Motivational aspects, benefits and pitfalls of a reward system in a small shop-floor business unit

A case study of a car-dealership service unit

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Abstract

Introduction: Competition increases and companies need to adjust their business to stay competitive. Employees have gained an important role for an organisation and are often seen as the key to business success. Motivation is important for increased performance. A reward system can, amongst other things, help an organisation to motivate, attract and retain their employees. Historically, rewards have concerned mostly senior management. We were interested in how a reward system could affect people further down in the hierarchy.

How can a reward system influence motivation in small shop-floor business units?

What are the benefits and possible pitfalls with a reward system for such a setting?

Purpose: The purpose of this report is slightly wider than what the research questions suggest. By thoroughly investigating the motivating elements we aim to create a frame of reference, which is thought to give insight into the important components of a reward system and the motivating factors. It is our aim that this frame will be applicable to other settings similar to the one which we will investigate. We also intend to look into what positive and negative aspects there are and how the disadvantages with a reward system can be minimized.

Method: To fulfil our purpose we have chosen to perform a case study on the service unit of Hedin Göteborg Bil AB. In order to retrieve the necessary empirical data we have interviewed two managers and carried out a questionnaire amongst the thirteen service technicians.

Results: In line with theory, we found that financial rewards it is not the prime source for motivation; there are many factors that play a larger role. Some of the most motivating factors turned out to be colleagues, autonomy and responsibility, fun and rewarding work tasks. More interestingly, we saw a relation between many of these and the reward system, indicating that financial rewards enhance the motivational effects of other factors.

We found that there are several positive and negative aspects with any reward system. The case study presented solutions to many of the possible pitfalls and indicated that they benefited from their current reward system.
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1 Introduction

This thesis will start of by describing the background to the subject which presents the subject in general. In the case of our thesis it is concerned mostly with motivation and reward system. It is followed by the problem discussion which explains how we have come to choose our topic and more precisely what we aim to write about. It is summed up in the research question where we present the main focus of our thesis. Finally, we convey our purpose which clarifies what we intend to accomplish with our thesis.

1.1 Background

In the 1920's, the view on a person's role in the industrial working world started to change, the human was beginning to be seen as a subject with potential (Kressler, 2003). The view on human capital has evolved quite a lot since then and the current situation can be described as by Wilson:

"Technology can be replicated, capital can be acquired, and distribution channels can be created through new alliances, but the actions of people (what they do or fail to do) have become the critical factor in achieving enduring success" (Wilson, 2002, p.15)

Today, the employees are expected to do more with less and continuously prove their worth. The very factors that mostly influence worker attitude, productivity and organizational competitiveness are rewards and recognition. This will influence not only service your customers better, but also help you to attract and retain human resources (Bowen, 2000).

Many factors control the success of an organization, e.g. its markets, products, capital, technology and government regulations. To what extent these factors will provide a competitive advantage for the organization depends on what people do with them. David Ulrich, a professor at the University of Michigan, shows that much of an organization's market value comes from what people do within the organization. If an organization manages to make best use of their human resources they will be at a significant competitive advantage (Wilson, 2002).

To help people focus their thoughts and energy on performing his/ her work as effective as possible is, according to Gellerman (1992), the art of motivation. Bruce (2002) argues that employees are not truly motivated for the company's reasons and objectives unless there is something in it for them; they work for their own benefit. Therefore, it is essential that companies find out what is important for the employees and then help them to connect these motives to the goals and activities of the organization. If this is accomplished it will affect each workers performance positively (Bruce, 2002).

Three of several aims with reward management are precisely what is mentioned above, to motivate people, help to attract and retain employees and to align practices with both employee values as and business goals (Armstrong, 2005).

Wilson (1995) defines reward systems as follows:

"A reward system is any process within an organization that encourages, reinforces, or compensates people for taking a particular set of actions. It may be formal or informal, cash or non-cash, immediate or delayed". (Wilson, 1995, p. xiii)
There is no one system that fits all organisations. It has to be tailored mostly due to differences in personal values and company goals which are of great importance. In order for reward systems to have the desired effect, it has to be well designed and implemented.

1.2 Problem Discussion

We initiated this research with the aim to investigate how a reward system could be developed for shop-floor service units. An underlying assumption was that rewards systems were not often or ineffectively used in shop-floor settings. According to Heneman (2002) incentives have by tradition only been given to a small and elite part of the personnel, such as executives and the sales-force.

We thought that an incentive system might help companies of that kind to increase performance thus improving their competitiveness and profitability. We were foremost interested in small units i.e. 10-20 persons concerned with repairs or service of machines as we believed that smaller units would not have such systems in place.

Through a case study we intended to look into such a unit and see how their company and employee goals could be combined in a reward system. However, the company we chose for our case study turned out to have a system already in place. This provided us with the opportunity to choose another approach when looking into reward systems.

The company we first chose to investigate is in the automobile industry, more specifically; it is a service unit within a car dealership firm. What can be said in general about this industry is that it is highly competitive and constantly evolving. Competition forces organisations to perform better and since organisation consists of people, people need to perform better.

During the last centuries, machines have taken over more and more of the humans tasks and have during the last two decades, with the aid of computers, become more successful in doing so. However, in order to function properly they need humans to perform service, make repairs and tell them what to do. Another interesting aspect of this industry is that it is not only the machines that are in need of service but the owners as well.

The company that we have looked into uses a system based on financial rewards, however authors of motivational and reward system theory seem to disagree whether or not financial rewards are motivating and if this motivation is sustainable. Despite this, financial rewards are popular and often present in some form in most companies.

As Wilson puts it, introducing a reward system "...does not imply that people are not already performing at a fully competent level. Rather, it is aimed at continually improving performance at a rate that is faster than that of competitors" (Wilson, 2002, p.343).

Our thesis will deal with what actually might cause a reward system to have positive motivational effects and in what way it effects motivation, what underlying logic there is.

1.3 Research Question

- How can a reward system influence motivation in small shop-floor business units?
- What are the benefits and possible pitfalls with a reward system for such a setting?
1.4 Purpose

The purpose of this report is slightly wider than what the research questions suggest. By thoroughly investigating the motivating elements we aim to create a frame of reference, which is thought to give insight into the important components of a reward system and the motivating factors. It is our aim that this frame will be applicable to other settings similar to the one which we will investigate. We also intend to look into what positive and negative aspects there are and how the disadvantages with a reward system can be minimized.

2 Method

A recent survey carried out by Motormännens Riksförbund, (2007) showed how the owners valued the service of different makes and models. When new car owners were asked how pleased they were with the service-personal, Volvo and Toyota received among the best scores while Mercedes was found on the bottom of the list (Motormännens riksförbund, 2007). We do not accept the result of this survey blindly. However, it is our opinion that it shows that the performance of the service-personal can be improved. It is this survey that made us choose a Mercedes reseller with connected workshops as a case study.

The information that is required in order to answer our research question is in our thesis divided into two main parts:

- Theory which will deal with previous research in the area
- Empirical data which will deal with the company and its employees.

2.1 Choice of method

After browsing through literature, we have found that a case study research is the most suitable choice of method for our thesis. According Williamson (2000), this method is appropriate:

- For situations when understanding of context is important
- Where experiences of individuals and the context of actions are critical

A case study is concerned about finding out something about the specific target, in our case a business unit. According to Robson (2007) a good case study can throw light on wider issues if the reader of a report is able to draw parallels or see similarities with other situations. It is our aim that so will be the case with our thesis, that whatever conclusion we might reach, the reader will find the thesis useful by connecting it to his/her knowledge and experience.

Case studies are not without disadvantages, it is argued that the collection and analysis of data are influenced by the researcher’s background and characteristics (Cavye, 1996, sited in Williamson, 2000). Also, if the study aims to investigate a phenomenon in its natural setting, the phenomenon might be affected by the presence of the researchers (Robson, 2007). These are both relevant for our thesis and something that we will have in mind during the analysis and the conclusion.

Case studies can be performed using single or multiple cases. According to Yin (1994, sited in Williamson 2000), single case studies are usually appropriate where the case represents
an extreme or unique case. As previously explained, all organisations and people are different thus we consider our case as unique.

2.2 Selection of organisation

We have selected one of the largest Mercedes resellers in Sweden as the target for our case study, Hedin Bil.

According to Williamson (2000), when performing a single case study, the selection of site is important. It is essential that it will have the necessary characteristics and that it will be able to provide all the necessary data to be collected.

Through the case study we aim to investigate the company’s point of view as well as the employees’. As will be discussed later in this thesis, aligning company goals with employee goals is one of the aims with a reward system, it is therefore important to look closely into these aspects. More specifically we intend to find out:

- What the current situation looks like for their service-technicians. Are they satisfied with their jobs, their opportunities, their pay, are they motivated etc.
- What they will require in order to perform better. What is it that they appreciate in a workplace?
- What the company goals are.

The data will be collected through interviews with managers and a questionnaire conducted among the service-technicians. By collecting information from both management and technicians we will treat the issue from both perspectives granting us the perspective required to address our research question.

2.3 Theoretical framework

The theoretical ground on which we base our thesis on is mainly constituted by two cornerstones; theory of motivation and theory of reward systems. These are closely interlinked but will be treated independently in order to not confuse the reader.

In order to get a theoretical ground for our thesis, we turn to literature written on foremost, reward management, motivation and performance. There have been much research conducted in these fields the past century and it has evolved quite a lot during that time. Some of the theories that we will include in our theoretical framework is somewhat questioned. That is why we occasionally will include different theories concerned with the same area so that the reader will get an understanding of the underlying functions that affect rewards and motivation.

2.4 Empirical data collection

We will gather the empirical data through interaction with three parties:

- The director of Hedin Bil Göteborg AB, Mr Lars-Olof Snygg
- The workshop manager for Mercedes-Benz and smart, Mr. Sven-Åke Braf
- The service technicians at Hedin Bil Göteborg
For the first two we have chosen to collect data through interviews and for the service technicians we will use a questionnaire.

2.4.1 Interviews

Through the interviews we aim to investigate the company and employee perspective. The director is thought to give further insight in the company objectives, goals, policies etc. while the service-technicians will provide the employee perspective. The work-shop manager has a role that overlaps the two as he can represent both the company and the employees. We think that Braf might be able to provide us with insight concerning the employees, which to some extent might be more correct than what the service technicians will present. This is because he has long experience and might know from previous experience how the technicians react to different motivators.

For both interview we have chosen to use what Lantz (1993) refers to as a directed unstructured interview. This is an approach which is similar to the unstructured with the difference that the respondent is directed to address issues that the interviewer finds important rather than focus on what the respondent feels is important. In these interviews the respondent describes freely his or her way of seeing a phenomenon, reasons with him/her self and describes the contexts which he/she finds important for the description of the phenomena (Lantz, 1993).

There are advantages and disadvantages with interviews compared to other methods. Advantages include complex and complete responses, control, richer data, and flexibility. Disadvantages include what Williamson (2000) refers to as the “interviewer effect” meaning that validity and reliability can be affected due to the interviewers’ characteristics, opinions and expectations. Furthermore, she argues that unstructured analysis may be difficult to record and analyse.

In our case, we do not really see an alternative to interviews given what information we wish to acquire. We do however intend to consider the disadvantages and make an effort to minimize these effects and have taken them into consideration during the interviews and analysis.

2.4.2 Questionnaire

To gain further insight in the opinions of the technicians concerning current system as well as their preferences, a questionnaire amongst these have been carried out. According to Saunders, Lewis and Thornhill (2003) you can make use of questionnaires for a case study. They can be used to collect data about opinions, behaviours and attributes. Saunders et al. (2003) define a questionnaire as “a general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order”. A questionnaire provides an efficient way to collect answers from a large sample, since each respondent is asked the same questions (Saunders, Lewis & Thornhill, 2003).

The type of questionnaire that we chose was a so-called “delivery and collection questionnaire” that was handed in person to our respondents. This approach was chosen because it increased the reliability of our responses (Saunders et al. 2003). Some respondents were not present at the first occasion so we returned on another occasion to collect the remaining questionnaires, thus retrieving the opinions of the entire population. However, the results could be somewhat contaminated since the employees could discuss their responses with each other (Saunders et al. 2003). Since only thirteen mechanics work at Hedin Bil we also
believed a delivery and collection approach was doable, because the time constraints due to this method were not that demanding.

With a questionnaire you are not able to ask follow-up questions as with in-depth or semi-structured interviews and you are often only given one chance to collect the data. Because of this, Saunders et al. (2003) claims you should pay close attention so that the questionnaire answers the precise data that you require to answer your research question. This is why we reviewed the theory and discussed our ideas carefully before the questionnaire was designed.

In order for the respondents to have no problems in answering our questions and there would be no problems in recording the data you should perform pilot tests on friends and family (if experts in the subjects are not available). This will give some insight if the questionnaire make sense or not, so-called face validity (Saunders et al. 2003). Therefore we made some adjustments prior to conducting the actual questionnaire.

A copy of the questionnaire is found in appendix A.

2.5 Reliability

According to Robson (2007) your data collection is reliable if you get essentially the same data when a measurement is repeated under the same conditions. Saunders, Lewis and Thornhill (2003) identify four threats to reliability:

- **The subject or participant errors:** is likely to occur due to the time people are asked their questions. E.g. when people are asked about their work enthusiasm they might answer differently depending if you ask them on a Monday morning when they got a whole work week ahead of them and a Friday afternoon when they have a weekend to look forward to. This is avoided by choosing a neutral time to conduct your research (Saunders et al. 2003). We were able to schedule one interview on a Wednesday, however due to time constraints our second interview and our questionnaire were scheduled to a Friday morning.

- **Subject or participant errors:** might occur because the respondents might say what they believe is what their boss wants to hear (Saunders et al. 2003). The mechanics that conducted our questionnaire were ensured anonymity, which would counteract believed threats of employment insecurity.

- **Observer error:** can be reduced by having a high degree of structure to the interviews (Saunders et al, 2003). We used a directed unstructured interview technique, which could increase observer errors. However, to answer our purpose were needed complex and complete answers, which was why we saw no other alternative method. The observer error should not be significant in our questionnaire, due to its structured design.

- **Observer bias:** according to Robson (2007) readers could be legitimately worried about weather or not they can rely on the data that have been collected in more flexible interview designs. Tactics such as providing very full “thick” descriptions, which include the context in which observations are made, provide some reassurance (Robson, 2007). We strive to counteract this by thoroughly describe and accurately interpret our interviews.
2.6 Validity

Validity is distress weather the findings actually measures what it claims to measure. A flexible design method worries about if you are telling the truth or not is raised. Does your account fairly and accurately represent the situation or are they somewhat biased (Robson, 2007)? We were given the permission to record both our interviews, which made it possible to analyse the collected data more accurately. Even though time consuming we believed it was valuable to increase validity to our thesis.

Questionnaires might lack control over the seriousness in which the respondents treat the task. Even though they completed the questionnaire, what says they did not only randomly fill in the questions (Robson, 2007). We wanted to counteract this and chose to administer when they filled in the questionnaire. By that we could sort out any glitches and collect the answers before we left.

3 Theoretical Framework

Everyone knows some sort of definition of what a reward is. However, not all might understand the variety of work rewards. Rewards cover a vide range of payment, e.g. base compensation, bonuses, stock options, cash and cash equivalents (Bowen, 2000). If a manager wants to motivate an employee, the aim is targeted to strengthen his/her reasons to choose a desired action or behaviour. This special type of reward is called incentives. Incentives can be both compensation and other types of rewards. The incentive reward does not motivate to do only what is agreed on or considered normal, but to do more and better (Persson, 1994).

The aims of reward management are according to Armstrong (2005) to:

- Reward people according to what the organization values and wants to pay for;
- Reward people for the value they create;
- Reward the right things to express the right message about what is important in terms of behaviours and outcomes;
- Develop a performance culture;
- Motivate people and obtain their commitment and engagement;
- Help attracting/retaining the talented people the organization requires;
- Create total reward processes which identifies the value of both financial and non-financial rewards;
- Develop a positive employment relationship and psychological contract;
- Link the reward practices with both business goals and employee values;
- Operate in ways that are fair, equitable, consistent and transparent (Armstrong, 2005).

Reward systems can take many different shapes and forms. These will be presented in a later section. First, the concepts on which these systems build will be reviewed.

Most authors seem to agree that one of the most important aims with reward systems is to align company goals with employee goals. Amongst other things, this is meant to lead to higher performance through motivational effects (Armstrong, 2006, Merchant, 1998).

“‘The foundation of strategic reward management is an understanding of the needs of the organization and its employees and how they can best be satisfied.” (Armstrong, 2006, p.8)
3.1 Motivation

According to Armstrong (2005), one of the most important concerns of reward management is how rewards can be used to motivate people to perform better. Therefore, it is important to understand what motivates people and how. Theories concerned with motivation explains why people at work behave in the way they do and provides guidance on how to develop effective reward systems (Armstrong, 2005).

A motive is the reason for doing something and motivation theory deals with factors that induce people to behave in certain ways (Armstrong, 2005). Motivation, according to Gellerman (1992), is art of helping people to focus their thoughts and energy on performing his/her work as effective as possible (Gellerman 1992).

In order to influence the employees motivation to perform it is crucial to understand what drives motivation and how. Therefore, in the section below, a few of the most well known and relevant theories of motivation will be presented.

3.1.1 Maslow's hierarchy of needs

It is Maslow's belief that we can divide human needs into five categories and place these in a hierarchical order. As shown by figure 3-1, the basic idea is that the lower level needs must be fulfilled before the higher needs are activated. Therefore it is of no use to speak to someone about a “meaningful job” if the persons most basis, biological needs are not fulfilled through what he or she earns by working (Kaufmann 2005).

Level 1 - Physiological needs

These are the biological drives. These are the fundamental for the individual’s survival and ability to adapt. Examples of these are air, nutrition, water, roof above once head etc. In work life, this is the minimum wage required to meet these needs (Kaufmann 2005).

Level 2 - Security needs

For example surroundings that protect the individual from physical and psychological damage. Except for basic safety measures in the physical work environment, it is foremost the certainty about keeping the job which can be fundamental for satisfying this need (Kaufmann 2005).

Level 3 - Love needs

It is about the need for social connections in the form of good friends and colleagues, a partner and a social environment that supply support and acceptance. Organisations can do much in order to facilitate the fulfilment of such needs by, for example, create good conditions for cooperation (Kaufmann 2005).

Level 4 Esteem needs

The wish to perform, gain prestige, having success in life and receive others respect are needs on this level. According to Kaufman, showing people elementary appreciation for the work they have performed is an easy, encouraging psychology, and in practice one can achieve much with modest means in such contexts. Ways of doing this includes small gatherings to show a co-worker who have performed well appreciation, diplomas, articles or notices in internal bulletins etc. Of special importance is to show visible gratitude for undertakings that have been performed outside the formal undertakings (Kaufmann 2005).
Level 5 – The need for self-actualisation

This is according to Kressler (2003) to understand the world, acquiring wisdom, achieving independence developing creativity and individuality etc.

By giving co-workers possibility to this in their work, strong motivational forces can be unleashed. In general, people perform their very best under such conditions which will gain both the individual and the organisation (Kaufmann, 2005).

As in the outlay of a pyramid, the higher levels are only attainable ones the lower ones have been fulfilled. The needs that have not been fulfilled have a motivating effect and all these steps except for the highest one (Kressler, 2003).

![Figure 3-1, (Wikipedia, 2008)](image)

### 3.1.2 Hertzbergs’ two factor model

Frederick W. Hertzberg interviewed hundreds of workers and asked them to:

- describe a situation which would have led to work satisfaction
- describe a situation which would have led to work dissatisfaction

After analysing the results, Hertzberg draw the conclusion that the factors that in most cases were given as the reason for satisfaction, were different from those that were regarded as the cause for dissatisfaction (Kaufmann, 2005).

A common perception is that dissatisfaction is the opposite of satisfaction. Hertzsberg findings showed that these two concepts referred to two independent dimensions. With that, he found reason to differ between motivators which promote job satisfaction, and hygiene factors which have effect through the absence of negative work conditions. Hertzberg draw the following general conclusions from the pattern he observed in relation to the two basic dimensions; satisfaction and dissatisfaction:

- Hygiene factors can create dissatisfaction when they are absent but they do not lead to satisfaction when they are present.
Motivators create satisfaction if they are present but they do not lead to dissatisfaction if they are absent (Kaufmann, 2005).

Hygiene factors

Among the most important hygiene factors we find physical and social working conditions, pay, status and work security. When these conditions are good the dissatisfaction disappears. Kaufmann points out that these factors are found in the lower part of Maslow's pyramid (Kaufmann, 2005).

Motivators

These include conditions that are connected to needs higher in Maslow's pyramid such as performance, appreciation, growth and development possibilities. When these factors are absent it leads to a neutral state but if favourable they have an active and promoting effect on job satisfaction and productivity (Kaufmann, 2005).

The hygiene factors are extrinsic to the job and the motivators intrinsic. Hertzberg noted that any satisfaction resulting from an increase in pay is likely to last considerably shorter than satisfaction resulting from work itself. According to Armstrong (2005), one of the key conclusions that can be drawn from Hertzberg’s research is that pay is not a motivator except in the short term. It is therefore a hygiene factor which, if absent, might lead to demotivation (Armstrong, 2005). Kressler (2003) explains that here is a great difference between not being dissatisfied and being satisfied and that the intrinsic and extrinsic factors run on two different tracks where the extrinsic leads from dissatisfaction to not being dissatisfied and intrinsic from not satisfied to satisfaction (Kressler, 2003).

Hertzberg's survey was conducted almost 50 years ago and Kressler (2003) argues that especially his conclusions belong to the environment of that time. Since then things have changed; roles are now less prominent, people are less dependent and passive, open communication and criticism are more pronounced, the significance of hierarchy is smaller etc. Armstrong (2005) too mentions that Hertzberg’s research and conclusions have been criticized and mentions two reasons in specific:

- It is asserted that the original research is flawed and does not support the contention that pay is not a motivator.

- The relation between satisfaction and performance was not measured (Armstrong, 2005).

3.1.3 Expectancy theory

This theory is a so called cognitive theory. It emphasises that actions most often is a result of rational and conscious choices and that this is the most fundamental in the human behaviour. Expectancy theory points out that people are motivated to work when they expect to attain what it is that they aim to attain through their work. The expectation in this context is a conception regarding the effects of work on reward wishes and how much this rewards means to you. Reward in this context is used in a very broad sense; it could be external rewards such as pay or things of material value as well as internal such as work satisfaction. What is special about cognitive motivational theory is that the action is considered to be controlled by notions and rational calculations concerning personal goal fulfilment. (Kaufmann, 2005)
"Motivation is likely only when a clearly perceived and usable relationship exists between performance and outcome, and the outcome is seen as a means of satisfying needs" (Armstrong, 2005, p.74)

This concept was first formulated by Vroom in his VIE-theory which stands for valency, instrumentality and expectancy.

- Valency means value and is an important personal goal. It indicates how desirable the result of an action or activity is (Kressler, 2003).

- Instrumentality means assistance or collaboration and is a milestone on the way to reaching the personal goal (Kressler, 2003). It is the belief that if we do something it will lead to another (Armstrong, 2005).

- Expectancy means expectation, prospect, hope and expresses how high the probability is that the milestone can be reached given the chosen action/activity (Kressler, 2003).

Motivation is likely if all these three values are positive (Kressler, 2003). According to Armstrong, motivation is likely when there is a clear and usable relation between and when the outcome is seen as a means of satisfying needs. This would explain why some extrinsic financial motivation works only if the link between action and reward is understood and the reward is worth the effort. It might also be seen as an explanation as to why intrinsic motivation from the act of working can be more powerful. These are controlled to a larger extent by the individuals who can use past experience as a reference and judge to what degree advantageous results are likely to be obtained as an effect of their behaviour. (Armstrong, 2005)

The theory been developed by Porter and Lawler into the model shown below.

Figure 3-2, (Armstrong, 2005)

The theory suggests that the magnitude of the effort depends on the value of a reward and the perceived probability that receiving a reward depends on effort. As shown figure 3-2, there are two more factors that effect performance:

- Abilities which refers to the individuals' characteristics, e.g. intelligence, manual skills & know-how.
Role expectations which refer to what the individuals’ want to do or think that they are required to do. They are good, from the organisations perspective, if the individual perception corresponds to the organisations (Armstrong 2005).

According to Kressler (2003), it is Vroom's belief that people make their choice of action depending on the possibility of success.

3.1.4 Goal Theory

Goal theory was first presented by Edwin Locke but has been further developed together with Gary P. Latham. According to this theory, the intention to work towards a specific goal is a central motivational force. The goal tells us what we need to do and what effort is necessary to reach the goal. The most important principles in this context are that:

- specific goals promotes performance more than general goals
- difficult goals, if accepted, have a larger motivating effect than easy goals
- feedback leads to better performance compared to the lack of feedback (Kaufmann, 2005)

Concrete feedback provides informative guidance in order to correct behaviour and is also necessary in order to learn new things (Kaufmann, 2005).

An important and heavily debated question is whether or not the results improve when the individual participates in the goal setting process. The research findings vary on this point. In general, participation in this process increases the acceptance for the goal that has been set up. Acceptance as mentioned is a fundamental condition for a high goal to have a favourable motivating effect (Kaufmann, 2005).

In goal theory there are two conditions that balance the previously mentioned principles:

- It is important to ensure the co-workers commitment, meaning that the individual feels obliged to follow the goal and not by its own change or abandon it.
- Another very important moderating factor is connected to the individual’s self-efficiency. In other words, what the individual believes he or she can manage in relation to a certain task (Kaufmann, 2005).

3.1.4.1 Equity Theory

Equity theory was developed by J Stacy Adams which in a systematic way illustrates equity as a motivational factor (Kaufmann, 2005). It argues that people that feel that they are being treated equitably are better motivated and vice versa that people that are treated inequitably are less motivated (Armstrong, 2005). Equity is treated as a principal with predictable and strongly motivating and de-motivating effects on people’s willingness to perform and general motivation in work life (Kaufmann, 2005). Whether or not they feel that they are treated equitable is relative and in theory there are four so called reference comparisons:

- Self-internal - Compare the current work situation with experiences from a previous situation in the same organisation.
− Self-external – Compare the current work situation with experiences from another work place.

− Other-internal – Compare oneself with another individual or profession in the same organisation.

− Other-external – Compare oneself with another individual or profession outside the workplace (Kaufmann, 2005).

Three conditions are important for these comparisons: level of salary, level of education/training and period of service. People with a high salary and long education normally have broader information about his/her own workplace and often look for references outside his/her own workplace. People with a lower pay grade and shorter education more often find objects of reference within the organisation and are more sensitive for perceived differences on the internal level. Same goes for people with short period of service (Kaufmann, 2005).

Even though this theory finds support in research there are important exceptions, for example individual differences in how sensitive people are for equity. Much of this research has been connected to salaries but the theory also concern rewards other than monetary. For example, research have shown that a perceived situation of underpay can be compensated by higher status (Kaufmann, 2005).

Equity is a comparative process which is concerned with feelings and perceptions. It is not the same as equality, treating everybody the same is not equitable if someone or everyone deserves to be treated differently (Armstrong, 2005).

3.2 Reward Systems

There are several approaches an organization can take when a reward system is designed. In order for the reader to get a broad perspective on the benefits and possible pitfalls by implementing a reward system we will present theory on both individual and group-based reward system and discuss their advantages and disadvantages. This will be followed by a presentation of the different types of pay which we find relevant for our thesis.

3.2.1 Individually based

According to Michael Armstrong contingent pay is the standard term to describe when financial rewards are given associated to individual performance, competence, skill and contribution. It can be combined with the base pay, which is the fixed wage or salary and may be expressed as an annual, weekly or hourly rate, or as a cash lump-sum bonus. These contingent pay schemes could be based on performance, competence, skill or contribution and is then converted into payment rates or less formal ratings (Armstrong & Stephens, 2005).

Contingent pay is seen by many people as the best way to motivate people. However, it is simplistic to believe it is the only extrinsic motivator that can create long-term motivation about financial rewards (Armstrong & Stephens, 2005). Not all employees prefer to have their pay increase based on how they perform. They might tend to favour their wage to be based on seniority and cost of living. So, an initial question will be whether or not it will be feasible for the organization to implement such a system? However, according to Heneman (2002) pay-for-performance plans is a necessity for most organizations. They believe traditional pay plans, such as base pay, are a large expenditure for the organization, but have not
shown to provide above average returns. These traditional pay plans only pay the employees for what they are expected to perform, but fail to pay for that extra effort that is essential for the organization. In the intensified domestic and international market competition it is very difficult for a bureaucratic organization to compete. It is important that the employees are empowered to be more flexible, in order to gain competitive advantage. Development of skills, knowledge, abilities and competencies should be a continuing process and accomplishment of results should be emphasized. Performance-based pay is according to Heneman (2002) a superior way to achieve this compared to traditional pay plans.

Another reason for individual salary setting is the “new” ways of producing products and services, both within private and public sector. They demand a new reward system that not only looks on what that is done, but also when. During the last decades production of products and services has become more and more customer oriented and customer specific. The demand for high quality in both processes and products has increased, which has led to that the employers do not only value the work results quantitative aspect, but on the way the employees perform their tasks and how they behave on the workplace. This goes for both the private and public sector (Nilsson & Ryman, 2005).

Even though the motivation might not be very high the salary can still achieve good performance. According to Nilsson and Ryman (2005) this is in jobs where results are easily measured. One example of this is when you work after a piecework system. The American creativity researchers Robinson and Stern claims that external rewards, such as salary, will have a larger impact when the work is of less qualified nature (Nilsson & Ryman, 2005).

**Arguments for contingent pay**

Research has clearly showed that individual incentives have the largest impact on employee performance (Heneman, 2002). The main reason for using contingent pay according to Armstrong (2005) is that those employees who contribute more should be paid more. He is of the same opinion as Heneman (2002) that an organization should emphasize achievement with a tangible reward instead of paying people for just “being there” (Armstrong, 2005, Heneman 2002). Armstrong (2005) presents an e-research from 2004, which showed the most important reasons for using contingent pay, in order of importance:

1. To recognize and reward better performance
2. To attract and retain high quality people
3. To improve organizational performance
4. To focus on key results and values
5. To deliver a message about the importance of performance
6. To motivate people
7. To influence behaviour
8. To support cultural change (Armstrong, 2005)

Most of all it is the employers that has driven and continues to drive the question of individual salary setting. In their perspective it is about getting a distribution of the salary means to make the organization as cost efficient and profitable as possible. They want to be able to differentiate salaries in order to pay more for good performance than for bad. There is also a belief that through the salary setting they can motivate and steer the employees to perform better to reach organizational goals. Individual evaluations and rewards are also thought to create a healthy competition, which works as a spur to people’s performance. To surpass others performance is seen as a reward that works as a continuous all out effort to achieve even better results (Nilsson & Ryman, 2005).
Also the employees seem to want individual salary setting. The reason for this is to be able to affect their salary, believe that they will profit from this and is seen as more fair. During the 1990’s also the trade unions has taken a more positive attitude towards individual salary setting. Another reason for the spread of individual salary setting is the individualistic trend in the society today. We emphasize individual competence and responsibility to create something and are tired of being treated as a collective. People will no longer let themselves be represented and steered, as it was earlier (Nilsson & Ryman, 2005).

Arguments against contingent pay

Contingent pay has however many downfalls also. It can be argued that it is uncertain to what extent it motivates the employees, since the amount that is given is usually too small to work as an incentive. Also, money does not act as a sustained source of motivation. Since people act in different ways, money may not work as motivation for all people (Armstrong & Stephens, 2005).

If the contingent pay schemes are seen as unfair by the employees it can create more dissatisfaction than satisfaction. It can motivate those who receive the financial reward, but it can de-motivate those that do not. The dissatisfied employees could exceed the number of satisfied ones. If the contingent pay is based on performance it could also counteract quality and team work (Armstrong & Stephens, 2005). Many people have a positive attitude towards that salary criteria are interrelated to performance and competence and those employees who outperform another should have higher a salary. However, people are often very dissatisfied with the way it is practically executed. The criteria by which they are judged by their managers are often seen as unclear and the reasons why you had gain a raise or not are very bad or nonexistent (Nilsson & Ryman, 2005).

It has proved to be very difficult to implement contingent pay systems. It relies heavily on accuracy and reliability on measuring the performance, competence, contribution and skill of the employees. It depends much on the judgement on managers’ ability to not be partial, prejudiced, inconsistent or badly informed (Armstrong & Stephens, 2005). If the employee feels neglected and mistreated this can damage the cooperation and performance, which is the exact opposite of what the evaluation intended. This leads to a negative instead of a constructive atmosphere, and worse performance and results instead of improvement (Herwig & Kressler, 2003). The American quality guru W Edwards Deming claims that relative performance measurement and other ways to create internal competition is a bad form of leadership. It worsens the motivation and creates both fear and contempt for the management. The employees that are affected by these evaluations become bitter, devastated, dejected and get lower self-esteem. Some even becomes depressed and incapable do perform the work effectively because they do not see why they are seen as worse than others (Nilsson & Ryman, 2005).

The sum of all contracts of individual employees shapes the organization. Due to the inter-correlated nature of most work a number of problems will come from this. A group of employees that works individually on own tasks and goals are inefficient in an organization that does not have a number of individual goals, but rather one common business objective. This will require cooperation amongst the employees, which an individual contingent pay might not promote (Berger, 1999). In the research about learning in organizations and groups the importance of dialogue and reflection is emphasized. The dialogue and the reflection should lead to a common understanding amongst the team members on what to do and how it should be executed. Individual rewards can have serious negative effects on
group learning. Also the open exchange of knowledge and information will risk declining (Nilsson & Ryman, 2005).

According to Nilsson and Ryman (2005) the existing research on the salary's effect on motivation has shown to be relatively small, however, not insignificant. Within the behavioural science you seem to be of the same opinion that factors like work climate, work content, independence, feedback, development possibilities and perceived fairness means more for the work motivation than salary (Nilsson & Ryman, 2005).

3.2.2 Team based

We start by defining what a team is. Jon R. Katzenbach and Douglas K. Smith definition of a team is still widely accepted within management circles today:

“A small number of people with complementary skills who are committed to a common purpose, performance goals and approach for which they hold themselves mutually accountable” (Berger, 1999, p.262).

Michael Armstrong defines team pay as: “Team-based pay provides rewards to teams or groups of employees carrying out similar and related work that is linked to the performance of the team. Performance may be measured in terms of outputs and/ or the achievement of service delivery standards”. Often the quality and the customers’ opinions about the service are also considered (Armstrong, 2006, p.724).

Recent efforts have been made to redesign jobs which have paid more attention on improving cooperative work relationships among employees to get the outcomes you want, e.g. improved quality, larger quantity, better communication, and lower costs. Cooperation amongst employees is required in much work today and rewards based on team performance give the employees feedback in order to support the goals of the organization. A work environment that is cooperative is defined by M. Deutsch as “one in which the objectives of individual employees are mingled together in such a way that there is a positive correlation among the group members’ goal attainment”. For that you need a compensation program that emphasizes team outcomes rather than individual outcomes (Berger, 1999).

There are two factors why team based rewards have gained interest rather than individual performance. The first is the importance of good teamwork and that team pay would enhance that. The second is dissatisfaction with the individual performance-related pay, which is seen to as harmful to teamwork. According to Armstrong (2005) team-based rewards appeals to many people, but the e-research 2004 survey of contingent pay and the CIPD 2003 reward survey showed that only a small proportion of the respondents had team pay; 11 and 6 respectively per cent (Armstrong, 2005). People tend to act the same way as they are measured and paid in. They are likely to view themselves as an individual who happen to work in a team, if they are paid as individuals. However, if they are paid as a team, they are much more likely to work together as a team. If you as a manager inform your employees that they are expected to work in teams, but continue to pay them as individuals, the message will be that the team does not count. If it is organized in a correct manner, team-based pay can be a powerful tool to strengthen a team-based culture (Berger, 1999).

There is no research about teams that states that individual rewards promotes team spirit and favours the productivity of the team. However, team-based reward systems seem to have some positive effect on performance. This applies under the condition that the connection between the reward and performance is made clear (Nilsson & Ryman, 2005). In
order for the team goal setting to lead to improved team performance it is important that the goals are accepted by the team members. The goals should be difficult to attain in order to provide a challenge for the team members, but it should not be impossible. In accordance with Nilsson and Ryman (2005) Berger (1999) also states the positive correlation between group rewards and positive effect on team performance. The goal setting will have a long-term effect on performance if it is properly united with consequences, such as rewards.

**Aim of team pay**

The basic reason for working in teams is the thought that the team can accomplish more than the individuals do alone. Together the individuals’ knowledge and competence can build a wholeness that the individuals never could reach. This is called synergy effect, when the team can perform more than the sum of the individuals alone (Dimmlich, 1999). The aim of team pay is to encourage and reinforce the sort of behaviour that leads to and sustains effective team performance. Providing incentives and other means of recognizing team accomplishment can do this. Relating rewards to the ability to reach predetermined goals, targets and standards of performance is a way to clarify what the team is expected to achieve. It is important to communicate the message that teamwork is one of the organization’s core values (Armstrong, 2005). There is a risk that individual performance measurement and rewards leads to internal competition and conflicts among the employees. It is very important that employees value the open information trade instead of using it for their own winning. The dialog should lead to that the team members get a common understanding of what to do and how to execute it (Nilsson & Ryman, 2005). Research conducted by the Institute of Personnel and Development stated that the main reason organizations implemented team reward processes was the believed importance of group effort and cooperation rather than only focusing on individual performance. The research argued that pay for individual performance worked against team performance in two ways: First, they make employees focus on their own interests instead of the ones of the organization. Second, the outcome of the managers and team leaders treating their employees like individuals instead of relating them in term of what the team is there for and what they can do for the team (Armstrong, 2005).

**Advantages of team pay**

One can see numerous benefits with a team-based structure of an organization:

- The decision-making is pushed closer to the point of contact with the customers, where it really counts;
- The response times are faster, since bureaucratic delays are minimized when not as many managers and supervisors are involved in all decisions. The last twenty years hundreds of thousands of middle managers has been eliminated.
- The team members feel more accountable and responsible, which makes them more empowered to do the right thing;
- Superb interpersonal and problem-solving skills and more involvement in the work will come from teamwork
- A team-based design provide improvement in quality, increased productivity and enhanced efficiency through encouragement of continuous reengineering of work processes;
Teams pay more attention on the results of the group more than on individual outcomes (Bowen, 2000).

Team pay can, according to Armstrong (2005), promote team work and cooperative behaviour. The work within the teams will be more flexible and multi-skilled, clarified team goals and priorities will be encouraged, organizational and team objectives will be more integrated. People who used to perform less effective will “shape up” in order to meet the standards of the rest of the team. Bowen (2000) as well as Armstrong (2005) claims that team pay may work as means to develop self-managed or self-directed teams.

Disadvantages of team pay

When a group starts to appear more like each other, e.g. values, attitudes and behaviour, is called conformity. When this happens a so-called “groupthink” can take place, which will affect the team’s perspective and decision-making. Groupthink leads to that the perspective of the group become narrower; a tunnel vision rise, and the group finds it harder to take in a critical way of thinking and doing things. A group under the influence of groupthink can make rash and bad decisions (Dimmlich, 1999). A pressure to conform, which is emphasized in team pay, could result the team to keep the output at lowest common denominator levels. The output will be only at sufficient level what is seemed collectively to be a reasonable reward, but no more. Also team pay could be seen as unfair for individuals who could feel that their own efforts are not rewarded (Armstrong, 2005). The individual can lose his/her sense of personal responsibility and act in a way the individual normally would not do. The group has become an organism and the individual has been “swallowed” by it. A problem with team pay can be that the individual take on a more reserved role and let the team as an organism perform all tasks. When an individual rides on the teams’ performance this is called social loafing. According to Dimmlich (1999) if the team consists of more than six employees the risk of social loafing becomes immense. This is because the individual now risks “disappearing” in the team. Social loafing can best be resisted by setting up clear goals for the work and let the team members be a part of this goal setting. Another way of preventing social loafing is by clear delegation of tasks. However, the individual must feel involved in the team and the goals that are set up, in order to contribute to a desired synergy effect (Dimmlich, 1999). Some of the social loafing problems will be solved due to peer pressure. Social pressure on the low-performer might be exerted to improve their performance and by that more easily reach the goals of the group. However, peer pressure could also create hostility, which works against the helpful culture that is important for a group to work effectively (Heneman, 2002).

High performers may withdraw their group efforts, because the group-based plan does not recognize their individual accomplishments relative to the social loafers. Employees might also withdraw their efforts because they feel that their individual efforts will not affect the outcome of the entire group performance. When the cost of contributing outweighs the benefits one could ask themselves why they should bother exerting much effort (Heneman, 2002). It can be difficult to develop a performance measurement system to rate a team in a way that is seen as fair. The team pay might be based on random assumptions on what the rightfully link between effort and reward is. Also, individuals might want to switch to a team that performs at a higher level. If they are allowed to switch this could disrupt and stigmatize the other team. If they are refused that could leave them dissatisfied, which could result in even worse performance (Armstrong, 2005).
3.2.3 Balancing group and individual rewards

According to Baron and Kreps (1999) an important point reflecting alignment and consistency of a reward system is: “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 practices”. An empirical study conducted by Ruth Wageman showed this. She studied more than 800 Xerox repair technicians working in 152 teams. Some of the teams were composed of employees whose work was more or less performed independently and others worked much in teams. Some teams worked in a combination of individual and teamwork, a so-called hybrid model. Wageman was permitted to allocate the different teams to different reward systems (individually, group-based and hybrid). The outcome was that pure individualistic and pure group-based rewards and feedback constantly outperformed the hybrid teams, both in task- and outcome-interdependence. The performance measurement included customer satisfaction, repair time and costs and attitudes from the employees. Also effectiveness of the organization showed some positive correlation when either both tasks and rewards were on an individualistic or they were both group-based (Baron & Kreps, 1999).

Work design according to Ruth Wageman shapes the individuals’ preferences, how they behave, how they look upon their rewards and the impact of the rewards on their performance. Not all workplaces offer as much choice about how the tasks are designed as in the Xerox study. However, at any time cooperation is of importance to perform effectively, you must create valid task interdependence and support that with a reward system that is also interdependent. The survey also showed that if the tasks are not that interdependent in the first place group rewards could be hazardous. In a highly interdependent work design it is good to involve your team members in how to allocate the rewards and by that encourage collective identity and responsibility (Baron & Kreps, 1999).

3.2.4 Types of pay

Organizational results that are rewarded include so-called hard measures of performance such as revenues, profits and costs. Important behaviour might also be rewarded such as customer service, teamwork, attention to quality and essential capabilities such as skills and knowledge. These factors lead to the organizational results. They will serve as additions to job duties and seniority to motivate improved performance. Numerous of different pay plans exist. The different levels of rewarding employees can be divided into measuring individual, group and organizational performance (Heneman, 2002). The ones most relevant for this case study will be discussed in this chapter.

Merit pay

The permanent salary rate increase for a person that is based on his/her evaluated performance is called merit pay. The purpose of merit pay is according to Berger (1999) “to motivate and reward performance on the job and to realign an individual’s base salary to a new level of sustained contribution and value to the organization”. Further, he argues that most employees want to be paid in accordance with their performance and merit pay is the traditional mean to achieve this. Non-financial rewards are also significant, but merit pay is the most important tool for organizations to recognize and reward individual performance (Berger, 1999, p.510).
It is difficult to implement a merit pay system. There is often too little spread in the size of merit increases and the resulting salary levels based on performance. Surveys have shown that employees lack trust and look cynical upon that the good performance will, in fact, be recognized and rewarded. For the merit pay plan to be successful a credible system of measuring and evaluating performance must be prepared. Employees must recognize the requirements of their jobs and on what basis their performance is measured. Also, the employees must perceive that individual differences in performance will be recognized and rewarded. There should be a noteworthy difference in salaries for those who contribute more in the same grade. If both these requirements are met the merit pay plan is likely to successfully motivating your employees (Berger, 1999). Fairness in performance evaluation and the distribution in merit pay are very important in order for a merit pay plan to work effectively. In order to avoid problems organizations should not grant low performers any increase. In that way a pay increase is not automatic and the additional money can be allocated to those who are high performers instead to distinguish their contributions (Heneman, 2002).

The pay increase is decided as a percentage of base pay. The increase can be granted as a permanent base pay increase or as a lump-sum bonus that is not built into the base pay. Average merit pay increases are often set in accordance with the cost of living level or by the average pay increase level for unionized workers. During the 1990’s this has been approximately 3 to 4 percent (Heneman, 2002). Berger (1999) believes a merit increase should not be less than 4 percent to be perceived as meaningful to the employee and that an increase of 10 to 12 percent would be exceptional (Berger, 1999).

**Team-based merit pay**

Many organizations today switch from an individual performance work design and start to emphasize the team through group-based rewards. Much research has shown the effectiveness of such reward systems, however, as mentioned, group-based rewards have some disadvantages too. One issue is the opportunity for low-performing employees to earn the same reward as high-performers through so-called social loafing (Heneman, 2002).

According to Heneman (2002) to offer a reward system that is built on both group and individual rewards provides a superior solution to social loafing than peer pressure. Employees will be rewarded by behaving consistently with the norms of the group rather than punishing them if they do not. That demands a team-based merit pay (merit pay will be further discussed in 3.2.4), which rewards individual contribution to the team, either alone or in combination with the group-based rewards. Traditional merit pay plans are based on individual’s contributions to the organization, while team-based merit pay rewards the contributions to the team. One downside with traditional merit pay is that it reduces cooperation among the group members, because the individual will prioritize own goals rather than group goals. Group-based merit pay on the other side overcomes this problem by directly rewarding individuals for their contribution to the group. Providing rewards for individual contribution will increase motivation for improved teamwork among all members. Team-based merit pay helps creating a better balance between group and individual goal accomplishment. It is important to develop a valid performance management system to evaluate the individual’s contribution in a fair way (Heneman, 2002).

**Skill-based Pay**

The basic idea with skill-based pay is to provide employees with a direct link between their pay improvement and the skills they have obtained and can make use of effectively. The
focus lies on what skills the organization wants to pay for and what the employees must do to demonstrate them. The pay approach is thereby more people-based rather than job-based (Armstrong, 2006). Skill certification should include not only the mastery of knowledge on the job. Once the skill has been certified the employee receives a pay increase. Skill-based pay is used in organizations to promote organizational learning and flexibility. The employees learn new and better ways to perform their jobs and become more cross-trained to be able to pitch in wherever they are required (Heneman, 2002).

The major problem with skill-based pay is the costs associated with it. Both direct costs through the increased pay and indirect costs through training will be substantial. Employers can avoid some of the higher labour costs by controlling the numbers of employees that are given the opportunity to reach the highest pay through certification. Skill-based pay only makes financial sense when the efficiencies of flexibility outweigh the increased costs (Heneman, 2002). According to Armstrong (2006) it can also be expensive when people are paid for skills they do not use. A skill-based pay is most appropriate to use on a shop floor or in retail organizations (Armstrong, 2006).

**Piece-rate Pay**

In a piece-rate system plan pay is provided for individual output above a predetermined standard. The productivity of an employee is calculated by output divided by input. For a manufacturing organization productivity may be measured as number of units produced divided by the number of hours for each employee. If productivity is enhanced as an organizational goal and if individual productivity can be assessed, a piece-rate system could be an appropriate system (Heneman, 2002).

One major problem with a piece-rate system is that the aim of producing a large quantity may affect the quality. Another issue is that teamwork might be negatively affected and employees are not willing to help others, because that detects them from their own productivity (Heneman, 2002).

**3.3 Performance Measurement**

Companies exist to achieve goals. Those can be of both financial and non-financial character. The strategy of how to achieve these goals will be elucidated. The main goals are broken down to smaller ones and performance measurement takes its aim directly towards these goals. The main reason for performance measurement could therefore be explained to be strategy implementation. Some frequently occurring purposes of performance measurement are:

- To create prerequisites to follow the continuous operation and make sure that it leads to that the goals are achieved.
- To constitute a mean of communication, e.g. to communicate for the employees what is important to focus on and what is expected to perform.
- To constitute a mean to motivate their employees.
- To give information on effects of different kinds, e.g. education systems.
- To give guidance concerning distribution of rewards (Ax, Johansson & Kulvén, 2005).

Performance measurement can be of both central and local character. By local character it is meant that in the organization, e.g. departments and work groups, are devoted to meas-
urements only relevant for the own work. The choice of performance measurement is then made with the unique work conditions as a starting point, thus the unique demand of information in different areas of the organization, rather than the organizational strategy. In order for an organization's performance measurement to be suited for the purpose there are a number of guidelines to take into consideration. Some of the most relevant are:

- The performances that are focused and measured should be possible and relevant to the organizational strategy. In each organization numerous performances are performed. However, not all are equally valuable to take into consideration out of a performance measurement point of view. The performances that are measured should be concentrated towards the ones that lead the organization closer to the goals that have been set up.

- The performance goals should be tied to chosen measurement on performances. The performance goal states the level on the performance that is aimed at. If the performance measurement is lead-time, the performance goal could be maximum time from receiving an order to delivery to the customer.

- The performance goals should be motivating. It is important that the employees are informed about the purpose of the performance measurement and the importance of reaching the prior set up goals. The employees should feel that the goals are achievable, i.e. possible to reach.

- The employees should understand the meaning of the performance measurement. It does not mean that each employee should understand all measurements in the organization, only the ones relevant for the own work.

- The employees should be able to affect the performances that are measured and what they are responsible for. The employee should have the authority and sufficient resources to be able to take measures to affect his/her performances.

- The employees should have knowledge about how the performances that are measured and that they are responsible for can be affected. If the company aims to have fast lead-time, the employee must have the knowledge about the different factors that affects the lead-time. The skills of the employees and condition of the equipment are examples of such factors.

- The employees should be informed of the result of the performance measurement. It is important to give the employees feedback on their performance. There are many reasons for this, e.g. for the performance goals to have wanted effect, the employees need awareness of the work they do and take an active interest in the job. This should be done without any unnecessary delays. Otherwise employees might devote time for work that is not valuable for the organization (Ax et al. 2005).
4 Empirical data – Hedin Göteborg Bil AB

Hedin Bil is one of the largest Mercedes resellers in Sweden and in Europe (L-O. Snygg, personal communication, 2007-11-30). They describe themselves as a full-service company. They sell and service vehicles ranging from the smallest motorcars to the largest trucks and their size vouches for the customers’ comfort (Anders Hedin, 2007).

Their quality policy includes the following:

- Hedin Bil shall work to fulfil the customers, the employees and the governments’ demands and expectations.
- They will meet those demands and expectations by being a full service company that supplies all services around the car to the right quality and price.
- Make sure that all co-workers have the necessary competence and knowledge for their work
- Constantly improve the business through all co-workers commitment and awareness of their importance to fulfil customer demands (Anders Hedin, 2007.

4.1 Interviews

We have interviewed the director of Hedin Göteborg Bil AB, Mr. Lars-Olof Snygg and the workshop manager for Mercedes-Benz and smart at Hedin Bil Göteborg AB.

Goals and objectives

The service activity is extremely important for Hedin Bil. New cars often come with warranties and service deals meaning that customers normally stick to authorized service units the first five to six years. After that, small independent workshops often care for an increasing portion of the old cars. Focus today, in all areas, is on retaining the customers, to create the kind of relations so that the customer has Hedin Bil as their first choice. They aim to achieve this by having the salesman create a good relation with the customer and also, which might be of greater importance, is that the service activities work and that the customer gets a good relation there. The sales department sells the first car, after that the service department and workshop maintain the relation thus retaining the customer. It can be seen as it is those who sell the second, third and forth car to the same customer (L-O. Snygg, personal communication, 2007-11-30).

Most of their current goals for the service unit are set by the general agent. One of the tools to reach this is what they call “Workshop 2010”. When the general agent conducts their surveys they have a number of points which they need to have accomplished by 2010. For example 87% customer satisfaction, they have to have corrected any error on a car on the first attempt, offer some additional services such as a replacement car etc. The last measurement showed an average customer satisfaction in the Hedin group of 83%. Locally, the goals are also set by the general agent and include that all customers shall leave satisfied with the treatment, the work, the information etc. Then of course, they constantly review the activities, what works and not. This is controlled by quality and environmental requirements (L-O. Snygg, personal communication, 2007-11-30). Braf believes that Workshop 2010 will make the planning easier and create a better customer service for both workshop personnel and administrative personnel. Mercedes in Germany has visited Hedin
Bil to help them implement the new system. The employees had to raise questions on what they were good at and what could be improved. Areas where improvement were needed were set up by the instructor, who will come back to see whether they have managed to improve or not (S-Å. Braf, personal communication, 2007-11-28).

When asked about the survey conducted by Motormännerna mentioned in the method, Snygg believes that this is an effect of some problems they have had with the products, for example rust. The problem has been corrected but since the cars are still on the market it is having consequences. He thinks that the poor result is an effect caused by the products rather than the personnel since they on the service side have a very big focus on customer satisfaction all the way from reception to finished work. Further, he believes that their customers have higher demands on the products compared to other makes such as Kia or Mitsubishi (L-O. Snygg, personal communication, 2007-11-30).

Training, development and career

The different ranks a mechanic can reach ranges from E to A. After about 6 years as a mechanic you become a so-called A-mechanic, the highest rank a mechanic can reach. However, it is not the years that you have worked that make you an A-mechanic but rather what competence you posses. Most mechanics attend a three-year basic training in high-school followed by three years working to reach the highest rank. There are different levels of an A-technician you can become reaching between A1 to A5. To become an A5 mechanic you must be able to take care of a customer and carry out all types of repairs. In order to reach these higher levels of competence, hence a higher salary, Hedin Bil provides internal training through Daimler Chrysler. When a new employee is hired an education plan is set up for each individual to go through what type of mechanic he will become. There are several different directions a typical career plan can aim, e.g. service technician, chassis and gearbox etc. Since Hedin Bil is an authorized Mercedes dealer, compulsory training for the employees is provided to maintain and enforce the standards that Mercedes demands from their retailers (S-Å. Braf, personal communication, 2007-11-28).

To gain the highest rank a mechanic can get, a so-called diagnostic technician, you must be a person the organization are willing to invest in, technically talented and have made progress in his/her regular occupation. An absolute minimum to become a diagnostic technician is 10 years in the profession and before that you must pass interviews with the management and passed several educations. According to Braf in order to keep the employee retention high, amongst those well-educated employees, they must be given a salary that is perceived as fair. Otherwise they would just take their business elsewhere. Even though the higher ranked mechanics does not bring in the most revenue to the organization, rather they often bring in the least, their competence is certainly needed. Since Hedin Bil is an authorized Mercedes retailer all customer demands must be satisfied. Already in the hiring phase Hedin Bil place much effort in getting the right people who are willing to continuously improve their expertise. They believe it is important to stimulate their employees, e.g. further education. By that develop higher employee retention and increase the quality of the customer service. Sven-Åke Braf believes Hedin Bil has been able to motivate and stimulate their employees very well in the workshop. The average age lies between 47 to 48 years old and most of the mechanics have worked together for many years, which would indicate this (S-Å. Braf, personal communication, 2007-11-28).

The service technicians today are very skilled; they have skills within computing, machines etc, if they are not engineers it is not far away. Since service technicians are expensive to train it is of the company's interest to keep them where they can contribute the most and
within the company. The company policy concerning this is to allow all people to develop within the company and make it possible for them to seek other positions if they so wish. To where they might transfer depends on the persons personality, social skills etc. (L-O. Snygg, personal communication, 2007-11-30).

Most of the contact with the customers is handled through the customer receptionist. The optimal would be that a service-technician goes through the car together with the customer before it is taken care of but so is not the case today. Instead, the ones receiving the customers are trained to interview the customer in such a way that they get a good grip what the problem is. If it is more complicated than the regular case, the customer is asked to come in with the car and go through it with a diagnostics technician (L-O. Snygg, personal communication, 2007-11-30).

Every year a discussion is held with each mechanic about their future salary increase and what they have to do to move up to a higher pay-grade. We were given an example of this when an employee wanted to be moved up to become an A5-mechanic, but he lacked the competence with air-conditioning. He was then sent be educated before he was moved up to the higher pay-grade. Furthermore, they have a staff meeting every month and a common coffee brake every Friday to discuss current events, problems and ways to deal with them. Braf truly believes that the opportunity for further education works as a source of motivation for his employees not only because they get a pay increase, but it also because it makes the job more diverse and not so monotonous (S-Å. Braf, personal communication, 2007-11-28).

Concerning development, more training is always possible; new models will arrive with new innovations which will require special competence. As far as he knows, no one has ever seen it as some kind of punishment to be sent on training. It is seen as an interruption from the everyday activities and he is confident that most of the personnel want to receive further training. Hedin Bil puts weight in training and he thinks that there are very few persons that do not want to take the opportunity of the training offered. It leads to both personal and professional development (L-O. Snygg, personal communication, 2007-11-30).

Snygg encourages a system where persons move around, performing different tasks. Some tasks however can not be performed by anyone, for example diagnostics which requires much knowledge and competence. The opportunities to personal development and possibility to move to another position in the firm compared to other companies depend to a large extent on the size of the company. Training compared to other firms, are also difficult to make certain statements about. It depends to a large extent to requirements of the general agent, the customer and the fact the products develop. There are certain courses and training that is mandatory for salespersons, service technicians and those who receive the customers (L-O. Snygg, personal communication, 2007-11-30).

**Salary and current reward system**

Most of the employees in Hedin Bil are affiliated to the trade union “Metall”. The trade union provides tables of what salary a mechanic should have depending on what rank the employee has, where people who are A5 mechanics will gain the highest salary. Hedin Bil in Gothenburg also has a local agreement with their union workers on what hourly salary an employee should draw transformed into a monthly salary. The technicians at Hedin Bil Göteborg AB are also given a percentage which depends on the individual employee’s turnover each month as a performance-based salary. Moreover, the employees are also
given a team-based bonus on a monthly basis (S-Å. Braf, personal communication, 2007-11-28).

All reparations are put into a planning program that calculates how much time the reparation will take. If a mechanic realizes he will not be able to finish the reparation within the time that has been set up he comes out to his supervisors, who has to reschedule. When a new reparation is started the mechanic uses a time clock to register when they start on that car and the customer’s invoice will tell what exactly the mechanic has done when the reparation is done. The revenues that follow from that reparation will accrue to the mechanic who performed the different elements. According to Sven-Åke Braf the salary will differ significantly between the mechanics depending on how fast they perform a task, due to the performance-based salary. He tries to divide the different tasks in a way that the employees are perceived as fair. Some tasks are more difficult and harder to perform than others, which is why Hedin Bil tries to be fair when the tasks are divided (S-Å. Braf, personal communication, 2007-11-28).

The team-based bonus is calculated by taking the planned total revenues for the workshop for that month and then divides it amongst the 13 mechanics. That calculates the planned monthly revenue for each employee. Those mechanics whose turnover is large that month will gain a larger team-based bonus, because their monthly turnover is multiplied with the bonus percentage. This percentage will also differ some between the employees, due to their different workload (S-Å. Braf, personal communication, 2007-11-28).

Sven-Åke Braf does not see any negative aspects with the current reward system. When an employee is allotted a very difficult task, e.g. one that demands a lot of search of errors, he can instead of using a time clock get an individual bonus based on the mean of their last quarterly earnings. This is a way for the organization to maintain the quality of the service, by not pushing the employees to rash decisions but thoroughly search the car for the possible errors (S-Å. Braf, personal communication, 2007-11-28).

The current reward system has been implemented since around year 2000 in Hedin Bil. In Sven-Åke Braf’s earlier experience the mechanics have been rewarded by a so-called straight piecework system. People are evaluated after what they perform in one hour and if you manage to do this in half an hour you double the percentage of your salary that your performance is based on. When an employee performed other tasks that the organization did not gain any revenue from, such as cleaning the workshop, he/ she gained another part of the salary. Braf claims the current more complex system that Hedin Bil uses today is better. He believes the mechanics are very customer-oriented and wants to carefully document what has been done. The employees will by this new system feel a greater responsibility by being a part of the whole process, not only the reparation part. A few of the technicians also have some administrative tasks, which they also individually have negotiated as a part of their salary. This gives them a larger influence, a role they are satisfied with (S-Å. Braf, personal communication, 2007-11-28).

According to Sven-Åke Braf on average an employee’s salary was around 70 percent union negotiated base pay and 30 percent on the performance-based and group bonus. However, this obviously differs much between high-performers and low-performers (S-Å. Braf, personal communication, 2007-11-28).

Braf claims that they have a well working cooperation locally with the union workers within the organization who support the current system with a partly performance driven salary. He is positive that also the employees see the system as fair, but that perhaps some of them
would prefer a system where they are paid somewhat more instead of having a performance-based salary. The system is built in a way that the employees should not feel too much stress about their performance. The workshop possesses all necessary tools to carry out a task and a data system is used to help the employees in a methodical way to carry out every reparation (S-Å. Braf, personal communication, 2007-11-28).

Lars-Olof Snygg prefers the piece rate system. He does not think that the current system is more motivating. However, he does think that it might provide a bit more safety for the technicians. Even though they had an individually bad month they still receive a good salary. He also thinks that a pure individual bonus might hinder cooperation, whether or not it is a big difference he does not want to speculate about. Because of the nature of the work, some cooperation is unavoidable and a person who does not help others does not receive help himself and is therefore unlikely to remain in the company for very long. The premier weakness with the current system is that it might be possible for a person who does not perform well still receives a part of the group bonus. However, if such a situation arises it is easily and often directly discovered since it creates disagreements in the group. Everyone knows that they have to contribute to the group bonus. These issues are often regulated automatically (L-O. Snygg, personal communication, 2007-11-30).

When asked if there are any negative effects on the quality as an effect that people might be stressed to perform quickly in order to increase their pay, Snygg replied that that is not the case. He referred to his own experience and said that either the work is done or it is not. There are no short-cuts. A work order often have specific operations which need to be performed to reach the result, it is more about skill and how fast these can be performed (L-O. Snygg, personal communication, 2007-11-30).

Snygg is convinced that reward systems affect both how quick and good the work is performed. The tricky part is how to connect quality to this, how it is measured, in what periods and when it is rewarded. In Hedin Bil these issues are solved through quality control within the company that ensures the people work in the way that they want them to work. There is no need to wait for surveys in order to estimate quality. Snygg is of the opinion that money works in a motivational way and that all people that are given the opportunity to make more money take it. It is related to education, if a person feels that he or she has the training and competence to perform a work and performs it well and quick, the person wants to see the effect of a work well done in the pay check. Also, that the pay differs from colleagues who perhaps does not perform as well. He compared the situation to how the sales people would have worked if they would have had a fixed salary. If a salesperson interviews the customer for two hours before making a closing it is not necessary that he or she makes a better sale than a salesperson that makes a closing after half an hour (L-O. Snygg, personal communication, 2007-11-30).

Snygg believes that the personnel essentially sees the way in which they are evaluated as fair and how that is shown in the pay check. A prerequisite to this is a fair and equal job distribution as there are always more or less preferable jobs. Renovating an engine or a gearbox for example might contribute less to the individual pay than a standard service. The possible problem that someone would feel that he or she receives all the not so favourable jobs are avoided through good management. If someone receives an individual pay which is less than someone who has performed similar tasks there is a reason for that (L-O. Snygg, personal communication, 2007-11-30).

If you have motivated personnel the company will perform well. He believes that except for pay, opportunities to develop within the company as well as outwards have great im-
portance. He thinks that the personnel is likely to value pay as top one or two but would be surprised if personal development, training and working climate do not follow. The current salary system used in Hedin Bil is not the same in all units. Many of their units have been acquired and when so is done, the previous pay system follows along. The ground is that a motivation system is used. It is equally important for a sheet-metal worker and a mechanic to have the opportunity to make some extra money as for a sales person. Further, the system is not something entirely new, it is really a form of a piece rate system. Historically, these were more individually based, there were no group bonuses involved. The group and division bonuses are something that has evolved during the last ten years, before it was just straight piece rate. The individual part is still larger than the group part, the group is just the “cream on top” (L-O. Snygg, personal communication, 2007-11-30).

It is not possible to state and percentage relation between group and individual bonus, the systems is very flexible and the amount varies a lot. There are advantages and disadvantages with all these systems, with the group system it might be so that the salaries of those who do not contribute so much are affected more by the group bonus than that of the others. As with the sales personal, the bonus varies monthly depending to some extent to what kind of jobs that are performed and it is further affected by education etc. (L-O. Snygg, personal communication, 2007-11-30).

In terms of costs, a system including a group bonus is not necessarily more expensive, it depends on how it is designed. However, he thinks that it is automatically slightly more expensive if it includes a group part since if a few individuals perform below the limits of personal bonus they still receive a part of the group bonus (L-O. Snygg, personal communication, 2007-11-30).

**Job Environment**

One goal for the workshop is to make it a workplace where the employees can circulate amongst various tasks and help each other out. One day an employee might have little to do and another has much. Also some areas in the workshop are calmer than others. By letting the employees work in those areas a week or two a month you let them charge their batteries to be able to go out to the more demanding areas. The job rotation improves the learning and makes the organization less vulnerable. For example if someone is ill one day there are others who are able to fill in. Sven-Åke Braf wanted to verify that the employees worked in this way to get a good solidarity and work climate. They claimed they already worked in this way. Braf’s way of managing his employees is that he states what goals the organization got and why, but leave it for the employees to implement it to that extent it is possible. He believes it is better to let the employees make suggestions of solving a problem to get the best outcome (S-Å. Braf, personal communication, 2007-11-28).

The overall impression is that the current reward system works well and Sven-Åke Braf does not see anything he would like to change at this point. He believes most workers are satisfied with the possibility of affecting their own salary and feel motivated by this (S-Å. Braf, personal communication, 2007-11-28).

In the work-shop, the personnel are loyal and have been there a long time. Snygg believes that the salary system is part of the explanation but management, working climate, personnel policy etc. play an important role as well. Salary means a lot, but it is not everything (L-O. Snygg, personal communication, 2007-11-30).
Teamwork

The mechanics work individually with each car and work on that until it is done. However, if they need help with something they can always ask someone else. There is according to Braf no mentality that an employee would not help out a co-worker just because he would then take time off his own performance. If it is a major task that is very time-consuming the mechanic can come in to Braf and tell him that he will help a co-worker with that task. The employee will then get paid according to his average performance instead of the time clock. According to Braf this counteracts the possibility of less teamwork due to the individual performance measurement (S-Å. Braf, personal communication, 2007-11-28).

4.2 Questionnaire

Our aim with the questionnaire was to investigate the opinions, behaviours and attributes of all mechanics at Hedin Göteborg Bil AB. We wanted to see how they valued their current reward system and what other factors that had motivational effect on them. The compiled questionnaire will be presented in five main areas; work environment, management and communication, cooperation/atmosphere, salary and motivation. The results are conveyed in frequencies and means of the total 13 employees at Hedin Bil.

Work environment

In the table below, the results of the questions concerning the work environment have been summarized.

Table 4-1, Work Environment

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The overall satisfaction scored a four with no deviation across the total population. Obviously the technicians are quite satisfied with their job. One way of looking at the results is to compare the number of responses on each side of the middle response. In all but three cases, the results are on the positive side presenting a mean higher than 3. The three cases that stand out deal with workload (question 4), and training (question 7 & 16). From the results it seems as if the employees are not really satisfied with those topics. Table 4-1 shows that the employees desire to develop is positive, however, it seems as if they do not really get that opportunity as both questions concerning training receives a negative grade.
Management and communication

Table 4-2, Management and communication

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As shown in the table above, the overall satisfaction with feedback is good. It also shows that 54.8 percent has graded communication of company goals 4 which indicates that the company is successful in communication these. The technicians are however not so pleased with the response they get for their ideas and suggestions.

Cooperation and atmosphere

Table 4-3, Cooperation and atmosphere

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This topic clearly scored the highest results in the questionnaire. The employees at Hedin Bil seem to have a pleasant surrounding at their job. They do not find it unpleasant to go to work which is quite clear as question 17 resulted in a mean of 3.77. Further, with a mean of 4.46, the relation to colleges scored the highest of all questions indicating that the employees get on well. The questions concerning cooperation and appreciation also received high scores with means of 4.15 and 3.92 respectively. It seems evident that the work atmosphere at Hedin Bil is pleasant and enjoyable.
Salary

Table 4-4, Salary

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The technicians seem to think that the salary is okay, no more no less as 11 out of 13 graded it 3. The individual performance based salary is seen upon very differently amongst the employees. Even though the mean on how they found it good and fair both received 3.08, it ranged 2-5 and 1-5 respectively, i.e. some employees find it to be really good and some find it really bad. Interesting is that the group based salary received an overall higher score although this too had a wide range. The employees that graded the individual performance salary as bad (score 1 and 2), were the same ones that were not satisfied with the current salary system indicating that the individual part play a big role for the salary. Furthermore, even though the satisfaction with the salary has a mean above three, there are still three employees out of twelve respondents that are not satisfied, i.e. 25%. The prerequisites for both the individual and group-based performance salary are relatively well understood amongst the employees. Also interesting to notice is that the ranges for both individual and group-based performance salary were from 3 to 5, i.e. all employees have grasped pretty well what is expected from them to receive the performance-based salary.
Motivation

You feel motivated by:

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<tr>
<td>f</td>
<td>the development opportunities that are offered (e.g. Internal training)</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>0</td>
<td>3.00</td>
</tr>
<tr>
<td>g</td>
<td>career opportunities</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td>0</td>
<td>2.92</td>
</tr>
<tr>
<td>h</td>
<td>satisfied customers</td>
<td>6</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>3.69</td>
</tr>
<tr>
<td>i</td>
<td>your colleges</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>j</td>
<td>the increase in salary that training results in</td>
<td>1</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>3.38</td>
</tr>
</tbody>
</table>

In accordance with the work environment, the colleges are also seen as the most motivational factor for the employees. The mean presenting how motivated the employees felt with their colleges resulted in 4.08. Satisfied customers finished second with a mean of 3.69. These two questions were the only ones that some of the employees totally agreed on as motivational factors. Interesting to notice is that colleges and satisfied customers were seen as more motivating than the performance salary, both individual and group-based. The training the employees receive from Hedin Bil was only seen as somewhat motivating with a mean of 3.00. However, the salary increases that result from the training were perceived as more motivating. To be evaluated and rewarded on the employees’ performance also appears as rather motivating whereas career opportunities were not.

Table 4-6, Motivation

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fun and rewarding work tasks</td>
<td>10</td>
<td>1</td>
<td>9</td>
<td>3.80</td>
<td></td>
</tr>
<tr>
<td>Responsibility and autonomy</td>
<td>10</td>
<td>2</td>
<td>9</td>
<td>3.90</td>
<td></td>
</tr>
<tr>
<td>Colleges</td>
<td>10</td>
<td>1</td>
<td>10</td>
<td>4.60</td>
<td></td>
</tr>
<tr>
<td>Positive feed-back/ appreciation</td>
<td>9</td>
<td>1</td>
<td>10</td>
<td>4.67</td>
<td></td>
</tr>
<tr>
<td>Possibility to competence development</td>
<td>10</td>
<td>1</td>
<td>8</td>
<td>5.50</td>
<td></td>
</tr>
<tr>
<td>The group reward</td>
<td>10</td>
<td>2</td>
<td>10</td>
<td>5.80</td>
<td></td>
</tr>
<tr>
<td>Satisfied customers</td>
<td>10</td>
<td>2</td>
<td>10</td>
<td>5.80</td>
<td></td>
</tr>
<tr>
<td>Possibility to salary increase</td>
<td>10</td>
<td>4</td>
<td>9</td>
<td>6.10</td>
<td></td>
</tr>
<tr>
<td>The individual performance salary</td>
<td>10</td>
<td>2</td>
<td>10</td>
<td>6.60</td>
<td></td>
</tr>
<tr>
<td>Career opportunities</td>
<td>9</td>
<td>1</td>
<td>10</td>
<td>7.22</td>
<td></td>
</tr>
<tr>
<td>Something else (Salary, N/A, N/A)</td>
<td>3</td>
<td>8</td>
<td>10</td>
<td>8.67</td>
<td></td>
</tr>
</tbody>
</table>

The technicians were asked to rank a number of motivational factors from 1 to 10 depending on their importance where 1 presented the most motivating factor. The task was perhaps misunderstood by a few technicians, which is shown by the N value. The table shows the compiled result of the question starting with the lowest mean i.e. what the technicians found most motivating.
5 Analysis
In order to facilitate for the reader, we have chosen to, at some points, provide information from our theoretical framework. No new information from authors other than ourselves have been added, it has simply been mentioned once again.

5.1 Motivation
Maslow’s hierarchy of needs

Connecting the questionnaire to Maslow’s motivation theory we can see that at least the lower levels seem to have been reached. We assume that the level one needs are fulfilled simply by the fact that they have a job and a union negotiated salary, according to theory that should be sufficient. The security needs however are a bit more uncertain. In the survey we asked if they felt secure in their work situation, physically and psychologically, these scored 3.75 and 3.55 respectively which indicates that they feel relatively secure. It is likely that the group bonus contribute to their sense of security as Snygg pointed out. One of the employees however graded the physiological security 1 which we find odd. It is possible that the person misinterpreted the question or his/her employment is about to terminated. Still, we find that the overall result present a situation in which they fulfil the second level needs. Third level of needs too seem to be satisfied as the question concerning cooperation and atmosphere scored quite high. In fact, the question asking about the relation to colleges scored the highest of all question in the questionnaire. The esteem needs are slightly more complicated to analyse and it is difficult to draw a sharp line between these and the highest level of needs. They seem to feel that they are appreciated by their colleges which is a step towards being respected. They also seem to think that they receive enough feed-back which also is a type of appreciation. In the case of a reward system, receiving a higher pay when they have performed well is a clear signal to the employees and we think that this further contributes to fulfilling their esteem needs. The highest level in Maslow’s hierarchy is the need for self-actualisation. The most interesting result from the questionnaire concerning this level is the question on how their ideas and wishes where met. This question resulted in a mean of 2.77 as shown in section 8.3. This indicates that they are not able to fully satisfy this need at work. Further, in order to acquire wisdom, training can be a step on the way and the result from the questionnaire shows that also these questions receive quite low means.

We would in general place the employees somewhere in level four, meaning that what according to Maslow would motivate them are the level four and five needs. This is to some extent supported by two last parts of the result from the questionnaire. The reward system might in our opinion help to full-fill the level four needs in terms of appreciation and perhaps also to some extent the level five needs. More financial means might aid them to reach self-actualisation in their life outside work.

Hertzberg’s two factor model

Applied to Hertzberg’s theory, it seems as if the hygiene factors are in order; i.e. there is no apparent dissatisfaction. However, there seems to be some shortage of motivators as the employees did not feel that they received enough training and their ideas were not met with sympathy. Some of the motivators mentioned in out theory are according to the survey, not so motivating. Development opportunities for example were ranked the second least
motivating factor. However, we find that the result of that question can be interpreted in two ways; either they simply do not find it motivating, or they do not find it motivating as they do not feel that they receive enough training. Moreover, in the very same question they ranked the salary increase, which result from training, higher than the training in itself. It is therefore not possible to assess how important training really is as a motivating factor. It is however our belief that it does have a motivational effect greater than what was presented in table 4-5. One reason for that is that so many were of the opinion that they did not receive enough training and if training would not have been important for them they would most likely have graded it more neutral. Supportive of the theory is also that the work itself seems to end up in the top of motivating factors, indicating that the theory is applicable to some extent.

As mentioned in the theory, one of the conclusions from his theory was that pay was only likely to motivate in the short run. In the case of Hedin Bil, the extra pay that the employees receive as an effect of their performance is paid on a monthly bases. So depending on the meaning of short term the motivational effects of pay might overlap each other so that they effectively are motivating throughout the year. For example, if they one month work well and are paid accordingly they are motivated to work so that also the next pay will be larger. One month is in our opinion a fairly short period and could be short enough so that the motivational effects indeed are sustainable. The first question in our questionnaire asked how satisfied they are, in general, with their jobs scored a mean of four with no deviation and no absent answers. In our opinion this indicates that they are not dissatisfied, nor are they fully satisfied. As the critics point out, Hertzberg did not measure the relation between satisfaction and performance so it is not possible to, with the sole support of the two factor theory, make an assumption on how performance will be affected if the motivators are emphasized.

**Expectancy theory**

They way we interpret the theoretical model is that there are two things that determine the technicians effort, value of the reward and probability that reward depends on effort. How the employees see upon the value of the reward is difficult to say. According to Braf, the extra pay is as much as 30% of the salary so we find it reasonable to assume that it is of value. Whether or not the technicians find that reward to depend on effort is harder to say. The questionnaire showed that all employees have grasped generally what is required of them to receive the extra pay. However, we do not know how sensitive the pay is to effort, for example, how it affects their pay if they give 90% of their ability compared to 95%. According to the theory, it is the effort supported by abilities and role expectations that lead to performance. The abilities, as described in the theory refer to, amongst other things, skills and know-how. Since they assign people different work tasks depending on their competence and training they should have enough of training to support their effort. However, as mentioned earlier; they are not too satisfied with the amount of training they receive so it is possible that they would perform better with more training. Concerning the role expectations, as mentioned, they are assigned the work tasks depending on what they can do which in turn depends on their training so essentially, the individuals perception should match the organisations.

**Goal theory**

The theory mentions three important principles and the first of these brings us back to how the employees perceive what is required of them to receive additional pay. There is not a perfect match between the question and what the theory speaks of, however, since
what they are paid for are the same as what they are expected to perform it is still possible
to come to a reason about it. The goals are very specific in their origin, the question is
rather if these are successfully communicated to the employees. This was discussed earlier
and it seems as if they in fact are specific and well communicated. Whether the goals are
difficult or not is hard to determine simply from our empirical findings. What might give us
a hint is that the question in the questionnaire concerning workload scored a mean of 2.92.
This indicates that at least some of the technicians feel that they have a bit too much to do
which could be interpreted as difficult goals. We believe however that whether or not the
goals are perceived as difficult is highly individual. The third principal deals with feed-back
and as was shown by the questionnaire, the employees seem to feel that they receive
enough. However, it is not possible to state if this feed-back is concrete or not.

Equity theory

If applied to the salary level, we find it likely that the employees use whatever sources avail-
able to compare with. Naturally, if some have only worked at Hedin Bil, they have no pos-
sibility to compare the current situation with a previous workplace. The base pay as de-
scribed previously depends to a large extent on the negotiations with the union. This means
that a person with the same age and experience should have the same base pay which
ought to be equitable. Except for the base pay there is the group and performance based
pay. According to the questionnaire they seem to be more or less satisfied with the fairness
of these systems are designed, for the performance based salary as many as three out of
twelve graded it below three. This indicates that the current system is not totally equitable.
What on the other hand speaks in favour of equity is that there is still a majority which
graded the fairness of both systems above three and the fact that the average age of the
employees is so high. Those with high age and pay are likely, according to the theory, to
use a reference outside the company. Given the age and the fact that they stay indicates
that Hedin Bil has a competitive position as an employer compared to others companies.

The group and performance based pay is based on revenues and some tasks contribute
more to the revenues than others. It is therefore crucial that the different work orders are
divided in an equitable manner amongst the employees, something that is handled by man-
agement. Both Snygg and Braf believe that the system is perceived to be fair. However, as
shown by the result of the questionnaire there are those that are of another opinion. The-
ory argues that well educated and highly paid employees might seek reference outside the
company and Braf seems to be well aware of this as he stresses the importance of fair pay
in order to retain these valuable employees. Further, Snygg seems confident that their sys-
tem works and if someone is paid less than another, there is a reason for that. A possible
explanation as to why some perceive the system to be unfair might be provided by the the-
ory: that people are more or less sensitive for equity.

Equity theory, as mentioned, might also be applicable to non monetary rewards. We think
that training, which is not part of the reward system still, might be a source for de-
motivating or motivating effects under this theory. As training often leads to higher pay,
more varied work-tasks etc. we think that this is something that the employees value quite
high and are likely to react if they feel that they are being treated inequitably.
5.2 Reward system

5.2.1 Individual based pay

According to Michael Armstrong contingent pay could be associated to individual performance, skill and contribution and can be combined with the fixed salary. This is in accordance with the current salary system at Hedin Bil. The employees are partly given a union negotiated fixed salary and a performance-based salary that is based on each employee’s monthly turnover. Theory claims that contingent pay is seen as the best way to motivate by many people. However, not all employees prefer to be paid based on their performance. They might tend to favour a salary based on seniority. Sven-Åke Braf believes the current performance-based system is perceived as fair by the employees, but realizes that a few might disagree with the current system. Our questionnaire showed that on average the employees found it at least somewhat good and fair, but the range were really high; hence some believed the current system as really good and others really bad. According to Nilsson and Ryman (2005) salary can achieve good performance even though motivation might not be very high. This is in jobs where results are easily measured, e.g. in a piecework system. The current reward system at Hedin Bil could be explained as a more complex type of piecework system. The individual performance-based part of the salary is easily measured, since it is simply built on how much revenues the employee brings in to the organization each month. The employees were asked on what motivated them the most. The individual performance salary was only ranked 8 out of 10 factors. The performance salary ranged from 2-4 with a mean of 3.23 on how motivating the employees felt by it, hence the employees perceive the performance salary as at least motivating to some extent. Even though it was not perceived as very motivating, theory claims it could still lead to good performance. The e-research from 2004 presented by Armstrong showed the eight most important reasons for using contingent pay. Here, improve organizational performance finished third whereas motivate people only finished sixth, which would verify this.

The development of skills, knowledge and competencies should be a continuous process and performance-based pay is according to Heneman a superior way to accomplish this compared to traditional pay. Traditionally, incentives have only been given to a small and elite part of the employees. Lars-Olof Snygg claims that the ground for the current salary system is for it to be motivational. He believes it is equally important for a mechanic to receive a reward for a job well done as for the sales personnel. Sven-Åke Braf fills in that in order to keep employee retention high, amongst your well-educated employees, they must receive a salary that is seen as fair. The questionnaire however clearly showed the employee’s desire for development, i.e. more training. However, the questions regarding weather or not they received it most employees felt they did not. We believe this is a tricky question. Training is expensive and there is no need for everyone to become a diagnostic mechanic, the highest ranked mechanic. It is important for the organization to acquire only the new skills and competencies that are needed and at the same time keep your employees satisfied.

According to Nilsson and Ryman, the main reason why managers have driven the question of individual salary setting is to be able to differentiate salaries in order to pay more for good performance than for bad and by that make the organization as cost efficient and profitable as possible. There is also a belief that the individual salary setting can motivate employees more to easier reach organizational goals. Both Sven-Åke Braf and Lars-Olof Snygg are of the same opinion. Lars-Olof Snygg is convinced that the current reward system has a positive affect on performance. The authors are however also of the opinion that
the employees want individual salary setting as well to be able to affect their own salary, that they profit from this and is seemed as more fair. Here we disagreed with the theory to some extent. The opinions of the employees, as shown in the questionnaire, were in fact very diverse. Both the individual- and the group-based performance salary were seen as very fair by some employees and not at all by others. We can only speculate why the ones that perceived the current system as unfair, since we could not make any comparisons between the dissatisfied and their performance salary. We believe there could be two reasons for the dissatisfaction. First, the employees might be low achievers and thereby feel neglected, due to the lower received salary. Second, they might prefer a salary system that is based on seniority, as previously mentioned. According to Braf the average age amongst the mechanics is rather high, approximately 47 to 48 years old. Perhaps the older employees feel a bit stressed by being constantly measured on their performance and instead prefer a somewhat higher fixed salary instead. The questionnaire also indicated this, as the employees were not too satisfied with the workload.

Arguments against contingent pay

As previously discussed, it is not certain to what extent money works as a motivator, at least not in the long run. Also, if the reward system is seen as unfair it could de-motivate those employees who do not receive the financial rewards more than it motivates the ones who do. We noticed an indication that that the performance-based salary at Hedin Bil was perceived very differently amongst the employees. Some totally agreed that it was fairly designed, while others totally disagreed. However, we were not given any numbers on how performance had been affected since the current reward system was implemented. We can only draw the conclusion that since the employees still finds the current system as at least somewhat motivating the advantages exceeds the disadvantages.

According to Nilsson and Ryman people tend to have a positive attitude towards a salary based on performance and competence, but are often disappointed with the way it is practically executed. The employees at Hedin Bil seemed to agree with this. They felt motivated by the evaluation and the possibility to get rewarded by this. However, they felt less motivated by the actual performance-based salary that followed from this. Armstrong and Stephens also claim that it is difficult to implement contingent pay systems, because it relies heavily on how accurate and reliable the managers are able to measure employee performance. If an employee feels neglected the performance measurement could have opposite effect and instead lead to worse performance. We believe the performance measurement system at Hedin Bil is designed in a way that does not rely on the judgement on manager’s ability to not be partial, inconsistent or badly informed. Instead, every possible repair is previously transferred into a computer on how long it should take to finish the repair. The employee uses a time clock for each repair to be evaluated fairly by the actual work he has performed and not from what the manager “believes” he has done. There is no space to be partial. W Edwards Deming argues that relative performance measurement will create fear and contempt for the management. Due to the current reward system design we do not believe this is an issue. In fact, our questionnaire showed that the employees were rather satisfied with the management and considered they received enough support and feedback. Nevertheless, the employees indicated that their ideas and wishes were not completely met with sympathy, which is an issue the management should take into consideration.

According to theory, the main disadvantage with individual reward systems is that it counteracts cooperation amongst the employees. The mechanics at Hedin Bil works individually on each repair and will not require cooperation in the same way as such organizations. However, they do require help from co-workers from time to time. There is according to
Sven-Åke Braf no mentality that an employee would not help out a co-worker just because he would then take time after his own performance. We believe Hedin Bil has successfully dealt with this by letting the employee that helps out a co-worker on a time-consuming task can “get off the clock” and instead get paid according to his average performance. This also prevents stress to some extent. An employee that is given a very difficult task, e.g. where much time must be spent on search for errors, he could also get paid according to his average performance. This was clearly shown by our questionnaire where cooperation and relation to their colleges received the highest scores.

5.2.2 Team-based pay

Hedin Bil employ a form of team based pay besides the individual performance-based salary. The planned total revenues of the workshop is calculated for each month and divided amongst the 13 mechanics. The team-based part of the total salary will differ between the employees depending on their workload that month and their individual performance. However, in contrast to the individual-based performance salary, all employees will take part of the bonus no matter of their individual contribution to the workshop. Lars-Olof Snygg preferred the old straight piecework system. He did not believe the current system will be more motivating, but perhaps provides a bit more safety for the mechanics. Even though a mechanic might have a “bad” month he will still receive a decent salary. Safety is however a crucial need according to motivational theory as previously discussed. Also the employees showed to have a more positive attitude towards the group-based performance salary than the individual performance salary. We believe the current system to be good, but we realize there could be some negative aspects with it too. Social loafing could be present, which will be discussed under the topic disadvantages of team pay.

Rewarding teams has according to theory gained interest due to the importance of teamwork and that is would enhance productivity. The basic reason for working in teams is that the team can accomplish more than the individuals do alone, through synergy effect. In Hedin Bil the tasks are performed individually to a large extent and we do not see that they could work in any other way. To enhance teamwork is not the reason in this case study for using the group-based performance salary, or at least not the primary one. It can on the other hand also work as a mean for organizational goals to be more integrated. People who previously were low-achievers we believe will “shape up” in order to meet the standards of the rest of the team.

Disadvantages of team pay

The main disadvantages with team pay we believe Hedin Bil manage to control, since the current system is not entirely built on the team-based performance. One disadvantage with team-pay is groupthink where the group could risk making rash and bad decisions. The pressure to conform in the group can result the team to keep output at the lowest common denominator, e.g. output will be at a sufficient level what is seemed collectively to be a reasonable reward, but no more. With only a group-based reward system this could be a problem for Hedin Bil. The current system, which includes an individual reward system too, will drive the employees to higher performances. Another problem with team pay is the individuals who are high-performers, but feel that they are not rewarded for their efforts can see it as unfair. The problem with social loafing can also occur. Hedin Bil prevents this in accordance with theory, by having a clear delegation of tasks. Lars-Olof Snygg realizes the potential problems with the group-based bonus that the salary of those who do not contribute as much are affected more by the group-bonus than others. Heneman argues that
some of the social loafing problems will be solved due to peer pressure. Social pressure will be exerted on those low-achievers to improve their performance. Snygg is of the same opinion and claims that those who do not perform well enough are often directly discovered since it creates disagreements in the group. He believes these things are usually regulated automatically. One can also see a potential problem that the peer pressure would create hostility in the group and thereby counteract teamwork. We do not however see any problems at Hedin Bil with this. All employees felt appreciated by their colleges and have a good relation to them.

5.2.3 Types of pay

Merit pay

Merit pay is the permanent salary rate increase for an employee that comes from his/her evaluated performance. According to Berger most employees want to be paid in accordance with their performance. Lars-Olof Snygg also believes money works in a motivational way and that the employees who feel they perform the tasks well and quickly want to see the effect of a work well done in the pay check. As previously discussed our questionnaire showed that the employees had very different opinions about the performance-based salary. However, in general they found it to be satisfying to some extent. Also, we believe people often tend to be negative about their salary, because you always want more, which could make the results somewhat biased.

It is difficult to implement a merit pay system. There is often too little spread in the size of merit increase and the resulting salary levels. For a merit increase to be meaningful Berger claims it should be no less than 4% and that an increase of 10 to 12% would be exceptional. In Hedin Bil the performance-based pay is approximately 30% of the total salary, which is rather high. The employees must be able to see that individual differences in performance will be recognized and rewarded. Those who perform well should also have a noteworthy improved relative salary. We were given graphs of how the performance-based salary, both the individual and the group, and recognized a large difference in salary between the mechanics at Hedin Bil due to the performance based salary. We are positive that the spread in the salary amongst the mechanics due to the merit increase is very meaningful. They have such a large impact over their own total salary because of the possible merit increase that follows from the current system that it cannot be overlooked.

Another necessity for a merit pay system to be successful is that the employees must recognize the requirements of their jobs and on what basis their performance is measured. We asked the employees to what extent they were aware what was required from them to receive the performance-based salary. Both the group and individual performance-based salary seemed to be quite well understood, they know what is expected from them and how they can receive these.

Team-based merit pay

How to prevent competition amongst the co-workers due to the merit pay has previously been discussed. According to Heneman having a reward system that is built on both group and individual rewards can prevent problems with social loafing and peer pressure from a totally group-based reward system. Group-based merit pay overcomes the problem that individuals prioritise own goals instead of those of the team and thereby create a better balance between group and individual accomplishment. The group-based performance pay at Hedin Bil is based on the revenues of all mechanics each month. However, the mechanics
whose individually performance is relatively high will receive a larger part of the group bonus. We believe this system will work to everyone's advantage. The individual performance-based pay will work as a motivator for each employee, but not at the cost of the team.

**Skill-based pay**

Unlike merit pay that emphasizes performance, skill-based pay provides employees with a direct link between the new skills they have obtained and can make use of to their salary increase. According to Armstrong skill-based pay systems are appropriately used on a shopfloor organization. Hedin Bil uses a skill-based pay system to continuously develop their competence through internal training. The higher the rank a mechanic acquires, the higher the salary he receives. Sven-Åke Braf argues that in order to keep retention high amongst the well-educated employees, they must be given a salary that is perceived as fair. The major reasons for using skill-based pay are for the employees to learn new and better ways to perform their jobs and become more cross-trained. We noticed that the employees felt more motivated by the fixed salary than the performance-based. We believe this also is why the employees clearly wanted more training, since the received personal development is directly linked to their fixed pay. However, the employees do not consider that they receive enough training. Training is, besides a higher base pay, also directly linked to higher responsibility and autonomy, more qualified work tasks and job rotation. The training opportunities that were given were only seen as somewhat motivating. We believe this could be because the mechanics interpreted the question differently. Some might have answered that it was not motivating, because they were not given the opportunity to receive the training they wanted in order to become a higher ranked mechanic. Others might have answered that the training they actually received was indeed very motivating. According to Heneman the major problem with skill-based pay is in fact the costs associated with it. Both the direct costs through increased pay and indirect costs through training. Lars-Olof Snygg claims it is company policy to allow the employees to develop within the organization and they put much weight into training. He believes Hedin Bil gives much opportunity for their employees for further development due to the size of the organization and that this is of great importance. However, the employees strive for even more and this is a difficult question. Theory claims that an organization should only pay for development of the skills they can make use of. It is important that the shop floor possesses all required skills and that it is not too vulnerable if someone is absent. Sven-Åke Braf also claims that personal development is important. By constantly improve the skills of his employees they are able to get more responsibility and autonomy and increased job-rotation.

Even though the employees want more training and the managers believes it to be important it only make financial sense as long as the efficiencies in flexibility outweigh the increased costs. For us to draw any conclusion weather or not Hedin Bil should put more effort into training would demand us to look more in depth into the organization.

**Piece-rate pay**

We believe the piece-rate pay at Hedin Bil work well, because the individual productivity can easily be measured. The major issue with working after a piece-rate system is according to Heneman that it could affect quality, because quantity is strived for. Lars-Olof Snygg do not see this as a problem for a shop floor as Hedin Bil. A work-order often has specific operations, which need to be performed and there are no short cuts. Either the job is done or it is not. Also, Hedin Bil performs quality controls to ensure that the employees work in a desired way.
5.3 Performance measurement

The performance that is measured at Hedin Bil is definitely possible and relevant to the goals of the shop floor. The goals of how much the turnover will be for the workshop each month is calculated. This is directly tied to the chosen measurement on performance. The piecework system keeps track of individual employee turnover. The employees were aware of what the company’s comprehensive goals were and what was expected from them. They were also well aware of what was required of them to benefit from the individual performance-based salary. Since this is based on the performance measurement we believe this is well understood by the employees. It is important that the employees are able to affect the performances that are measured. There are only 13 employees working at the shop floor at Hedin Bil in Gothenburg. If you as an individual work harder you will affect the turnover for the shop floor, which is what is primary measured. The necessary resources to be able to affect your individual performance are also provided. A computer can, if required, lead the mechanics through the different steps of each repair and the necessary equipment to solve the tasks are there. Finally, the mechanics at Hedin Bil felt that they received sufficient feedback and support of their performances form their managers, both positive and negative. We believe the employees have the awareness of the work they do to reach the performance goals. This is done continuously every month, in order to counteract unnecessary delays that could lead to that the employees devote time for work that is not valuable for the workshop.
6 Conclusion
We find that the reward system theoretically contributes to motivation given the following arguments:

- To some extent, the current reward system is likely to contribute to the fulfilment of the higher level needs defined by Maslow. It is a way of being showed appreciation, it contributes to the sense of success and might enable the technicians to easier approach level five needs outside work.

- It might have a short term motivating effect regarded as pay and further increases the weight of intrinsic motivators. Examples of these were performance, appreciation, growth and development possibilities. The reward system is part of all these examples in some way:
  - Performance is measured and rewarded through the system,
  - They are shown appreciation by being evaluated and rewarded,
  - Growth and development possibilities lead to better performance which is rewarded.

- The reward increases motivation as it is of value and the requirements for receiving it is understood. The probability that the reward depends on effort is high, although the weight of the effort, as mentioned in the analysis, is unknown to us.

- The technicians know what they are supposed to work for and the goals of the service unit are consistent with those of the technicians. The goals are specific, seem to be difficult to reach and they receive appreciated feed-back. We have not been able to conclude if the goals are accepted or not but neither have we seen any clear signs that they are not accepted.

- The system seems to be equitable. Even though not all employees find it to be fair, the system appear to be designed in such a way that it promotes equity. It does however relay on management to divide the work tasks evenly and for the performance measurement system to be accurate.

In the case of Hedin Bil AB, the financial rewards are not perceived to be the most motivating factors, as shown by the analysis they scored quite bad. We therefore conclude that the financial rewards by themselves are not enough to create a well motivated staff, there are more fundamental factors that have a larger impact. Still, we think that the reward system do contribute to motivation, if not in any other way, so at least by strengthen the effect of other sources of motivation due to their relation. For example feed-back means more if they know what they can do in order to improve their work and earn a larger performance based pay. Personal development too, by becoming better they earn more and been shown more appreciation, hence, their motivational effect is strengthen by the reward system.

Our case study has shown that there could be many reactions on a reward system. It is fair to draw the conclusion that a reward system can have both positive and negative effects. The individuals who support a reward system believe it is motivating and seen as an incentive to work harder. The ones who have a negative attitude could consider it as unfair and stressful. Even though some do not support the implementation of a reward system and do
not see it as motivating, in line with theory, we still believe it can have a positive effect on performance.

The case study showed that employees do want to get evaluated and rewarded for their efforts. However, they did not feel motivated by the performance-based salary that followed from this. We agree with theory and believe it is extremely important that the employees understand how the reward system is designed and that it is perceived as good and fair. A reward system where you are rewarded for what you actually perform, and not rely so heavily on the judgement of a manager, is likely to be perceived as more fair. We think the employees must recognize the requirements of their jobs and on what basis their performance is measured.

There are several possible pitfalls with any reward system. With an individual-based reward system there is always the problem with individuals who tend to perform only the tasks for which they are rewarded and avoid others, e.g. help others. In our case study we have seen that it is of major importance to implement an organizational culture where people want to help out each other, which Hedin Bil successfully has managed. In fact, the two most motivating factors for the employees were colleges and satisfied customers. Also, the possibility to “get off the clock” when performing tasks not subject to reward such as cleaning or helping others we find wise. The solution that Hedin Bil has to this seems to work well, however we realise that not all companies have the possibility to introduce an equally smooth system.

A team-based reward system could enhance productivity, by synergy effect. It can also get previously low-achieving employees to shape up, in order to meet the standards of the team. In our case study people had a tendency to favour the team-based performance salary. We have been able to establish that by having a clear delegation of tasks, social loafing can be prevented. Also, when a reward system is built on both individual and group-based rewards, social loafing and peer pressure can be avoided. The individual performance-based pay will work as a motivator, but not at the cost of the team. The individual performance measurement can improve productivity, while the group-based measurement motivates employees in a more intrinsic way. We are of the opinion that group-based rewards can prevent internal competition and make the group work towards a common goal. For a small shop floor like Hedin Bil it is relatively easy to spot if someone not performs up to standard. However, in larger groups where individuals easily can “disappear” in the group we believe a group-based reward system could be hazardous.

We can draw the conclusion that skill-based pay is appropriate in a shop floor organization. The employees become more versatile through the new acquired skills. The higher fixed salary that follows from the training are seen as more motivating than the performance-based salary, even though the performance-based salary is relatively high. As long as the efficiencies in flexibility outweigh the costs, we believe more training should be emphasized in a setting similar to our case study. Not only are the employees given more responsibility and autonomy, the organization becomes less vulnerable too and the employees will satisfy more of their need for self-actualisation.
6.1 Reflections
We find that the system at Hedin Bil works well and we believe that other shop-floor business units may benefit from a similar system. However, we have realised that developing a good system is a task that require much thought and careful consideration. It combines the complexity of many areas and it has to yield a return to the organisation which exceeds the costs. A return that could take many forms but in the end have to increase the competitiveness of the company, bring more profits or whatever it is that the owners and stakeholders value.

6.2 Suggestions to further research
We started this research wondering if motivation in small shop-floor business units could be improved by implementing a reward system. By looking at a reward system in place we have to some extent come to the conclusion that it can indeed improve motivation and most likely performance as well. This specific system is however unlikely to be successful for any other business unit without modification. It would be interesting to see in what way a system can be developed for a small hop-floor business unit by looking at how to tailor the performance measurement practise, how to tailor the rewards given personal preferences, how to engage the employees in the designing process and attain their commitment etc. A more extensive suggestion is to follow a company which is about to implement a reward system and observe any changes to motivation, performance, costs and such. It is easy to reason about probable effects. Actually observing them we believe would truly contribute to this area of research.

6.3 Critical review
The foremost critic against our thesis, we find, is the method we chose for retrieving the opinions of the service technicians. In depth interviews would likely have yielded a more accurate and extensive result. As shown in figures 4-5 and 4-6, they do not really provide an exact match. For the questionnaire, it would also have been interesting to run tests for correlation of age, rank and opinions. We believe that such relations are likely to exist and might have provided an explanation for why people perceive the current salary so differently.
References

Literature


Internet sources


## Appendix A

### Questionnaire – Hedin Bil

**Grading scale: 1 = Do not agree at all / 5 = Totally agree**

### Work environment

<table>
<thead>
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<th>1</th>
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<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>1</td>
<td>You are satisfied with your job in general</td>
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<tr>
<td>2</td>
<td>You are satisfied with your work tasks</td>
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<tr>
<td>3</td>
<td>You find your work tasks stimulating and varied</td>
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<td>4</td>
<td>You find the workload to be okay</td>
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<tr>
<td>5</td>
<td>You are satisfied with the amount of responsibility and autonomy</td>
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<tr>
<td>6</td>
<td>You have a desire to develop and to receive more qualified work tasks</td>
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<tr>
<td>7</td>
<td>You feel that you receive enough internal training</td>
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<tr>
<td>8</td>
<td>You feel secure in your work situation</td>
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<tr>
<td>9</td>
<td>Physical (e.g. Small risk for injuries)</td>
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<tr>
<td>10</td>
<td>Psychological (e.g. Small risk of losing your job)</td>
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### Management and communication

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<tbody>
<tr>
<td>9</td>
<td>You feel that you receive enough support and feedback from your closest superior</td>
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<tr>
<td>10</td>
<td>- When you have done something good</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>11</td>
<td>- When you have done something bad</td>
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<tr>
<td>12</td>
<td>You are well aware of the company's comprehensive goals</td>
<td></td>
<td></td>
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<tr>
<td>13</td>
<td>You feel that your ideas and wishes are met with sympathy</td>
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### Cooperation/Atmosphere

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<tbody>
<tr>
<td>12</td>
<td>You have a good cooperation in your unit</td>
<td></td>
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<tr>
<td>13</td>
<td>You have a cooperation with other units</td>
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<tr>
<td>14</td>
<td>You have a good relation to your colleagues</td>
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<tr>
<td>15</td>
<td>You feel appreciated by your colleagues</td>
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### Satisfaction

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<tbody>
<tr>
<td>16</td>
<td>You feel that you have the opportunity to receive training in those areas you wish</td>
<td></td>
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<tr>
<td>17</td>
<td>It is fun to go to work</td>
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<tr>
<td>18</td>
<td>You are satisfied with the different employee benefits that exist (e.g. Discounts and preventive health care)</td>
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</tbody>
</table>
### Questionnaire – Hedin Bil

**Grading scale: 1 = Do not agree at all / 5 = Totally agree**

#### Salary

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<tbody>
<tr>
<td>19</td>
<td>You are satisfied with your total salary</td>
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<tr>
<td>20</td>
<td>You find the individual performance salary to be good</td>
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<tr>
<td>21</td>
<td>You find the individual performance salary to be fairly designed</td>
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<tr>
<td>22</td>
<td>You are well aware of what is required of you to benefit from this</td>
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<tr>
<td>23</td>
<td>You find the group reward to be good</td>
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<tr>
<td>24</td>
<td>You find the group reward to be fair</td>
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<tr>
<td>25</td>
<td>You are well aware of what is required of you to benefit from this</td>
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<tr>
<td>26</td>
<td>You are satisfied with the current salary system</td>
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#### Motivation

*By motivation we mean the driving force that makes you perform well*

27. What motivates you the most?
   - Rank the following according to what has the largest impact on you from 1 to 10 (1 has the largest impact):

   - Fun and rewarding work tasks
   - Responsibility and autonomy
   - Positive feedback/appreciation
   - Possibility to competence development
   - Possibility to increase in salary
   - The individual performance salary
   - The group reward
   - Satisfied customers
   - Career opportunities
   - College
   - Something else: ___________________________

28. You feel motivated by:

   a. your current work situation
   b. influence and possibilities to affect the work tasks
   c. evaluation and reward of your performance
   d. the performance salary
   e. the group reward
   f. the development opportunities that are offered (e.g. Internal training)
   g. career opportunities
   h. satisfied customers
   i. your college
   j. the increase in salary that training results in

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