon that is interesting. A hermeneutical researcher makes subjective studies based on his or her own understanding and tries to see the overall picture. The hermeneutical researcher should oscillate between the entirety and small parts of the study. He or she should also try to analyse the study from different perspectives, in other words both the perspective from the interviewer and the person being interviewed.[33]

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[33] Patel, R. & Davidson, B. 2003

3 Theoretical Framework

3.1 Introduction

This framework will look into both individual as well as teamwork, and examine both their advantages and disadvantages, to be able to give a discussion about reward systems based on either group or individual performances and to be able to comprehend the difficulties that occur by doing this. To get a better understanding on the subject and to be able to follow the research and reasoning this is relevant for the reader. Literature and one well chosen internet source has been studied and knowledge has been collected concerning our question of issue. This chapter will end with a short descriptive argumentation for individual rewards versus team-based rewards.

Today most companies use some form of reward system; this might depend on a general acceptance of the affirmation that "…*rewarded behaviour will be repeated*"[34]. Today the term reward system is a widely used expression, but what components does a reward system actually consist of? According to Michael Armstrong a reward system can be defined as follows[35]; "*A reward system contains arrangements in the form of processes, practices, structures, subsystems and procedures which will be concerned with providing and maintaining appropriate types and levels of pay, benefits and other forms of reward.*"[36] The reward system should be designed so that it agrees with the organizations values, environment and organizational culture, but it is also important that it suits the needs of the employees of the organization.[37] One of the most fundamental issues is to choose if the reward system should be designed on an individual basis or on a group basis and the discussion on this subject in organizations has been and is still widely held. Many theories have been made on the subject, and the answer to what is right and what is wrong in this matter does unfortunately not exist. Those who advocate one form, many times have no explanation not to use the other. This framework will bring about both advantages and disadvantages to both types of reward systems and see what kinds of theories that lay behind them, to be able to get a deeper understanding and knowledge before going through with the empirical studies to later enter deeply into the analysis.

3.2 Developing a Reward System

When developing a reward system it is first of all important for the organization to have a clear definition of what a reward is. According to the National Encyclopaedia a reward is defined as follows; *"money or honour that is distributed as a sign of appreciation for a performed action."*[38]

There are several theories about how the individual responds to different kinds of rewards, one of them is The Agency Theory also known as The Economic Theory of Incentives. The theory is a collection of several models made by different economists. Many organizations have during the past decades based the design of their reward system on the ideas that this theory builds on. One of the basic ideas is that the connection between an employee's effort

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[34] Arvidsson, P. 2004 (P. 135) Direct translation by the author.

[35] Armstrong, M. 1993

[36] Armstrong, M. 1993 (P.3)

[37] Armstrong, M. 1993

[38] Nationalencyclopedin. 2007 Direct translation by the author

and the compensation is not entirely controlled by the employee. The employee can decide how much time and effort that he or she will sacrifice on the project but can not totally control the output. Other basic ideas in the theory are that the employer wants to pay the employees on the basis of how much they accomplish, while the employees on the other hand want to be paid on the basis of hours worked. The reason why the employer does not wish to pay by the hour is mainly because the employee has no incentive to work harder than necessary. The employees on the other hand do not wish to be paid for the effort mainly because if for example a machine breaks down and it is impossible to produce anything this will lead to that the employees will not be paid at all. According to The Agency Theory the point of having incentives is to get the employee to make an effort. There are three basic assumptions about the employer's and the employee's behaviour in the theory[39]:

1. The employee is effort averse
2. The employee is not willing to take risks
3. The employer and the employee cannot state the level of effort in a contract[40]

The theory also claims that the optimal compensation for the employee is a base salary and some sort of variable bonus that depends on how much he or she accomplishes.[41]

Some factors function as motivators and others do not, these may depend on personal preferences, or as Herzberg claimed they are the same for everyone. Frederick Herzberg developed the famous Two-Factor Theory. The theory is based on a study on the sources to satisfaction and dissatisfaction at work. The study was carried out by interviewing people that worked as either engineers or accountants. The employees were asked about when, more precisely, in which periods of time, they felt very good about their jobs and respectively when they felt dissatisfaction with their jobs. The study showed that the periods when the employees felt good about their jobs were in most cases connected with the content of the job such as achievement, recognition, advancement, responsibility and the work itself. On the other hand, the periods when the employees felt bad about their jobs mostly concerned the context of the work, like for example supervision, salary and working conditions. According to Herzberg one could make several implications from this study. The main implications that Herzberg did were that one can divide the wants of all employees into two different groups. The first group is associated with the needs for an employee to develop in his or her position. He called this group for the motivation factors, according to Herzberg these factors can work as motivators for the employee. The other group was connected with things as fairness supervision and the conditions in which one work and this group he called the hygiene factors. The hygiene factors do not serve as motivators but they can lead to dissatisfaction if they are not pleased in the eyes of the employee. According to Herzberg salary is such a hygiene factor.[42]

According to Martin G. Wolf in *The Compensation Handbook* there are several steps one should have at mind when designing a reward system. The first step is to comprehend that financial compensation will influence an employee's performance. Monetary rewards have value both as for what it is worth and can buy, but it also has value as it can be used as an

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[39] Baron, J. N. & Kreps, D. M. 1999

[40] Ibid.

[41] Ibid.

[42] Armstrong, M. 1996

instrument to communicate with, this is often called a scorecard. The second step while designing a reward system is to think about that the reward should be of reasonable value. As a third step, the organizations should try to vary the pay, try to have both individual and group based rewards. In the fourth step one should try to keep the performance measures easy and also have a restriction over numbers of measures, mainly because they can be complicated to measure and therefore also time consuming. And the last but not least step is to inform the employees continuously about the reward system. Communication is a key word for a well functioning reward system. Let the employees know how they are doing by doing continuous comparisons with the target result and today's result.[43]

3.3 Performance Management

Lately it has become popular to run an organization with help of so called performance management. Performance management consists of several different components to lead the employees. Mainly performance management is supposed to motivate by performance, different goals and measurements of these, feedback to the employee and acknowledgement. This type of motivation is supposed to recognize the employee's maximum potential. This type of management involves several steps that are coupled together to create a strategy that is meant to increase efficiency and bring about better results for the organization.[44]

The reason for the increased popularity of this management system is the increased market competition which forces organizations to have a high level of individual and group performances. This makes it of high interest for the management to have systems that advocate well-functioning work on all levels. Performance management has been a way to try to motivate the employees on both individual performance and on group performances. Another reason for the increased popularity of this type of management has been the importance of keeping competent and dedicated personnel instead of controlling them. Dedication from the employees has shown to be positive for the organization as it therefore becomes of importance for the employee that the outcome is at a sufficient level.[45]

3.4 Rewarding Individuals

3.4.1 Individual Pay Systems

One way of rewarding ones employees is to have an individual pay system. With this type of system the individuals will get higher salaries if they perform well. The salaries are very individualistic and two people doing the same job may have different salaries due to how well they perform.[46] The individual salary usually contains a yearly salary increase. This salary increase is seen as an important part of the salary and therefore also the reward system, mainly because it is not a one time reward but one that is paid by the month. As the increase is paid out monthly employees' quickly adjust to their new salary, this makes the motivating salary raise disappear quickly in the eyes of the employee. But in a short-term point of view the salary raise is proved having a positive influence on employees'.[47] More and more companies use individual pay systems that are linked to how well the employee performs. In

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[43] Wolf, M. G. 2000

[44] Hume, D. A. 1995

[45] Ibid.

[46] Armstrong, M. 1993

[47] Merchant, K. A. & Van der Stede, Wim, A. 2003

1995 OECD stated that among the member countries there was a clear trend towards using this system in the public sectors. Even in Asian countries like for example Japan, where tariff and age related salaries have had strong support this is becoming more and more common. Traditionally individual payment means that one should base the salaries on work requirement, performance and competence. Today there are two more factors involved, namely formal education and market forces. Individual payment also means that the manager who makes the decisions about the salaries has got an influence over the employee's salary trend. It is therefore important that the manager is objective in his or her decision-making.[48]

3.4.2 Performance Based Pay

When a company has got performance-based pay they base their rewards on how the employees perform instead of paying the employees for, for example their knowledge or competency. To give the employees performance based pay they need some form of system in which you rate performances. This system is often called a performance measurement system, which will be explained below.[49] Performance based pay is generally something that is applied on individuals but is more and more used for rewarding small groups as well.[50] Something that is very positive about individual performance-based rewards is that the organization can easily communicate what results are of highest priority and at the same time motivate the employees to improve these specific results. [51] The main disadvantages with individual performance-related pay are that there is no clear connection between performance and reward and this can lead to that the employees do not feel that the value of the reward is worth putting down effort for.[52]

3.4.3 Performance Measurement System

A performance measurement system might for example consist of five performance levels where A is exceptional and E is poor and the other levels are somewhere in the middle of these two. If an employee for example reaches the highest level, in this case an A, which signifies excellent, he or she will receive a large raise. If on the other hand one reaches an E which signifies poor you will not receive a bonus.[53]

The balanced scorecard is an example of a performance measurement system. The balanced scorecard is a system in which you measure organizational success. The system makes it possible to get a balanced overview of the company. There are four key perspectives in the system: the customer perspective, the internal perspective, innovation and learning perspective and the financial perspective.[54] If a company has implemented measurements for these four perspectives it has a working balanced scorecard. When one has a functioning balanced scorecard it is possible to use these measurements as a base for the reward system.[55]
Some of the positive effects and therefore reasons for organizations to use pay for performance as reward system instead of "person-based pay" are to avoid giving rewards for knowledge, competency and so on when wanted results have not been achieved.[56] Other

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[48] Nilsson, T. & Ryman, A. 2005

[49] Armstrong, M. 1993

[50] Armstrong, M. 1996

[51] Merchant, K.A. & Van der Stede, W.A. 2003

[52] Armstrong, M. 1993

[53] Ibid

[54] Armstrong, M. 1996

[55] Arvidsson, P. 2004

[56] Wolf, M. G. 2000

positive aspects are the informational aspects. With individual performance-based rewards the organization can easily communicate what results are of highest priority and at the same time motivate the employees to improve these specific results. [57] The main disadvantages with individual performance-related pay are that there is no clear connection between performance and reward and this can lead to that the employees do not feel that the value of the reward is worth putting down effort for.[58]

3.4.4 Individual Incentive Pay

If one has an individual incentive pay ones salary is directly connected to your results. This type of reward system is often based on a system that divides the payment in two parts. One part is a fixed often low salary and the other part depends on your results. Salespersons do often have this type of salary namely a low fixed base salary and then they receive a commission per unit that they sell. Individual incentive pay systems are most effective when the employers work with simple tasks and have control over the rate of work, and are therefore not suitable for process industries and assembly line production.[59]

3.4.5 Self Actualization

One thing that is becoming more and more important to people today is self-actualization. You can often hear people talking about fulfilling dreams and get to know your inner self. The importance of happiness has also become more current. Happiness is a very individual feeling because what happiness is for one person may not be happiness for another.

Abraham Maslow proposed a theory in 1943 in which he claimed that all people are motivated by different needs and he ranked these needs in a hierarchy. There were five levels in the hierarchy and the last one of them was the need of self- actualization. Here are the needs as Maslow ranked them: [60]

1. Physical, needs like food, water and sleep.
2. Safety, needs like safety of body, family and health.
3. Social, needs like family, friends and sexual intimacy.
4. Appreciation-needs like respect from others and self-esteem.
5. Need of self-actualization.[61]

One important factor in the theory is that when one need is satisfied it will no longer function as a motivator. Maslow also claimed that humans seek to satisfy needs that are on a higher ranking in the hierarchy when the needs on the lower rankings are satisfied. People who have satisfied their physical needs want to have safety and people who have safety feel a stronger need for contact and so on. At the same time that Maslow claimed that the needs are hierarchical he admitted that in real life, the extent of satisfaction of a lower ranked need, before the next need appears might vary between people. [62]

Nowadays the first two levels are mostly satisfied in the developed countries of the world and

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[57] Merchant, K.A. & Van der Stede, W.A. 2003

[58] Armstrong, M. 1993

[59] Ibid

[60] Jacobsen, D. I. och Thorsvik, J. 2002

[61] Ibid.

[62] Jacobsen, D. I. och Thorsvik, J. 2002

it is the higher levels that have a motivating effect for individuals today. For reward systems on an individual level it is, like mentioned above, the last need that is the most relevant. The three main factors that will motivate an individual are recognized as development, power and money. These three factors help fulfill the need of self-actualization.[63]

Maslow's Hierarchy of Needs has been actively criticized over the years but despite all the criticism many researchers have used the theory as a starting point to design their own theory of needs, one of them is McClelland. McClelland claimed that the needs are not hierarchical and that it is possible to move between the different needs even if one need is yet not satisfied. McClelland also claimed that all people make their choices on the basis of three different needs.[64]

1. The need of power
2. The need of affinity
3. The need of performance[65]

In this context it is the need of power that is of interest. If you have the power to do what you want to do you have a good opportunity of feeling happy. It is also interesting from an organizational point of view because if it is so that people are motivated by power, it may be positive to give the employees some form of power in their work situation. If you do something and get rewarded by more power it is likely that you will repeat that behavior, as rewarded behavior will be repeated.[66]

3.5 Advantages with Individual Reward Systems

Hans Lindblom mentions in his book *Lön och Belöning* that being considered as an individual and not only as someone in the mass or as a number in the collective, is apprehended as a reward itself. There are obviously more concrete advantages with individual reward systems that will be described below.

Individual rewards are often a good way for organizations to create a clear plan for the employee, and also a way to define what is expected of him or her.[67] The main reason for individual salaries is that the employer believes that it helps them to motivate the employees to perform a better job. Individual compensation is often seen as a stronger motivational factor than compensation on a group level. It is also often claimed that individual evaluations and rewards creates healthy competition at the work-place. To be better than your co-workers is believed to function as a big factor of motivation for all employees. With individual rewards the employees will get a feeling that the reward is fairer and that they can affect the size of the reward and therefore it will become motivating.[68] Many people see positive effects of individual rewards as the employee feels a strong correlation between the performance and the reward. This makes it easier for the personnel to understand why one is rewarded and can also result in future positive performances, as they know what they will be rewarded for.[69]

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[63] Dimmlich, R. P. 1999

[64] Jacobsen, D. I. och Thorsvik, J. 2002

[65] Ibid.

[66] Dimmlich, R. P. 1999

[67] Ibid

[68] Nilsson, T. & Ryman, A. 2005

[69] Merchant, K. A. & Van der Stede, W. A. 2003

According to Maslow's theory of needs every individual is striving to reach something, this something is different for every individual. Sometimes it is not even clear for the individual itself to know what this something is. It is therefore of high importance for the individual to set specific goals to reach, this makes the goal achievable and at the same time it gives a personal significance for the individual. To make this possible in organizations it is important that the manager can express the meaning of the goal and at the same time give it a personal essence for the employee.[70]

3.6 Disadvantages with Individual Reward Systems

Problems found related to individualized pay are many. One difficulty is to measure the individual performances that are supposed to generate a reward.[71]

Reward systems that are built on an individual employee's achievement of a goal can give several unwanted effects. Problems with this type of reward system may be that if the goal is very easy to reach, the employee will not work harder because he or she already knows that the goal will be reached, on the other hand if the goal is to hard to reach the employee will feel that it is impossible to achieve and will for this reason not work harder. Individual reward systems that are only built on one activity may give negative effects on other activities within the company. If, for example, a salesperson is given a bonus that is based on how much one sells, he or she will concentrate only on selling, not in developing new clients. This problem can be solved by giving a higher commission for sales to new clients.[72]

Reward systems that are based on individual incentives have like all other types of reward systems disadvantages. A few of these are that the employees may feel that this type of system is unfair as there are a lot of factors that the employee himself can not control. It does not matter how much effort a person is willing to put down if there is lack of work or shortage of materials. Ineffectiveness is another disadvantage with this type of system. An employee can decide not to work so hard this month because he or she feels that the money is not of highest priority this month. This type of system may put quantity over quality because the employees are paid by how much the can perform not how well they perform.[73]
One big disadvantage with individual reward systems is that it can cause an unpleasant environment at the workplace because individuals may feel as if they are not treated fairly. There is a theory on the subject called The Equity Theory. This theory suggests that the effort a person puts into a task is settled by that person's idea of fairness. This means that an individual's performance is related to the idea of fairness that this specific individual has. For example if an employee in a factory has an apparently lower salary or receives lower bonuses than other employees, in or outside the factory, with similar assignments, he or she will feel unfairly treated. [74]

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[70] Dimmlich, R. P. 1999

[71] Reilly, P. 2003

[72] Baron, J. N. & Kreps, D. M. 1999

[73] Armstrong, M. 1993

[74] Rutte, C. G. 2003

3.7 Rewarding Teams

3.7.1 Description of Teams

A team can be described as a couple of people working together, striving for the same goal. They are cooperative and have different sorts of skills, but when put together, they can use these skills as a strong device, to help them more effectively reach their goal. This is of course the idealistic composition of a team. In reality it may look differently which will be discussed later on in this chapter. Steven E. Gross, Jon R. Katzenbach and Douglas K. Smith have defined three different types of teams that can be identified within existing organizations, namely: the parallel team, the process team, and the project team. The first type of team and also the most common type is the parallel team, which consists of a group of people that spend only a certain amount of time working in teams. The remaining time they spend working individually with different tasks. Resemblance can be drawn to teams within the sports world who compete together but train separately. The second type of team is the so called process team. To the opposite of the parallel team, these work fulltime in teams with more equal skills and education, striving for the same goal. Finally, there is the project team where they also work fulltime in teams, but unlike the process team, these consists of people with different sorts of skills and education.[75]

3.7.2 Team Based Rewards

The traditional compensation systems structure was built on the old industries with high focus on being internally legitimate. Today many companies reward jobs accomplished instead of rewarding people. In many cases this leads to rewarding a group of people instead of one individual. As people often act after how they are compensated this type of reward will encourage people to work in groups instead of trying to achieve things as a single person which the individualized reward system encourages.[76] There are many arguments today that suggest team based pay. Team based pay has shown to be effective for organizations with many employees performing the same or similar tasks. These groups of employees seldom have individual goals to strive for. Instead they are working for the same goals as their co-workers. These reward programs are also easier to measure and therefore also easier to evaluate, obviously of high importance for the organization.[77]

3.7.3 Individuals Constituting the Group

When working in a group it is important that the individuals learn to see their work as a totality. Individuals have a tendency to delimit their work. If the individuals in a group do not strive to the same way it will not help if the individuals' performances are of great character. It is therefore important that the group can find an effective way of combining their competencies. To be able to do this it is important that the group has a clearly defined goal, where every individual in the group knows what is expected of him or her to successes.[78]

Team based reward systems are often designed so that the reward is paid on top of the employees' salary. In this way organizations can prevent committing to long-running contracts. The reward is closely related to the organizations outcome and results during the

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[75] Gross, S. E. 2000
[76] Ibid
[77] Reilly, P. 2003
[78] Dimmlich, R. P. 1999

fiscal year.[79]

3.7.4 Group Behaviour

Over a period of five years (1927-32), a study was carried out at the Hawthorne plant of the Western Electric Company in Chicago. The researchers chose to call the study the "Relay Assembly Test Room". It was a study of the behaviour and attitudes of a group consisting of five girls. They were separated from the other workers at the plant and their task was to carry out their day-to-day work, which was assembling electric relays. The investigators measured the "minute-by-minute" output for each one of the workers to see if there would be any increase in output by introducing rest pauses. The test group was put under constant observation by a friendlier supervisor than the one they were used to. At first they were put on a piece-work-scheme, and the outcome was that the output went up. The second step was introducing two five minutes rest pauses, which also resulted in an increase in output. The real boost in output came when the rest pauses went up from five to ten minutes. After the increase in duration of the rest pauses, the investigators chose to increase the amount of pauses up till six a day lasting five minutes each. This resulted in that the workers were bothered by the pauses and felt as if they were loosing their work rhythm and the output fell slightly.[80]

What was the conclusion to be drawn from this experiment? It seemed to be that by introducing for example the rest pauses, the group increased their productivity and output went up. But the conclusion of this study was not at all what one had expected. It was the fact that by paying special attention to the group by the manager, productivity and output rose independently of the changes in their working conditions. Productivity rose as a consequence of the special attention that was given to the girls by placing them all in an experiment. It was the work satisfaction of the informal social pattern of the group and the fact that they had become a team that made them work harder.[81]

According to Maslow´s theory of need, presented earlier in this chapter, the third and the fourth levels in the hierarchy are social needs and appreciation which need to be fulfilled to a certain degree for the individual to function in a group.[82] One needs to feel an acceptance of the other group members and also to create ones own identity within the group to be able to perform well.[83]

3.8 Advantages with Group Based Reward Systems

The most obvious incentive for organizations to use group-based rewards is to increase and motivate cooperation and help between employees. This is mainly because cooperation promotes stronger bonds and better relationships amongst the co-workers. This is seen as the foremost advantage with having team-based pay. Increased cooperation can also lead to a healthier relationship to ones co-workers, and also a friendlier environment at the work-place which will also lead to happier and more efficient personnel. When people work together, they help each other and they can manage to carry out larger tasks than they could do individually. This is the idealistic outcome of teamwork which occurs when team-members

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[79] Reilly, P 2003

[80] Roethlisberger, F.J. & Dickson, W.J 1934

[81] Kahn, R. L. 1974

[82] Jacobsen, D. I. & Thorsvik, J. 2002

[83] Reilly, P. 2003

are cooperative and put a lot of effort into their work. Reality shows that this is not always the outcome as will be presented later on. Other advantages that are found with rewarding on a group basis is that a group can create a more realistic and objective picture than the individual can do by himself. To make the correct decisions one often needs thoughts and ideas from others, this is often called synergism, and is seen as a great advantage when working in groups instead of individually.[84]

Many researchers state that group-based rewards is the most effective way of rewarding employees and advocate this type of reward system. Many companies have team related goals, where a group of people are working to reach one common goal. In these scenarios, team based rewards are often seen as more appropriate as they will help to motivate all the employees' in the group to strive towards the common goal. Many of the mentioned positive effects of using a team based designed reward systems are rather obvious. Armstrong has recognized some, according to him, positive effects of this type of reward system. He considers that team based reward systems will push for a flatter organizational scheme and also motivate personnel to become more self-going. He also states that team based pay defines what should be prioritized and which the team goals are and so on. Team based pay may also endorse transference of skills between co-workers if the reward is designed in a way that the reward will be delivered when everybody has the same level of a skill on a certain area. This will also help organizations to increase their level of standard and at the same time develop communication abilities and increased involvement from and also between employees.[85]

3.9 Disadvantages with Group Based Rewards

One surveyed problem with group rewards is as Dorothy, R. Berger mentions when reflecting over Michael Snipes thoughts on the individual in a larger context, which the individuals that constitutes the group, loose their sense of how each and every one of them are contributing to reaching the goal. One important factor when introducing a reward system in an organization is as mentioned earlier that performance and reward have a close relation to one another, and that employees know for what reason and for what performance they have been rewarded.[86]

As mentioned earlier cooperation has several advantages, but can also result in negative aspects such as conflicts amongst the team-members. Individuals seek confirmation and acknowledgement and want to feel safe and secure, just as Maslow emphasizes. But what happens if these criterions are not fulfilled? What happens if the team-members are not cooperative and willing to put a lot of effort into their work? This is one major limitation to effectively rewarding teams and can cause a misguidance of rewarding on a group level instead of individually. Another limitation is that team based rewards can in worst cases cause competition instead of cooperation, which is the antithesis of the wanted outcome of these types of rewards. Even though teamwork and cooperation works in theory, it does not always do so in practice. Working together, receiving group rewards has shown to be efficient, but in some cases it can also become the opposite. This can take its form in the so called free-rider phenomenon that will be explained more detailed below.[87]

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[84] Dimmlich, R. P. 1999
[85] Reilly, P. 2003
[86] Berger, D. R. 2000
[87] Johnson, D. W. & Johnson, R. T. 2003

According to Christel G. Rutte, William Latané & Harkins wrote about a conception called social loafing They referred to this as a phenomenon that occurs when the will of the individuals to cooperate and work together as a team, is reduced and their effort and outcome, working on tasks collectively, is less compared to when working individually. There is a lack of motivation within the team because of the cooperation. Some people have the ability to work and produce less when working in teams than when working individually, and this is a danger when companies wish to grant rewards based upon group performances instead of rewarding individual performances. The equity theory has been mentioned earlier and also plays an important role when it comes to group based rewards. People have expectations about others. If a person for example has high expectations about a team-member on him or her performing insufficiently, the individual's tendency to loaf will decrease.[88]

Michael Armstrong writes in his book Managing Reward Systems that you should not have individual performance that is so competitive that it disrupts any type of teamwork, but he also writes that you should definitely avoid situations when it becomes possible for a team member to hide his or her poor performance.[89] If motivation is reduced when working collectively, one often refers to two mechanisms, namely; the free-rider mechanism and the sucker mechanism. Whenever there is an understood unfairness, individuals have the tendency to loaf. The free-rider phenomenon is one of the most discussed difficulties with having incentive programs on group levels. This problem involves issues where individuals in a group do not perform or struggle as hard as the rest of the group to reach goals in the organization. If the group reaches the goals for being rewarded, these mentioned individuals will still get the reward, and therefore get a so called free-ride to receiving the reward. This will also get negative effects on the other co-workers in the group as an irritation easily can build up against the individuals who do not perform well enough. Another mechanism, which one can say is the outcome of the free-rider phenomenon, is the so called sucker mechanism. The sucker mechanism can be described as a phenomenon that occurs when group members feel as if they contribute and work more than other members but still profits as much or little as the other members do. The suckers are those who free-riders benefit from. These both mechanisms have the effect to reduce motivation on individuals working collectively, which can result in a great loss for the company. In idealistic cases, when a group member is performing less then others, the natural effect will be for the others to contribute a little more with a higher effort, but the free-rider and the sucker mechanisms show differently and instead the group members tend to decrease their efforts.[90]

One problem with group rewards are amongst other things that it has shown a limited effect with improving employees' performance and organizations results. Another problem is that group rewards do not differentiate individuals who are performing well in the group compared to those who are not. Individual programs have shown to be effective in improving individuals' performances. On the other hand this can reduce the will from individuals in the organization to cooperate; it also tends to focus the individuals on the results that they are rewarded for and not the total result for the organization.[91]

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[88] Rutte, C. G. 2003
[89] Armstrong, M. 1993
[90] Rutte, C. G. 2003
[91] Wolf, M. G. 2000

3.10 Individual Rewards versus Team Based Rewards

3.10.1 Competition versus Cooperation

There is a constant conflict between competition and cooperation in organizations Hundreds of studies and analyses have been carried out during the past decade concerning this conflict. The question that everybody wants to know the answer to is; are employees more productive working collectively or individually? The discussion is open but the majority of the studies that have been made show that cooperative work results in higher productivity than working alone competitively[92]

According to Martin G. Wolf organizations should if they can not reward individually, choose to reward group performances. If you can reward individually try to combine this with simultaneous rewards for well implemented group performances. With this simultaneous reward system it is possible to draw the benefit of motivating individuals for well performed efforts and at the same time advocate cooperation and team-work by rewarding well performed results on this level as well.[93]

3.10.2 Connection between Work Model and Reward

James N. Baron and David M. Kreps suggest in their book Strategic Human Resources that "*The choice between a job design and reward system organized along individualistic versus group-based lines may be less important than ensuring that the job design and reward system are aligned with one another and consistent with other HR practises*".[94] Baron and Kreps also write in their book about a study concerning teamwork made by Ruth Wageman. She studied more than 800 technicians, from a company called Xerox, working in 152 teams. In some of the teams the members worked rather independently whilst in other groups they were highly interdependent. There was also a third kind of group where the members combined individual work with group work. What Ruth Wageman did was that she assigned the different 152 teams three different reward systems; the first type rewarded the team as a whole whilst the second type rewarded the team members individually and the third type rewarded on both group and individual performance. By doing this Wageman found out that reward systems that are purely individual or purely group-based give better results than a reward system that compensates on both levels. The results from the study suggests that, even if the pattern was not perfect, that if you work in groups you want to be rewarded as a group and if you work individually you prefer an individual reward system.[95]

3.10.3 Contingencies

According to Daniel R. Ilgen and Lori Shepard in The book Work Motivation in the Context of a Globalizing Economy, the primary reason against team rewards is *"… that outcomes tend to function best as rewards or incentives to individual performance the stronger the contingency between the outcomes and the behaviours of the individual, assuming that the outcomes are valued by the individual".[96]* But on the other hand another well established fact is that in teams, that make strong contingencies between the group members the willingness to work together as a team is very low. It is also a fact that strong individual incentives create

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[92] Johnson, D.W & Johnson, R. T. 2003

[93] Wolf, M. G. 2000

[94] Baron, J.N. & Kreps, D. M. 1999 (P. 267)

[95] Baron, J. N. & Kreps, D. M. 1999

[96] Ilgen, D.R. & Sheppard, L. 2001 (P. 176)

competition between the members of the group, and this is proved to be negative for the team performance. This conflict described above has two responses that have been suggested frequently over the past years. The first claims that you should only reward team performance and the other one suggests that you should reward individual behaviour but not behaviour that is directly associated with team tasks or individual tasks. The individual should be rewarded on the basis of individual skills that are relevant for fulfilling the tasks.[97]

3.10.4 Employee Expectations

There are some so called cognitive theories of motivation that deal with the interplay between people's thoughts and their surroundings. In these types of theories the interplay is supposed to be important for the individual motivation. According to the expectancy theory developed by Victor Vroom, which is a cognitive theory, he explains that achievements in work are based on 4 factors:[98]

1. Degree of motivation
2. Personality,
3. Competence
4. Role comprehension[99]

This theory consists of two different types of expectations, consequence of action and consequence of effort. The first type of expectation implicate that a person can see connections between different behaviours and their consequences. This means that a person might expect that certain behaviour leads to punishment and other to rewards.[100] To increase a person's motivation the person needs to see that his or her actions actually affect the result that will lead to a reward.[101]

The other expectation, consequence of effort involve that a person always has an expectation about whether he or she will succeed with an assignment or not.[102] This means that when a person thinks that it is possible to achieve something his or her motivation will be much stronger than if it seemed impossible to make it.[103]

Karau and Williams developed a collective effort model which can be seen as an extent of the Expectancy Theory. Karau and Williams discussed the fact that group members will not feel motivated to contribute if they do not value the outcome of the task. This related to feeling secure and feeling a strong group identity, as mentioned earlier. Sometimes the group itself can be the outcome that the group members value the most, and also see as their reward. They tend to loaf more when task value decreases and also when group value decreases, which frequently is an outcome when putting together new teams of people that have not worked together in earlier stages, putting together a team consisting of complete strangers. If the team can feel a strong group identity and membership, they often tend to contribute with a higher effort because they value the team itself as an outcome. They also saw that working

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[97] Ilgen, D. R. & Shephard, L. 2001
[98] Arvidsson, P. 2004
[99] Ibid
[100] Ibid
[101] Jacobsen, D. I. & Thorsvik, J. 2002
[102] Ibid
[103] Ibid

individually had less correlation to the individual effort when working in teams rather than it did when working individually. This is because individuals tend to decrease their effort when working together with others with collective tasks, which can result in a substantial loss for the company.[104]

Individuals working collectively often have the tendency to compare their own outcomes with other team-members that are similar to themselves. But they do not only compare their outcomes but also their inputs and feel that these both aspects shall be fulfilled for a successful team-work. When working collectively with group tasks, the members will look at other members to see if they contribute to the group and how much effort they put in. When individuals are rewarded collectively, with a reward based on the outcome of group tasks, they clearly feel that the performance and outcome of each member should be relatively equal; otherwise this is by those who perform well, considered highly unfair and has the effect to reduce motivation.[105]

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[104] Rutte, C. G. 2003
[105] Ibid

4 Empirical Study

4.1 Introduction

In the method chapter of this essay, the interviewees and the companies that they work at were presented. The companies' different reward systems that are in use today have been explained, but in this chapter more focus will be put on their own opinions of the advantages and disadvantages with individual or group rewards and what their decisions are based on when designing these systems. This chapter will begin with presenting their thoughts on different ways to reward employees. Finally thoughts on future possibilities and possible changes that can be made to create an even more efficient reward system will be presented. Although the organizations differ from one another in many ways, there is something that should be addressed here that actually draws them together, which is the fact that they all have to make the decision of how to design their reward systems. Continuously repeated from all of the interviewees has been that this is a difficult decision to make, because there are no rights or wrongs in this matter. There are both advantages and disadvantages that follow these choices and it is up to each company to decide which one is more preferable than the other.

4.2 Individual Rewards

4.2.1 Description of Individual Reward Systems

The companies that have chosen to put more focus on individual rewards, of the ones interviewed, all emphasize the importance of the results of the employees and that if the system is based on individual salaries, they expresses that it is important to be able to tie the salary to the employee's position within the company. At Volvo Sweden, the principles of their wage setting for their white-collar workers are based on three criteria, which here follow; 1) the employees position at the company, 2) what the industry looks like, and 3) the individual performances. As explained above, the first of the three fundamental criteria when working with individual salaries is that they are tied to each person's position at the company. By enabling this, some kind of "valuation" of the different positions has to be made. Svante explains that this is hard to do, but it has to be done to be able to know that each employee will get a fair salary for their job. Today, the blue-collar workers do not have an individually based salary, but Svante would like to see more of this even for them because it enables Volvo to have a more unified reward system. Within Volvo Sweden, a systematical valuation of the different job positions is being made, but unfortunately not all of the corporations have done this yet. It is therefore important that these corporations explain to their employees what kinds of assignments and demands that are included in their job positions. The second criterion is that the salaries are set after the level that salaries are set in other companies within the industry. This increases the chances for the company to both recruit and keep people within the company. The third criterion is that the results of the employees are connected to their salaries. It is important to make the evaluation of the individual performances as objective as possible. Svante explains that it is difficult to do so because there are so many subjective estimations when evaluating the salaries of the employees. He also finds it important that individual goals are set for each employee. This shall be an agreement between the employee and the manager, which also gives the opportunity for a personal conversation. It is important that the employee knows how to increase his or her own salary by doing a certain performance. Otherwise, Svante cannot see that having individual salaries would have any motivating effect at all.

The companies here interviewed agree on the fact that there has to be a strong connection between salary and performance. Some of them also believe that if the salary is correctly put, than it in itself will have the best motivating effect on the employees. This is something that Peter at SKF agrees with. They use themselves of individual wage setting for their white-collar workers and the salaries are decided based on the personnel's position at the company, just as Volvo has done when deciding theirs. But what distinguishes SKF from Volvo is that SKF work with identifying different categories of skills by using a matrix. The matrix show what types of competences and skills one should have, which are described in four different levels. In each level they look at aspects such as knowledge, application and communication of the know-how and the levels are stretched from basic knowledge to excellent skills. In other words, the employee is put in one of these four "boxes", as they prefer to call them, depending on their individual skills and competence. After identifying and placing the employee in one of these boxes, the manager knows exactly how to reward him or her, because each level has its own wage span that has been decided in the matrix. SKF has contracted a company called Löneanalys AB, a consultant firm that is in charge of handling and supervising the matrix and to follow up the work of employees, evaluating their performances to be able to see if they should be moved to another level. The system is being evaluated every other year and the different wage spans are revised once a year. The philosophy at SKF is that it is more motivating for the employees to have their own goals and results. In this way they are able to see their own progress, instead of the progress of the entire group.

4.2.1 Advantages Seen with Individual Rewards

In general, the interviewees expressed the importance of rewarding individual performances and through this, encouraging the employees to perform well. This is also something that appears to be a problem, because a lot of the companies here interviewed expressed a lack of this part with their current reward system and felt that a stronger connection between performance and bonus is necessary.

The reason for having individual salaries and bonuses is to increase the individuals' motivation to perform better for the benefit of the company. Teddy explains that by having individual salaries, communication between the manager and the employee is strengthened because it provokes a dialog between them. Vägverket Konsult has chosen to use bonuses based on individual performances as a general system to reward the employees within the company. As explained earlier, they have individually put salaries, but they also have a bonus system which is handed out equally with the same amount of money to every employee. The reason for choosing this type of system is because they want all the personnel at the company to feel motivated by the bonus, to do a good job and for the employees not to feel left out. It is important that everyone is contributing for the benefit of the company and Teddy explains that the system functions well because it is the entireness that is the determining factor. The fundamental idea with choosing this type of system was not based on any particular motivation theory, but was thought of as a complement to the personnel's salaries and to increase their motivation. It is very important for Vägverket Konsult that they are able to see that the bonus is giving additional value to the company which they keep in mind when they are designing their reward system.

Estate Agency 2 explains that although they prefer to use a group based reward system, they feel that the use of an incentive based pay may not always be negative for the short-term profitability of the agency. This mainly because individual bonuses can be highly motivating

for the employees to perform well and therefore accelerate sales from each individual. The other estate agency, here referred to as Estate Agency 1, has chosen to stick to an incentive based salary system. The estate agents at the firm today get a so called brokerage, which Estate Agency 1 believes suites them well because it is the way the estate agency business looks like today. As Human Resource responsible at Estate Agency 1, the interviewee explains that almost every estate agency works this way, so when this system was developed, they based it more on how the business looked like than rather taking into consideration any existing theories. By having this type of reward system, they feel that it will increase the estate agents willing to sell more and better. Working in this business as an estate agent, you often have very uncomfortable working hours and during some periods of the year, you work extremely much. As a carrot, to keep up the motivation to still do a good job, Human Resource responsible at Estate Agency 1 explains that the brokerage is a good way to do this during tougher times. The interviewee also explains that as an estate agent, you are totally dependent on gaining a trust from your clients. But the trust does not come easily, you have to make good sales to be able to get that trust, and by receiving these commissions, the employees feel encouraged to do a good job.

The audit firm feels that it is of high importance to look at the different employee's performances and to reward the employees separately. The person interviewed explained that they have chosen to put a lot of focus on non-financial rewards and feel that these, in best cases, can have a more encouraging effect on the employees to do better than financial ones have. These rewards are also individually put. An example of a non-financial reward can be the opportunity to an international carrier within the organization. One of the reasons to why this is seen as an effective way of rewarding their employees is because these rewards are relatively long-term based. By having these long-term goals, the audit firm feels that they with help of this can more successfully attract, develop and keep professional and committed personnel within the firm. This is also something that they feel helps them to develop a stronger company culture which in its turn increases the company spirit.

4.2.2 Disadvantages Seen With Individual Rewards

There are a lot of opinions regarding how to reward ones employees. Some feel that it is important to encourage cooperation whilst other feels that it is of higher relevance to see to the individual and also reward him or her individually. At an earlier stage, Estate Agency 2 used a reward system that was built more on the employee in form of individually fixed salaries. The interviewee mentioned that they recognized several difficulties with individual bonuses such as higher competition between employees and a possibility of employees elbowing their way ahead to reach their individual goals.

When discussing incentive based pay, Estate Agency 1 mentions that when you do not collaborate with your colleagues, time is sometimes not enough and therefore you might prioritize wrong and accept a sale just because you are dependent on the income. This can lead to not doing a good job for the client. If the estate agency only looks to the parameter of the number of sales they have done during a period of time, the long-time reputation of the agency may be damaged because aspects such as customer satisfaction are then often neglected.

Magnus at Diplom-IS explains that they their previous reward system was based on incentives. At that time, the salesmen received a commission for every sold good. According to Magnus, they left this incentive based reward system because it did not see to the

profitability of the goods in a sufficient way. Another reason to why they have chosen to change this system was that the sales became more and more centralized, which made it difficult for the employees to affect their own situations. This made the reward system inefficient and gave rise to a revision of it, which resulted in the one that they are implementing today. Magnus accentuates the difficulties that came with having an individual reward system, namely that the employees before could choose to sell what was easiest for them to sell but what was maybe not for the best of the company, which could be seen as conflict of interests.

4.3 Group Based Rewards

4.3.1 Description of Group Based Reward Systems

Magnus explains that Diplom-IS divide their personnel in different teams depending on which region they work in. If the group manages to reach the yearly goal set up by the company, they get a bonus consisting of 50% of their monthly income, which is handed out to each and every one of the group members. Magnus emphasizes that the goals are put at a high level, but not at a level that feels impossible for the employees to surpass. One of the reasons for having these high goals is to make sure that the employees cannot achieve the sales goals by simply selling well during the summer, which is the company's peak season. This would take away the motivation to perform well during low seasons. They have chosen to have this structure because the company has to see to that the main budget is surpassed. Magnus also points out the difficulty with appointing the goal; he means that new contracts during the year can make the goals easier to fulfil which in turn will diminish the motivation factor with having the reward. How effective or not this system will be, is something Magnus is a bit insecure about.

He explains that he has been thinking about changing the way the bonuses are paid out, to instead of giving the employees a reward at the end of the year, giving them all one twelfth of the bonus each month. But this is, according to Magnus, still just thoughts. Diplom-IS does also have a bonus system which is used to reward project groups. The group receives a lump sum of ten thousand Swedish Crowns. The reason for having this bonus system is because these project groups often come up with pioneering strategic projects which before were complex and time consuming, that often lead to simplified working tasks for other employees within the organization. Diplom-IS does not have an equal reward system that is equally paid out to all of the employees. They base their reward system on the turnover of the different units, and are paid out differently depending on the results of each region. The main reason for doing this, according to Magnus, is that the mother company of the group; TINE, is a conservative organization. This has made it difficult for the Swedish part of Diplom-IS to get a unified reward system authorized. The main reason for TINE not to grant a reward system for all of the employees this year is the previous year's bad result. Apart from the financial reward system, Magnus talks about the importance of having social rewards. Diplom-IS is a large organization with departments all around the country which makes it difficult to cluster all units. Instead, every unit has its own way of rewarding their employees, when it comes to non-financial rewards. He also mentions that his department in Gothenburg has a prize for the "employee of the year". He explains that he has noticed a tendency for these types of rewards to spread over to other units in the organization, and through the close relationship with Norway he has seen a tendency for this to also go cross-boarder.

Magnus explained the importance of the company values and traditions which is something that also SKF have taken into consideration when designing their reward system. They have different traditions at different departments which they make sure to retain. As explained earlier, the blue-collar workers at SKF do not have any individual goals, only goals that are set up for the entire department. If the employees reach up to these goals, a certain percentage of the yearly income is paid out as a bonus one time a year, and is connected to the position of the employee, not to the person. Peter explains that it is important to keep the valuations of the salaries as subjective as possible and to maintain a collective way of thinking. SKF is the only company that has been interviewed that has mentioned that they put a lot of focus on having a gender neutral system. They do not want to see any differences in salaries based on the sex of the employees. It is important that they all are thought of as equal and are rewarded as a group, because it keeps the company tradition amongst the blue-collar workers. Peter says that this is the underlying theory on which they have chosen to build their system on.

When talking about group rewards, Svante mentions that less focus has been put on group based rewards for the white-collar than it has for the blue-collar workers at Volvo Sweden. This because working in teams is seen more as a matter of course before an accomplishment. One should look at those who do not cooperate and take action towards these. He also explains that it can in a lot of cases lead to that people get pushed out of the group.

4.3.2 Advantages Seen With Group Based Rewards

The Estate Agency 2 has chosen a different path when it comes to rewarding their personnel than other estate agencies might have. They have instead chosen to use a bonus system that is based on group- instead of individual results. The interviewee continues on with explaining the reason for choosing to use group bonuses instead of their previous individual system. The bonus program is highly integrated in their everyday work and builds on continuous work to achieve the goals that generate the bonus. They feel that this is a more effective way of working and as explained earlier, the fact that they recognized several difficulties with individual bonuses which provoked a change of the system. The design of the bonus system does not build on any of the motivation theories, but the interviewee does add that the partners have a humanistic background. According to the interviewee, the partners have experienced positive effects working with their new bonus program. The main reason for choosing a bonus program based on a group level was to motivate the employees to help each other as they are all working on a tough market with high competition. Other reasons were the positive atmosphere that it brings to the workplace, which is highly prioritized as the personnel, spends a great deal of their working time there. Being rewarded as a team reduces competition between the employees and has shown to increase the wellbeing of the personnel. The negative aspects cannot be ignored; according to the interviewed the partners are aware of problems with having group based rewards such as the so called free-rider problem. The agency has not yet experienced this problem in practice, as they feel that all the estate agents employed at their firm are highly ambitious. But they are aware of the problem and are vigilant about it.

Diplom-IS has changed their reward system, going from individual to group based results, due to the centralization of sales. Magnus also mentions that the individuals constituting the group, work closely together which makes it difficult to measure individual performances, but also makes the group reward feel natural for the employees and it brings out the importance of the reward system that goes hand in hand with the companies overall values and culture.

4.3.3 Disadvantages Seen With Group Based Rewards

When Torbjörn at Swedbank was asked about their reward system, he said that they want to put strong focus and highlight the term "team-spirit" within the organization and implement that term at the different offices around the country. He strongly emphasizes the importance of team spirit and teamwork. He explains that the outcome that they are striving after is for the personnel to feel as a team. But he also explains that there are several disadvantages working with group rewards. One existing problem is the so called free-rider phenomenon, which Torbjörn wishes to refer to as the 20/80 rule. By that he means that in a lot of teams, there are 20% of the team members that are doing 80% of all the work. Swedbank want to see that at least 30-40% is doing 60% of the work which can be accomplished by rewarding the employees more individually. When Torbjörn was asked if he knows any underlying theories on which they have built their reward systems, he says that he does not know of any such theories. The outcome that they are striving for is "simply" for the employees to feel as a team. Torbjörn explains that it is an act of balance choosing between rewarding team and individual performances. He means that too much focus on one of the two systems can cause problems; Torbjörn emphasizes the importance of encouraging teamwork. He explained that the subject on reward systems has during the past years been a constant discussion within the bank. The discussion concerns mainly aspects such as fairness, both from the banks point of view but also from the labor union. It is hard to make the right decision concerning reward systems, as he explains it. During the interview Torbjörn drew an interesting parallel to a football team. He means that there does not exist any football team that functions without all of its members, everybody in the team contributes with his or her skills and competence. The forward is expected to produce goals but he or she can not be expected to do this without passes from the midfielder. The players can not be expected to have a well planned game and know their positions without a coach. In other words no teams function without all the individuals constituting the team. Torbjörn means that this phenomenon also can be applied on groups in organizations. Even though Swedbank advocate team-spirit it is important not to forget that the teams consist of individuals, therefore they see a necessity of increasing elements of individual rewards. Keeping this in mind, they are at the moment working with the individual rewards to increase. Another reason to why they have chosen to do this is because the bank industry is moving in this direction, more and more banks are increasing their individual rewards to their employees and for Swedbank not to loose people to other banks; they must also adjust to this. This is still in theory and a working process, and as Torbjörn explains it, it is not an easy task designing such a system.

Both Vägverket Konsult and the audit firm find it difficult to work with a bonus system based on group performances. Teddy explains that the disadvantage of working with this type of system is that it is too difficult to see if the individual employees are contributing to the best of the company, and because of that, it is not motivating enough when they cannot get feedback on their work. It is important to see that the company gets an additional value of the bonus that is paid out, but the question is if they can see how the employees are contributing to this additional value. The audit firm explain that it is important that through the performances of the employees, be able to see how the company can keep on developing to be able to be a successful company within their branch. They also feel that it is important to see the connection between the intention of the company, the developing process of the employees and their rewards.

4.4 Future possibilities

All though the companies here interviewed are satisfied with their current reward system, a lot of them feel that there are changes that can be made to improve the system that they have today. Several of them feel that the market is getting tougher because of higher competition, especially from foreign companies, which pushes them to improve their reward systems to be able to keep and attract personnel. Many companies wish is to have a mix of both systems, which is an individual and a team based reward system. Torbjörn explains that Swedbank wishes to be better in rewarding individual employees, because he feels that there is a heavier pressure from other banks that today focus a lot more on rewarding on an individual level. Magnus also wishes to put more focus on individual bonuses at Diplom-IS. The desire would be to reward individuals that have done a good performance when turnover exceeds the budget. A reason for why this has not yet been implemented is, according to Magnus, the difficulty in finding a satisfying way to measure how an individual contributes to the final turnover.

Svante feels that Volvo Sweden has a problem because the lack of clarity of the individual performances of the employees. He thinks that it is a good idea to have a company bonus, because it brings equality to it. But at the same time, he wonders if it has any motivating effect, because there is such a weak connection between the bonus and the performances of the employees. He does not feel that it is good to group all the benefits in one package, because it does not have the motivating effect it was meant to have. He also thinks that Volvo has too many complex systems today and his ambition is to make these clearer and easier for the employees to understand, because if they do not see what they need to accomplish, they neither know for what aspects they are being rewarded. He would also like to centralize the HR-centers to only one center so that the system will not be as extensive as Svante feel that it is today. Most importantly, he feels that they have to be better in evaluating the performances of the employees.

In the future Vägverket Konsult wishes to create a more flexible salary system that should be built on a method which gives the employees much more options when it comes to the way the bonus should be handed out. Teddy explains that they would like to give each employee an opportunity to compose their salary as they prefer. Vägverket Konsult will then offer all of the employee's different ways on how to collect their salary. They will be able to choose amongst for example more leisure time, bigger pension depositions, increased salary and many other things. Teddy believes that this is a healthier proposition for the employees because people's preferences differs a lot, and to be able to make as many as possible satisfied, he believes that this is probably the best way to do it. The problem with this type of system is that it requires a lot of administration which costs both money and is time consuming.

Human resource responsible at Estate Agency 1 is not convinced of that the reward system they have today is possibly the best way to reward their employees. The person interviewed feels that there will be a change in the system within a short period of time, changing it towards having both a monthly fixed salary with a commission on top of it. The reason for making this change is to make the employees feel more secure, that in return can increase the collaboration between the colleagues, which the interviewee believes is very important.

5 Analysis

5.1 Introduction

This analysis will be based on both the theoretical framework and the empirical studies. We will here try to strengthen the theories with what has been said in the interviews that have been carried out. But also seen from another perspective we will try to strengthen the empirical studies with the theories. We will keep to the same structure that we have built the theoretical framework and empirical study on. We will start with analyzing the individually based reward system to continue with analysing the group based reward systems. As a finishing discussion we will present the mixed form where one uses the individually and group based reward system simultaneously.

In the theoretical framework we mentioned that financial rewards have several advantages. The obvious advantage is the monetary value; this means that the personnel can buy whatever they desire for the money they get. This is good both for the employer as well as for the employee. The advantage with this system for the employer is that they do not need to put down much time and effort into rewarding their employees. This is a fair way of compensating everyone with the same means. All people need money to survive, according to Maslow's theory of needs; the first needs are physiological as food and sleep, these basic needs are often satisfied with help of the salary. Other needs higher up in the hierarchy such as appreciation and self actualization might be things that are satisfied in other ways. We would like to define this with an example: One might wish to sail the seven seas to fulfil a desire, for this one will need both time and money, which could be generated from an extra income like a bonus. To satisfy these needs you do not have the time or money to allow yourself everyday. There are so many ways of getting a higher satisfaction with life; one way might make one individual happier whilst another way does not depending on different preferences. Therefore it might be better to give the personnel the opportunity to choose their own type of reward with help of the money. On the other hand one might argue that for example the appreciation in Maslow's theory of needs can be satisfied with non financial rewards such as appreciation from the boss. When rewarding on a group level it is easier to give financial rewards than non financial. The reason for this is, as we mentioned earlier, that different people appreciate different kinds of rewards. If they get money it is up to each and everyone to decide what to do with it. On an individual level it might be better to have financial rewards because it is hard to give non financial rewards that are seen as equal between the employees. Even if two things have got the same value in money one of them might have higher status amongst the employees, which can cause envy between the co-workers. This in turn can cause damage to the relationships which in return can lead to less cooperation and dissatisfaction. This can give negative effects on the productivity and the efficiency in the company.

5.2 Individual Rewards

5.2.1 Information, Communication and Feedback

Information is a key word when designing, implementing and using a reward system. Important for creating a well functioning reward system that will have a positive effect for the organization and the individuals is that the individual knows what is expected of him or her to receive the bonus. If a bonus is paid out without the employee understanding what he or she has performed to receive it the bonus will loose its important motivating effect. This is

something that Vägverket Konsult, Volvo and Estate Agency 2 mention in the interviews. They see that it is very important that the employees are well-informed about the reward system. Another key word for a well functioning reward system is communication; something that Martin G. Wolf points out. One important way to communicate with the employees is by giving continuous feedback. Feedback is widely appreciated according to the organizations that we have interviewed, but it is not only feedback that is directly leashed to the bonus but also give continuously during the work. Another positive factor that is mentioned by Teddy amongst others is the fact that feedback also opens up for a dialogue between the manager and the employee, and is also a chance for the manager to get an apprehension about the employees' feelings and thoughts towards the reward system. Strengthened in both the theoretical framework and the empirical study feedback are seen as an important factor when it comes to motivating individuals. In some cases positive feedback can work as a non-financial bonus and can sometimes help the employee to create a better self-esteem which is something that is tightly connected to fulfilling the last two steps in Maslow's hierarchy of needs, the need of appreciation and the need of self-actualization. This is something that the audit firm here interviewed strongly agrees with. They have chosen to put a lot of focus on giving their employees non-financial rewards such as opportunities to work abroad or small tokens of appreciation from the manager.

McClelland claims that there are three needs that are motivational; one of them is the need of power which can be seen as a non-financial reward. R. P. Dimmlich strengthens this affirmation that power is a motivational factor, increased power is something that none of the interviewees have mentioned is an official part of their reward system.

5.2.2 Individually Based Salaries

In theory and reality individually based salary is a widely used tool for rewarding individuals. Amongst the companies that we have interviewed that are using individual salaries see this as the most important way of motivating individuals. Used in the right way individually based salaries are according to both Svante and Teddy seen as the most motivating factor for the employees. They also emphasize the importance of having an objective determination of the salary. To simplify this determination the organizations can use management measure systems. One of the main problems with using individually based salaries according to the interviewees is that it is difficult to keep the setting of the salary objective. One way of avoiding this problem is having a well-operated performance measurement system as for example the balanced scorecard. In this way organizations can avoid the subjective judgements of the salary. One way of diminishing the negative aspects that are found with individually based salaries is by, as Teddy mentions in his interview, that one can let the individual design his or her salary according to his or her lifestyle. The employee can in this scenario decide what amount of the salary he or she wishes to receive in money, maybe the employee prefers to receive some of the salary in form of leisure. Maybe the employee feels that he or she prefers to get some of his salary in the form of health maintenance or cleaning help. By having this design Teddy feels that the individual salary gets an even higher motivating factor for each individual. One of the negative factors with this type of system is the increased administrative cost; organizations therefore have to see over that these costs will not take over the positive effect that can be found with this system. Authors like Kenneth A.

Merchant and Wim A Van der Stede see that individually based salary raises are positive for the motivation as it is paid out to the employee by the month and is therefore supposed to keep the motivation continuous. He also mentions the negative aspects with this type of

reward, namely that it quickly looses its motivating effect mainly because individuals quickly adapt to the new income rate. Herzberg on the contrary considers that individually based salaries have no effect on employees' motivation at all. Instead he claims that salaries are so called hygiene factors that will cause dissatisfaction if it is not determined in a satisfying way according to the individual.

According to the agency theory the employer prefers to pay the personnel for what they have actually performed whilst the employee wants to be compensated for the time that has been put down. If this is the case in reality this will be a constant dilemma. On the one hand the employer wants to compensate goals that have been achieved as this is what generates positive incomes for the organization. On the other hand it is understood that the employee can not always control how much he or she can perform and therefore wishes to be paid for the time he or she has put down. It is difficult to say that the one way is better and fairer than the other one, therefore there will be an existing continuous conflict between the two. According to the theory the best solution to this problem is to have fixed base salaries and some sort of bonus on top of that which should be depending on what has been performed.

As mentioned previously the balanced scorecard is a management measurement system and these systems are used to measure the organizational success. This success and organizational goals can be broken down on a smaller scale, often on an individual level. This makes it more understandable and lucid for the individual to see how he or she can and have contributed to the organization success. Many organizations are using this system today, Magnus at Diplom-IS especially mentions the importance of this system for motivating the employees at their organization.

5.2.3 Group Participation

When a reward system is built on target achievement one of the main problems is to set the goals at a reasonable level that will still be motivating for the employees. If the level is set at a level that is apprehended as easy to achieve by the employee he or she will not perform their best, and the organization will loose contingent positive incomes. If the goal on the other hand is set on a high level which the employee feels is impossible to fulfil it will also loose its motivating factor. In this case the worst scenario becomes that the employee does not even try to achieve the goal. If goals are set on an individual level they can be fixed in a dialogue with the manager. The individual can then feel that he or she is participating in setting the goals that are expected to be achieved. This can increase the motivational factor as the individual does not want to let the manager down nor him or herself. In this dialogue it is also easier to find a balanced level, where the individual feels that the goal is achievable. This is something that is also pointed out in the expectancy theory. The expectancy theory also claims that to be able to increase an employee's motivation it is important that the connection between what has been performed by the employee can be drawn to the reward he or she received. Employees have different expectations about getting rewarded for a certain performance which can have a motivational effect this is strengthened in Vroom's expectancy theory.

5.2.4 Problems Regarding Goal Setting

If the goal is set on an ultimate level it will be motivating for the employee. It will be seen as achievable by the individual and it will also create a healthy competition with the individual itself where he or she will set own intermediate goals to achieve on the way to in the end achieve the main goal. If one does not have individual goals but an individual reward system an unhealthy competition can arise. This can cause problems with cooperation where the

individuals want to be the first to achieve the goals to be sure to receive their bonus. Estate Agency 2 recognized this as one problem with their previous individually based reward system. It is important for the manager to be aware of these possible problems and try to create a positive situation where the competition is healthy and creates a positive outcome for the individuals and the organization.

5.2.5 Individual Incentive Based Pay

Individual incentive pay has been another popular way to reward on an individual level, especially in branches with salespeople. This was something that Magnus at Diplom-IS mentioned that they have been using as their reward system earlier, but have today strived towards rewarding on a group basis. This accentuates the difficulties that we found in the theoretical framework, namely that the system advocates quantity instead of quality, as it is for the quantity sold that the reward system is based on. The individual incentive pay is also often apprehended as unfair amongst the employees, as there are many factors that the employee can not affect, for example a depression in the economy. Estate Agency 1 is today using an entirely incentive-based salary but they intend to change their current reward system into having one fixed part and one variable part of the salary.

5.3 Group Rewards

5.3.1 Federation of Labour Unions

In Sweden we have historically had a strong federation of labour unions which has influenced the reward systems in Swedish organizations. Many organizations in Sweden have due to this had a reward system that has included everybody in the organization and been split equally between all the employees. One can discuss how fair this system is, many of the people interviewed have mentioned that they are working away from the federation of labour unions and are instead creating their own reward systems as they see that different employees are carrying different bourdons and performing at different levels. They therefore see it difficult to motivate a reward system that is split equally between all the employees. Instead they are working to reward the group on an equal basis and instead differentiate the employees by individual salaries instead of the previously frequently used collective salaries.

5.3.2 Working in Groups

At workplaces, the salary itself is often seen as the most influential motivating tool to use towards the employees. But sometimes this is not entirely the truth because individuals also feel the need of belonging to a group to be able to feel recognition. By accomplishing this companies must look at other aspects except for the salary, such as rewarding the employees as a group. This can in much cases lead to a higher commitment of the employees and make them feel a higher motivation to do a good job.

The phenomenon of social loafing shows that cooperation in a group can lead to less productivity and efficiency than if they would have worked individually. Some people suit to work in a group whilst others do not. This becomes a problem because, as Svante mentioned in his interview, cooperation has become an important and almost inevitable part of the employees' day to day work.

When the Hawthorne studies where carried out the unexpected result showed that the productivity increased when the employees were put to work in a group and that the satisfaction of these group members depended on their informal social pattern. They felt

important by being given special attention, which was a higher incentive than for example being given extra rest pauses or a financial reward. And just as Maslow describes in his theory, the social and the appreciation needs of the workers were here satisfied.

Robert Park Dimmlich believes that groups can carry out larger and more extensive tasks than the individual alone can perform. Today many goals are set on a high and large-scale level, to achieve these goals different qualifications are required, something that seldom one individual possesses. This is one reason to why many organizations today create groups with the required competencies that are needed to achieve the goal. Another positive effect of having groups in the organization is that one will receive more objective evaluations. Due to this, teams are often seen as a natural part of today's organizational structure which makes it natural to reward on a group level, as it is difficult to see what every individual has performed, something that obviously aggravates the feedback on an individual level.

Setting goals on a group level can be seen as a problem, mainly because all the individuals see the goal differently, what seems easy for one to achieve can feel difficult for somebody else. Another problem arises when the individuals in the group contribute in different ways to achieve the goal; in this scenario it is difficult to set a goal that will have a maximum motivating effect on all the individuals that constitute the group.

5.3.3 Correlation between Performance and Reward

In the previous chapter we described three different kinds of teams namely, parallel teams, process teams and project teams. Working in parallel teams has become a daily feature in many employees work. This gives rise to several difficulties when rewarding on a group basis. As the parallel teams are working in a team simultaneously as they are working individually many organizations struggle with designing a motivating compensation system. According to the study made by Ruth Wageman the employee prefers to be rewarded individually when working individually and get group rewards when working in groups. If one decides to motivate on an individual basis it can give negative consequences on the team cooperation. As this work is not rewarded many employees may feel an urge to give satisfying results on their individual tasks. If one instead decides to reward the group performances instead of the individual performances employees may feel a lower motivation to fulfil these tasks. Although this can be seen as a problem one can once again see to Maslow's theory of needs. On the higher steps one can find self-actualization and appreciation, which are types of factors that can reduce the negative effects of rewarding on a group level. The employees may still feel a need to perform well on an individual level even though they are not rewarded for this. Also small tokens of appreciation from the boss can be seen as a motivating reward that can make the employee feel good.

5.3.4 Feedback

When rewards are paid out on a group basis it is important to give feedback to the group on how they are performing but it is at least as important to give feedback to each and every individual in the group. Mainly to make the individuals aware of how they are contributing to the groups result. Martin G. Wolf stresses the importance of communication. With group based rewards it is important to have a two-way communication, one with the group and one with the individual. It is important for the manager to remember that even if the group is rewarded it still consists of individuals that have several needs. If these are not satisfied there is a risk that the individual will not contribute or function ultimately in a group. One difficulty is to compose a well functioning group.

5.3.5 Cooperation versus Competition

One of the most negative aspects with rewarding on a group level is as the one described by Johnson and Johnson, namely that there is a constant conflict between cooperation and competition. In a worst case scenario group rewards can lead to unhealthy competition instead of cooperation. As a group consists of a collection of individuals it is important that these individuals can work in an effective way together and that there does not emerge an unhealthy competition between the individuals in the group. It is also important that the reward system mirrors what is actually performed. Many times different individuals in the group contribute in different amounts to achieving the goal, wherefore many people would prefer to have some sort of individual compensation for the different individuals in the group. On the other side of the coin one can see difficulties with plotting the individual's performances in the group performance, which makes it difficult to individualize the compensation, why this in realty is often accomplished by implementing individually based salaries instead.

5.3.6 The Free-Rider Phenomenon

All organizations that we have interviewed, either if they have had individually based or group based rewards have mentioned the phenomenon called the free-rider problem. Although they did not refer to it as the free-rider phenomenon they mentioned it as one of the most critical problems that can emerge from working in groups. Therefore a large difficulty is created when using group based rewards. This is also something that author Christel G. Rutte emphasizes. If the free-rider phenomenon occurs within a group, the group based reward will be seen as unfair by the individuals in the group that have performed more than the others. This can in worst case scenarios cause the reward system to become negative. This unfairness can also devolve into an uncomfortable environment at the work-place. The companies interviewed that are using a group reward system sees this phenomenon as the largest risk by having rewards based on group performances. Torbjörn is aware of this problem and refers to this as the 20/80 rule. With this he means that twenty percent of the employees in a group perform eighty percent of the work being done. Torbjörn believes that one way to reduce this phenomenon can be by implementing individual rewards.

5.3.7 Advantages with Rewarding Jobs Performed

The tendency to rewarding jobs performed instead of rewarding people can be based on the fact that we nowadays see a trend towards working in groups instead of individually. This obviously affects the ways that organizations choose to reward their employees. It has become easier for organizations to motivate a reward system on a group level as team based work has become a natural element of the daily work. When working in project groups the group is often tight, with people that possess different competencies that complements each other. These people assemble their competencies to accomplish a task; therefore it is difficult to evaluate individual performances. If the organization decides to compensate on an individual basis it can be consuming in both time and money. For this reason it is easier to reward the group when the task is solved instead of rewarding every group member for their individual performances. To avoid giving rewards for performances that will not lead to attaining the goal, organizations can decide to reward when the job has been carried out well. Another problem with rewarding during the course of the project can be that the group members do not feel the same motivating effect to complete the task as if the reward was to be paid out when the job was accomplished in a satisfying way.

5.4 Simultaneous Reward Systems

5.4.1 A New Design

Martin G. Wolf considers that the best way to reward employees' is by having a mixture of both individual and group based rewards if this is possible for the organization. The main reason is that one can take advantage of being able to motivate the individual and at the same time being able to motivate cooperation and team-work.

The study carried out by Ruth Wageman implies that employees want to be rewarded on the basis that they work, in other words, if you work individually you want an individual reward system and if you work in a group you want to have group based rewards. Many posts today involve job assignments that part time consist of working individually and part time in groups. If one prefers to work in a group then they will probably prefer to be rewarded on a group basis, whilst employees that prefer to work individually will obviously prefer to be rewarded on an individual basis.

In scenarios when employees are working both individually and in teams, a mix of having rewards on both levels can be to prefer. Reasons for many organizations not using this type of design are that it is time consuming to evaluate all the performances. Also many organizations can have difficulties in finding enough resources to reward on both levels. One must keep in mind that reward systems lay as a cost in the profit and loss account and must therefore stay at a reasonable level.

6 Conclusions and Recommendations

6.1 Introduction

The purpose with this essay was to investigate how companies today reason about their reward systems. We also wanted to find out on which bases the current reward systems were built. With this we include aspects such as motivational theories, traditions and personal preferences. We have studied both theory and done interviews with eight different companies. In the analysis we tried to tie together the theories with the empirical studies to see if we could find any connection between theory and reality. We will in this chapter se what conclusions can be drawn and if any recommendations can be made.

During the past years larger focus has been put on motivational factors and how to take care of the human capital, as this has become one of the most important assets for prominent organizations. Based on the interviews we believe that reward systems are today a well integrated system within the Human Resource departments of most organizations. Modern organizations have also to a larger extent changed their hierarchical structure to one of a flatter kind where working in project groups has become more usual. This has started a discussion within many organizations whether reward systems have greatest effect when they are on a group or on an individual level. A great deal of time and money is being spent on designing and financing the best rewarding system for the personnel. It has become a large issue for organizations to make sure that they have a well functioning reward system that is motivating their personnel to perform well and also to motivate them to stay within the organization instead of moving to existing competitors.

Even though there are numerous motivational theories developed and a great amount of literature written on the subject of reward systems we have seen a tendency that organizations disregard this existing external knowledge. Instead organizations seem to keep with traditions that are rooted in the organization and prefer to make smaller changes to the already existing reward system rather than starting from step one with a new design.

6.2 Individual Rewards

6.2.1 Advantages

From the interviews we have seen that many companies see the salary as a fundamental part of the reward system. We have only come upon one company that does not use fixed salaries at all. This organization has instead chosen to use an entirely incentive based salary. As discussed in the analysis we saw that some of the interviewees felt that the salary was one of the most important components in their reward system whilst some felt differently. It seems like the majority of the companies see that the salary has the most motivational effect for the employees and that bonuses is more of a short term incentive to perform better.

We believe that the individual salary has become a distinguished way to reward the employees instead of only rewarding the individual through yearly bonuses. The individually based salary is a reward, for all the performances that the employee is accomplishing, on a monthly basis. With the yearly salary raise the individual's salary is put in a context of how well he or she has performed on a long-term basis, which avoids letting the individual feel that the salary is given. When instead using individual bonuses the outcome that generates the bonus is often dependent on how other individuals are performing in their contribution to the organizations results.

We believe that organizations see that individual rewards create the opportunity for a dialog between the employee and the manager, which we believe is always positive. We see this as a good way to create the important communication that is necessary in the organizations, which was also mentioned by Svante. Individual compensation is also unique in the way that it can make one person feel special which in return can increase his or her motivation to achieve goals. As communication is mentioned both in theory and out in the organizations as one of the most important factors for having a well-functioning reward system, we here see that individually based reward systems have an advantage, namely that it is easier to communicate what is expected from an employee individually rather than in a group. If organizations use individually based reward systems the individual itself can in the communication with his or her manager contribute to setting the goals that are expected to be fulfilled. This participation creates an understanding for the individual for how the goal shall be achieved. We feel that in this scenario the employee can never put the blame on somebody else if the results are not achieved. This also gives the reward system a stronger personal effect which is not achieved in the same way when the reward is based on a group performance.

6.2.2 Disadvantages

We have seen various difficulties with developing a well-functioning system for determining the individual salaries in the organizations. If the level of the salary can not be motivated to the other employees, jealousy and competition can take place. One of the organizations here interviewed mentioned the balanced scorecard as a good and well-functioning performance measurement system which simplifies the task of setting the individual salaries. With the balanced scorecard it seems to be easier for the manager to strengthen the chosen salary level, both to the employee and his or her co-workers as the individually based salary otherwise can create an unhealthy competition and jealousy between the co-workers. Individually based salaries can often cause employees to feel unfairly treated, mainly because employees do not know on what ground the co-worker's salary is based on.

Herzberg considers that salary is a hygiene factor and therefore not motivating for the individual; according to the interviewees we draw the conclusion that this theory is not understood as true. The interviewees that are using individually based salaries are putting down great effort and time on developing good systems to set the individual salaries and feel that these salaries are highly motivating in the daily work of their employees. They also mention that individually based salaries are an effective competitive weapon when recruiting competent personnel.

6.3 Group Based Rewards

6.3.1 Advantages

One common reason for an organization to choose to reward on a group level can be because if the work is being done in groups it is easier to reward the group as a whole. When several employees are working together on a project it is hard for the managers to see who performs what. Another common reason why organizations choose to reward groups rather than an individual seems to be that as for example in Sweden the labour unions have had a strong position for a long time. The labour unions strive for equal conditions for all employees, so therefore many organizations have used equal salaries and bonuses for all the employees.

The most expressed advantage with using a team based reward system is that it promotes cooperation between the employees in an organization. As cooperation leads to possibilities to accomplish larger tasks it is important for organizations to make sure that their employees are willing to cooperate with each other. A way to advocate cooperation is by rewarding on a group level. If the organization succeeds with setting a goal that all the employees in the group feel that they want to contribute to and that they together with the group are able to achieve, the organization can with help of group rewards decrease unhealthy competition. We believe that group based reward systems are a way for organizations to implement team spirit as a part of the workday. We also believe that this will lead to more satisfied employees and better outcome on a long term basis.

6.3.2 Disadvantages

The most expressed disadvantage with having group based rewards is the so called free-rider phenomenon. Based on the interviews and existing data on the subject we draw the conclusion that this is the highest contributing factor to why organizations refrain from implementing rewards based on group performances. The organizations interviewed expressed an insecurity of how to avoid the problem.

We agree with Kenneth A. Merchant and Wim A. Van der Stede when they claim that one disadvantage with rewarding groups is that the connection between performance and result can be hard to see for the individual person. This because the group's achievements consists of every individuals performances intertwined together and therefore it is hard for each and every group member to see how his or her own performance has contributed to the final outcome.

6.4 Simultaneous Rewards

6.4.1 Advantages

With the theoretical background that we now possess and after having continuous contact with organizations and employees we believe after taking into consideration the mentioned advantages and disadvantages with both systems that a mix of having individually based salaries and on top of that a variable group reward depending on how well the outcome is of the group. A well-functioning formation of this mixture of individual and group based rewards can be the ultimate solution.

We believe that using a mix of both individual and group based rewards can be a good way to capture the advantages of both systems and also as a way to diminish some of the disadvantages that occur with each system. If the reward system has a simultaneous effect the employees will not to the same extents perform less in either individual or team-work, as one maybe would with a one-way system.

6.4.2 Disadvantage

When we were searching for organizations to interview we had the aim to interview three companies within each category, namely organizations with, individually based rewards, group based rewards, and organizations with a mixture of both individual and group based rewards. We quickly discovered that this was easier said than done; it turned out to be hard to find organizations with a mixture of both reward systems. This reflects what has been said in the interviews. There seems to be a general wish to have both individually based and group based rewards simultaneously within the organization. The reason for not implementing this

system is that they feel that using a mixture of both systems generates high costs in time and money. They feel that this is a high risk investment as they do not know if the system will become profitable for the organization.

6.4.4 Final Conclusion

We have come to realize that the advantages of rewarding on an individual basis are often the disadvantages with rewarding on group based level and vice versa. Therefore we believe that by using this mix of both one can get the advantages from both systems and also eliminate some of the disadvantages.

6.5 Bad Conscience

If we would have had more time, more effort would have been put down in trying to find a third company to interview that is using a mixed reward system.

As we are three authors writing this essay one might expect more than eight empirical studies to strengthen the arguments and create a more objective picture of reality. To our defence we have been in contact with twenty-six different companies but except for those eight organizations described throughout this essay, the remaining eighteen organizations chose to turn down the opportunity to participate as they see this subject as a delicate issue.

6.6 Further Research Opportunities

Using our conclusion as a starting-point one might find it interesting to investigate the subject deeper. Our suggestion would be to look at organizations that are using a well functioning reward system that is based on both individual and group performances to see on what bases they have designed their reward system to make it profitable.

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Appendix 1. Interview questions

1. What is your title at the company?

2. For how long have you been working at the company?

3. How is your reward system designed?

4. On which grounds have you chosen to use yourself of individual rewards, group rewards or both? Do you base your reward systems on any existing theories?

5. Why do you think that this system is suitable for your company?

6. Do you see any advantages or disadvantages with your current reward system? Please explain thoroughly.