Exploring the Congruence between Reward Systems and Strategy

A Competitive Perspective

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PREFACE

We would like to thank our tutors Eva Lövstål and Göran Alsén for their great support and encouragement through our work with this thesis. Their continuous commitment and interest has made it possible for us to finish what we started more than a year ago.

We would also like to thank the companies participating in the study, which have put aside time to answer the survey and shown interest in the topic.

Ronneby, May 2005

Maria Limberg  Helena Olofsson  Madeleine Persson
## SUMMARY

<table>
<thead>
<tr>
<th>Title:</th>
<th>Exploring the Congruence between Reward Systems and Strategy – A Competitive Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authors:</td>
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<td>Section:</td>
<td>School of Management</td>
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<td>Course:</td>
<td>Master Thesis in Business Administration</td>
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<tr>
<td>Purpose:</td>
<td>With this thesis our aim is, with both a theoretical and empirical perspective, to investigate the relationship between companies’ formal reward system and how they position themselves amongst their competitors.</td>
</tr>
<tr>
<td>Method:</td>
<td>Theories are used to design the test model, and are applied using a deductive approach. When modifying the test model, an inductive approach is applied.</td>
</tr>
<tr>
<td>Conclusion:</td>
<td>We have not found a relationship between reward systems and strategy within the Swedish clothing industry. Rather, the relationship is between how the participating companies reward and the business that they are in.</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS

1. **INTRODUCTION TO THE STUDY**  
   1.1 **INTRODUCING REWARD SYSTEM AND BUSINESS STRATEGY**  
   1.2 **DISCUSSING THE CONNECTION BETWEEN REWARDS, MANAGEMENT CONTROL AND STRATEGY**  
   1.3 **PURPOSE**  

2. **THEORIES RELATING TO THE TEST MODEL**  
   2.1 **INTRODUCING STRATEGY**  
   2.2 **PORTER’S GENERIC STRATEGIES**  
      2.2.1 **Introducing Porter’s Generic Strategies**  
      2.2.2 **Cost Leadership**  
      2.2.3 **Differentiation**  
      2.2.4 **Focus**  
   2.3 **INTRODUCING REWARD SYSTEMS**  
   2.4 **CLASSIFICATION OF A REWARD SYSTEM**  
      2.4.1 **Bonus**  
      2.4.2 **Benefits**  
   2.5 **DIMENSIONS OF A REWARD SYSTEM**  
      2.5.1 **Short-term Perspective – Long-term Perspective**  
      2.5.2 **Quantitative Measures – Qualitative Measures**  
      2.5.3 **Collective Performance – Individual Performance**  
      2.5.4 **Social Rewards – Financial Rewards**  
   2.6 **THE TEST MODEL**  

3. **METHOD TO CONDUCT THE STUDY**  
   3.1 **THE JIGSAW PUZZLE**  
   3.2 **CHOICE OF METHOD FOR COLLECTING DATA**  
      3.2.1 **Choice of Industry**  
   3.3 **COLLECTING DATA FOR THE STUDY**  
      3.3.1 **Survey**  
      3.3.2 **Selection of Companies**  
   3.4 **FROM THEORY TO SURVEY**  
      3.4.1 **Criterions for a Cost Leading Company**  
      3.4.2 **Criterions for a Differentiated Company**  
      3.4.3 **Criterions for a Focused Company**  
      3.4.4 **Caught in the Middle**  
      3.4.5 **Realised Strategies**  
   3.5 **CONSIDERATIONS CONCERNING THE STUDY**  

4. **THE RESULTS OF THE SURVEY**  
   4.1 **INTRODUCTION OF THE COMPANIES IN THE STUDY**  
   4.2 **THE COMPANIES’ REWARD SYSTEMS**  
   4.3 **THE COMPANIES’ MARKET POSITION**  
   4.4 **CLASSIFICATION OF COMPANIES**  
   4.5 **REWARD SYSTEMS WITHIN THE DIFFERENT BUSINESS STRATEGIES**  
   4.6 **DIMENSIONS OF REWARD SYSTEMS WITHIN THE DIFFERENT BUSINESS STRATEGIES**  
      4.6.1 **Dimensions – Cost Leadership**  
      4.6.2 **Dimensions – Differentiation**  
      4.6.3 **Dimensions – Focus Differentiation**  
      4.6.4 **Dimensions – Caught in the Middle**  
   4.7 **THE RESULTS OF THE MODEL**  

5. **ANALYSIS**  
   5.1 **SIMONS’ LEVERS OF CONTROL**  

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1 1
2 2
7 7
8 8
9 9
11 11
13 13
14 14
15 15
16 16
17 17
18 18
19 19
20 20
22 22
23 23
24 24
25 25
26 26
27 27
28 28
30 30
31 31
32 32
33 33
34 34
36 36
36 36
39 39
41 41
42 42
45 45
45 45
46 46
47 47
47 47
48 48
51 51
52 52
Exploring the Congruence between Reward Systems and Strategy – A Competitive Perspective

1. INTRODUCTION TO THE STUDY

1.1 Introducing Reward System and Business Strategy

In our bachelor thesis we studied the relationship between collective reward system and motivation\(^1\). Our conclusion in the thesis is that it is difficult to reward in a way that will lead to desirable results. We found that the employees did not consider their bonus a reward, rather they expected to receive their bonus annually, and therefore the bonus did not work as the motivation tool the company intended it to be. In our opinion, it is a difficult issue for companies to know how to handle their reward systems, which shows in the present discussion about the reward system in Skandia.

Skandia was a well-respected company in Sweden, but when large bonuses were revealed in 2002 the company’s stakeholders started to question the relevance of the rewards. An investigation revealed Skandia has given a total amount of 3 billions SEK to eleven of its top managers\(^2\). What does this discussion about Skandia illustrate? Reward systems may be a problem for companies and with this thesis we want to contribute to the research about reward systems by viewing it from a management control perspective. Further, management control and strategy is tightly linked together\(^3\), thus strategy is a vital part of this thesis.

Ewing and Samuelson define management control as the actions managers take to reach the company’s predefined goals\(^4\). Armstrong in turn states that the reward system should encourage the kind of behaviour that contributes to the fulfilment of the company’s goals\(^5\). We believe this shows that the reward system is a part of the company’s management control system, since the reward system is a tool to guide the company in the desirable direction. To achieve this, it is important that the employees understand the company’s strategy, which in turn requires that each employee understand how they can add value to

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\(^1\) Limberg, Olofsson and Persson, Kollektiv belöning som motivationsfaktor, Blekinge Institute of Technology, 2003.
\(^2\) Svedbom, Börskometen som blev skandalbolag, Dagens Industri, 2003.
\(^5\) Armstrong, Employee Reward, 1999 p 11.
the strategy. According to Zingheim and Schuster, business strategy, pay and rewards are tightly connected. A company that focuses on rewards when trying to change the company’s performance in a better direction will gain strategic advantage. Armstrong also sees a connection between reward and strategy:

“A strategic orientation to reward means understanding the “big picture” – what the organization is there to do, where it is going, and how it is going to get there. It requires the development of a longer term vision of the future.”

Lawler, as well, states that the company’s business strategy should have an impact on, and in fact also drive the design of the reward system. Lawler also points out that when a company designs systems, not only the reward system, they should keep the business strategy in mind. This is because the business strategy reflects what is important within a company and what it wants to accomplish. It also reflects the desired behaviour and the level of performance needed to be effective.

1.2 Discussing the Connection between Rewards, Management Control and Strategy

Management control has, according to Simons, been considered a vital part of the strategy process during a long time. Anthony defines management control as the “process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives”. However, Simons claims the theories concerning management control and strategy have showed only minor progress. This area has caught our interest and this thesis consequently deals with the relationship between management control and strategy.

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7 Zingheim and Schuster, 2000 op. cit.
8 Armstrong, op. cit. p 69.
Management control comprises many different areas. An overall description of management control includes planning what the company should do, coordinating the activities of the company, communicating information, deciding what actions should be taken and influencing people to change their behaviour. We believe an important part of management control is to encourage the employees to work in a desirable direction that will enable the company to achieve its objectives.

Strategy can be defined in many different ways. For example, Mintzberg defines strategy as a plan, patterns of actions, competitive position or overall perspective. The most common way of using the term strategy is as a plan, i.e. an intended course of action. This is mostly connected with the military’s view of strategy as plans and instructions how to carry out orders. Strategy can also be defined as patterns of action, which is concluded from consistency in behaviour and then labelling it as a strategy. Further, for many companies strategy can be viewed as the perspective or way of doing things in the organisation, something that is embedded in the history and the culture. Finally, strategy can be viewed as a position. A company’s position is the different ways that companies choose to compete in a product market. Strategy as a position is therefore focused on the substance of the specific strategy, i.e. cost leadership, differentiation of products or specific customer segments.

These dimensions are only four ways of defining strategy. Although this is a broad range of definitions, examples of similar ways to define strategy are found in the discussion about the relationship between management control systems and strategy.

Mintzberg stresses the importance of separating the intention behind the strategy and what strategy that in reality is executed. In this thesis we will study the strategy implemented. In our opinion, strategy as patterns of action, plan and overall perspective deals more with formulating strategies and not with the implemented strategy. Strategy as competitive

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position, on the other hand, deals with the implemented strategy and offers various classifications, such as Porter and Miles and Snow\textsuperscript{17}. Conclusively, we choose to view strategy as a competitive position.

There is also a need to make a distinction between corporate strategy and business strategy. According to De Wit and Meyer, corporate strategy is usually applied to the entire organization, while business strategy concerns how a company should compete in a specific business and create a position towards its competitors\textsuperscript{18}. Morgan and Strong use the concept of business strategy with the same purpose:

\begin{quote}
"Business strategy has been characterized as the manner in which a firm decides to compete, which encompasses the pursuit, achievement, and maintenance of competitive advantage in an industry."\textsuperscript{19}
\end{quote}

Due to the broad concept of strategy, we want to clarify that our perception of strategy is, in this thesis, business strategy. Simons has clarified the concept business strategy by classifying it into three different strategic variables. That is, strategic pattern, strategic position and strategic mission. These classifications share many basic ideas, however, they focus on different aspects\textsuperscript{20}. We define business strategy as Morgan and Strong. Consequently, when we use the concept business strategy in this thesis we use the same signification, that is, how the company positions itself amongst its competitors.

Otley points out that there is a need for companies to connect control systems design with aspects of strategy, since control systems need to reflect the aims of the organization. The control system also should reflect the plans that have been developed to achieve those

\textsuperscript{17} Hambrick in Kald et. al., On Strategy and Management Control: The Importance of Classifying the Strategy of the Business, British Journal of Management, 2000.
\textsuperscript{18} De Wit and Meyer, Strategy: Process, Content, Context, 2001 p 40-41.
\textsuperscript{20} Simons in Kald et. al., 2000 op. cit.
Exploring the Congruence between Reward Systems and Strategy – A Competitive Perspective

aims. However, Langfield-Smith concludes in her article that research on the relationship between management control systems and strategy is limited.

As a selection of studies performed, Simons has studied ten newly appointed top managers to find out how they use formal control systems as levers of strategic change and renewal. Further, Otley has performed a theoretical study, which aims to purpose a framework for analysing management control systems. As a tool, Otley uses five questions in his framework to analyse a company’s management control system. In the research conducted, Otley states that more attention needs to be addressed to the link between strategy and management control. Since we use the strategic perspective to understand management control, we agree with Simon’s definition of management control systems as:

“... the formal information-based routines and procedures used by managers to maintain or alter patterns in organizational activities.”

When using this definition of management control systems, the consequence is that we will study formal reward systems and not take into account informal reward systems. According to Gröjer and Gröjer, formal rewards are, in contrast to informal, official and part of a well-developed management control system. Informal rewards are usually not connected to a company’s strategy and objectives, rather it is more of a spontaneous reward. Further, management control systems are information-based systems and information is used within an organisation in many different ways, for example to communicate plans and goals. According to Simons, it is when they are used to maintain or change patterns in organisational activities that these information-based systems become control systems.

22 Langfield-Smith, op. cit.
24 Otley, op. cit.
The alignment between strategy and reward is evidently important. Dolmat-Connell points out that when a company defines its reward system and links its strategy to rewards, it is a great opportunity to achieve competitive advantages. Dolmat-Connell further states, that to be able to be more effective, a company needs to think about their total rewards from a higher perspective, that is the strategic perspective.  

When studying the subject management control and its connection to strategy, we found research that deals with the subject on an overall level. For example, Simons conducted research about the relationship between control system attributes and business strategies. Gupta studied the effects of strategic business units’ strategies and the performance implications on corporate strategic business units’ relations. However, reward systems are seldom discussed, and when discussed only treated as a minor part of management control systems. Govindarajan and Gupta conducted a study where the relationship between reward system and companies’ trade-offs, that is market share growth and short-term earnings/cash flow maximization, is explored. In the study, Govindarajan and Gupta recognize that the study is limited, since it is few variables that have been studied. To explore the topic further, a suggestion is put forward about studying business units with different competitive positions and the relationship to their reward systems.

A study that explicitly deals with the relationship between how performance is measured and how companies position themselves in a competitive market is conducted by Kald. The study examines what measures are used to evaluate performance within Porter’s generic strategies, concentrating on cost leadership and differentiation. Kald studies whether a company uses financial or non-financial measures and if diagnostic or interactive measurements are used. Further, Rajagopolan has studied the relationship between performance, strategic orientation and incentive plan characteristics. In the study, Miles and

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32 Kald, In the Borderland between Strategy and Management Control, 2004 p 175-178.
Snow’s model is used to classify strategic orientation, while we will use Porter’s generic strategies. In contrast to Kald’s study we will also examine additional dimensions in a reward system, not only the financial dimension.

1.3 Purpose

With this thesis our aim is, with both a theoretical and empirical perspective, to investigate the relationship between companies’ formal reward system and how they position themselves amongst their competitors. To accomplish this we use theories to formulate a model, but the purpose is to empirically test the model and see how well it corresponds within a specific industry.

More specifically, the purpose is to:

- Describe the formal reward systems in companies which position themselves in different ways.
- Investigate the concurrence between companies reward systems and their business strategy.
- Test a model with the aim of receiving a better empirical understanding of the relationship between reward systems and strategy within a specific industry.

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2. THEORIES RELATING TO THE TEST MODEL

In this section we will give an account for the theories used to design the test model. To support and design the test model, we have used the theories in a deductive approach. That is, we have used available theories to create a hypothesis/the test model. The results of the study will lead to either a confirmation that these relations in the test model are applicable, or the test model will be adjusted.

2.1 Introducing Strategy

According to Whittington, strategy can be classified into four generic approaches: the classical approach, the evolutionary approach, the processual approach and the systemic approach. The evolutionary approach suggests that the environment is too unpredictable to foresee efficiently. Adherents of the evolutionary approach believe that it is the market that chooses which strategy will be successful, not the managers. Processualists, on the other hand also believe that long-term planning is rather fruitless, and they do not consider strategy to be a rational process. The systemic perspective suggests that strategy is an important matter that can carry out rational plans of action. Further, they believe that it is possible to define strategies that will succeed in spite of market forces. The systemic approach stresses the importance of the social system, where strategy making occurs since different social backgrounds may lead to other interests than maximizing profit.\(^{34}\)

According to Whittington, Michael Porter is associated with the classical approach. The classical approach sees strategy as a rational process that is designed to maximize long-term advantage. Classicists see strategy as something that is vital to secure the future, a rational process of long-term planning.\(^{35}\)

These four approaches stand for three different main views on the impact on how a company can influence its business success. The evolutionary and processual approaches believe that planning is of minor importance since the environment has a great influence and


will overwhelm the strategic plans. The systemic approach believes it is the social context that decides a company’s strategy. We have chosen to use the classical approach, since it coincides with our view on strategy as a rational process. The classical approach also stands for the company’s own ability to influence its strategy and thereby its result, while the other approaches are more of the opinion that external factors have a great impact. Child and Weick support this reasoning by stating that:

“The strategies, structures and processes of the organization are not predetermined by the business environment. Rather, organizations create their own environment by choosing the domain or competitive arena on which their markets, products, technology and ultimately their strategy are based.”  

Choosing the classical approach makes the study less extensive and we do not have to consider the external environment as a variable affecting strategy.

2.2 Porter’s Generic Strategies

2.2.1 Introducing Porter’s Generic Strategies

According to Porter, the goal of a strategist is to find a position in the industry where the company can protect itself against the surrounding forces, or might be able to influence them in a positive direction. If a company has knowledge about these surrounding sources of competitive pressure, it will provide the groundwork to decide where to position the company in its industry. According to Porter, it is important for a company to identify its strengths and weaknesses from a strategic viewpoint. Strategy can either be viewed as assembling protection against its competitive forces, or look for positions in the industry where the forces are weak. Knowledge about its competitive forces will lead the company to enter areas where it should deal with competition and where to avoid it.

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36 Child in Kald et. al., 2000 op. cit.
37 Weick in Kald et. al., 2000 op. cit.
39 Porter in Mintzberg et. al., 1998a op. cit. p 68-69.
Rumelt supports Porter’s ideas and states that a company’s position is composed of the products it supplies to its customers, as well as the chosen market segment and to what extent it lacks competition or not. Once a company has received a good position, it is defensible. This means that enough value is returned to warrant its continued maintenance, and also that the position would be so costly to capture that the competitors are restrained from doing so. It also means that a position tend to be self-sufficient providing that the underlying factors remains stable.40 However, according to Rumelt, it is not possible to guarantee that a particular business strategy is optimal or will work41.

According to Porter, the only way of creating a sustainable competitive advantage is by selecting one of three defensible positions. These are cost leadership, differentiation and focus. Porter further states that positioning

“… determines whether a firm’s profitability is above or below the industry average.”42

If a company fails to pursue one of these strategies it will be “caught in the middle”, which means a bad strategic position and almost guaranteed low profitability43.

40 Rumelt in Mintzberg et. al., 1998a op. cit. p 95-97.
41 Rumelt in Mintzberg et. al., 1998a op. cit. p 92-93.
43 Porter, Competitive Strategy, 1980 p 41-44.
Within the positioning school, Porter is considered to be the most important theorist. We choose to see strategy as the position a company tries to achieve towards its competitors in the business. Further, we have chosen to use Porter’s generic strategies because of the fact that it is a well-known and comprehensible model. Also, Porter’s generic strategies deals with strategy on a business strategy level, instead of a corporate strategy level, which suits the purpose of the study.

2.2.2 Cost Leadership

Cost leadership is one of the two main generic strategies. When a company uses this strategy it sets out to be the low-cost producer in its industry. A low-cost producer often serves different market segments and has a broad market. The sources of cost advantage vary from one industry to another and are e.g. favourable access to raw materials, patent on its technology and economies of scales.

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44 De Wit and Meyer, op. cit. p 218-219.
46 De Wit and Meyer, op. cit. p 215.
A company that focuses on cost leadership tend to supervise its labour intensively, it has a strict control of distribution and overhead costs, and it is important to be able to predict costs with a minimal margin of error. Structured tasks and responsibilities are important and the products are designed for easy manufacturing. A cost leader is always trying in different ways to reduce its costs.47

By reducing costs, a cost leader gains a competitive advantage. The lower costs lead to the company being able to earn higher returns. At the same time it is vital that the customers view the cost leader’s products as comparable to the competitors, otherwise it will have to discount prices to gain sales. This in turn might lead to the advantage of having lower costs being abolished.48 Once a company has achieved the cost leader position it will benefit from high margins, which can be used to reinvest in facilities, equipment etc. to sustain its cost leadership.49

Cost leadership often requires that one company is the cost leader and not one of many companies competing for the same position. If there is a rivalry between the competitors about what company will be the cost leader, the consequence will be low profitability.50

Since costs and efficiency are important factors for a cost leader, the human resource strategies that suit this company often emphasize these factors. The production should be efficient and low-cost and uncertainty should be eliminated as far as possible. A cost leading company is not interested in innovation or creativity because such activities may lead to unnecessary costs. Therefore it is important that the human resource (HR) strategies carefully state what each employee needs to do to maximize efficiency, and the training each employee receives should be job-specific. The employees are paid for the job held and performance appraisal is used mainly as a tool to exclude low performers.51

48 De Wit and Meyer, op. cit. p 215.
49 Porter, op. cit. p 35-37.
50 De Wit and Meyer, op. cit. p 215.
51 Gómez-Mejía et.al., op. cit. p 31-32.
2.2.3 Differentiation

The other main generic strategy is differentiation. When a company uses this strategy it sets out to be unique in its industry. The company chooses one or more attributes that the buyers find important and tries to meet these requirements. How a company chooses to differentiate itself may vary a lot in different industries. Some approaches are special features, brand image and technology.\(^{52}\)

A differentiation strategy provides a competitive advantage because of the brand loyalty it creates. When customers are brand loyal they are less sensitive to changes in price. This makes it possible for the differentiator to invest in costly activities such as research, experimentation with new ideas and designs, without losing loyal customers if the prices should rise.\(^{53}\) The extra price premium that a differentiating company receives for its products must exceed the extra cost of being exceptional and unique in its industry. Therefore, it is important that the differentiator’s products are truly unique and differs from its rivals in order to receive that extra price premium.\(^{54}\) In opposite to the low-cost producer a high market share is not that important. For a differentiator, it is the ability to give the customers what they require that gives the company a high margin.\(^{55}\)

In opposite to the cost leader, the HR strategies that fit a differentiation strategy stress innovation and flexibility. A differentiator tries to attract competent workforce from other companies, since highly skilled labour is important. The work is more loosely planned and the learning is team-based, but emphasizes what each individual can contribute with. Basis for pay is also each individual’s skills, instead of the title of the job held, and performance appraisal is used to make the employees develop instead of a way of controlling them.\(^{56}\)

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\(^{52}\) De Wit and Meyer, op. cit. p 215.

\(^{53}\) Gómez-Mejia et al., op. cit. p 32-34.

\(^{54}\) De Wit and Meyer, op. cit. p 215.

\(^{55}\) Porter, op. cit. p 37-38.

\(^{56}\) Gómez-Mejia et al., op. cit. p 32-34.
2.2.4 Focus

The third generic strategy is focus. When a company chooses this strategy it selects a segment or a group of segments, and tries to serve this group while excluding others. A company that chooses a focus strategy, tries to find a competitive advantage in the segment which it focuses on, even though they do not have an overall competitive advantage in the market. The company has the option of choosing either a cost focus or a differentiation focus. The segment the company aims for must have customers with specific needs. A cost focuser uses different cost behaviour in different segments, while the differentiation focuser tries to exploit the different needs of buyers in different segments. When the competitors in the segment do not meet the needs of the customers, a differentiation focus is suitable. A cost focus strategy is more suitable in the case where the competitors try too hard to meet the needs and thereby engender high costs. Often there is a possibility for different focus strategies within the same industry.\(^57\)

\(^57\) De Wit and Meyer, op. cit. p 215.
Exploring the Congruence between Reward Systems and Strategy – A Competitive Perspective

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<th>Generic Strategy</th>
<th>Commonly Required Skills and Resources</th>
<th>Common Organizational Requirements</th>
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| Overall Cost Leadership| - Sustained capital investment and access to capital  
- Process engineering skills  
- Intense supervision of labour  
- Low-cost distribution system | - Tight cost control  
- Frequent, detailed control reports  
- Structured organization and responsibilities  
- Incentives based on meeting strict quantitative targets |
| Differentiation         | - Strong marketing abilities  
- Product engineering  
- Creative flair  
- Strong capability in basic research  
- Corporate reputation for quality or technological leadership  
- Long tradition in the industry or unique combination of skills drawn from other businesses  
- Strong cooperation from channels | - Strong coordination among functions in R&D, product development and marketing  
- Subjective measurement and incentives instead of quantitative measures  
- Amenities to attract highly skilled labour scientists or creative people |
| Focus                  | - Combination of the above policies directed at the particular strategic target                      | - Combination of the above policies directed at the particular strategic target                      |

Figure 2 Requirements of the generic strategies

2.3 Introducing Reward Systems

The main purpose of a reward system is to motivate the employees to work in a direction that corresponds with the company’s predefined goals. According to Samuelson et. al., rewards control our behaviour. Consequently, to make the employees work in a desired direction it is important that companies use rewards which stimulate the desirable behaviour. Further, it is of significant importance that the reward system is designed in a way that makes the individual or the group feel they are able to influence the results. Thus, if a company wants to stimulate innovation and growth, the rewards should be based on

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58 Porter, op. cit. p 40-41.
measures of performance, for example, the growth achieved or number of products introduced.\textsuperscript{59}

In spite of the discussion about the importance of soft values and also the introduction of Kaplan and Norton’s Balanced ScoreCard, the main focus is still on financial measures. Traditionally used measures are return on equity and return on working capital. Examples of non-financial measures are product quality, customer satisfaction and innovation ability.\textsuperscript{60}

Another important aspect to consider when designing a reward system is whether the reward should be based on the group’s performance or the individual’s performance. Regardless of what basis the company chooses it is difficult to motivate the employees to work in a way that the company will benefit from. The issue will be discussed further in section 2.5.3. Also important to consider is who should be included in the reward system. Usually, the managing director is comprised in the reward system, but also other managers and employees may be included in the reward system.\textsuperscript{61}

2.4 Classification of a Reward System

A reward is a generic term for every action a company takes to encourage a desirable behaviour.\textsuperscript{62} The list of rewards is extensive and different authors have different ways of categorising reward systems. According to Samuelson et. al., a reward system may include pay, tantiem, bonus, rake-off trusts, convertible notes and stock options. Apart from the financial rewards, a reward system may also include non-financial rewards like benefits, career opportunities, additional assignments, job rotation and competence development.\textsuperscript{63} Smitt et. al., on the other hand, have chosen to divide a reward system into bonus, gratuity, benefits and stock options.\textsuperscript{64}

\textsuperscript{59} Samuelson et. al., Controllerhandboken, 2001p 109-112.
\textsuperscript{60} Samuelson et. al., op. cit. p 132-134.
\textsuperscript{61} Samuelson et. al., op. cit. p 134-140.
\textsuperscript{63} Samuelson et. al., op. cit. p 120-121.
\textsuperscript{64} Smitt et. al., op. cit.
As a result of the literature providing different aspects of what parts a reward system consists of, we have found three overall categorizations, that is: pay, bonus and benefits. According to Samuelson et. al., pay is regarded as a company’s primary motivational factor and may therefore be included in a reward system. This originates in the opinion that competence and performance is reflected by the employees pay. Thus, the employees pay motivates and creates a commitment to the company and its business idea.\textsuperscript{65} On the other hand, pay may also be perceived as something Hertzberg calls a hygiene factor, and Armstrong shares the same opinion. Hygiene factors are necessary for the employees to do their work, but do not stimulate them to achieve a greater performance. However, the pay may however lead to dissatisfaction if it suddenly would decrease or not be handed out at all.\textsuperscript{66} As a result of this, we exclude pay from this thesis since we believe rewards should be given when predetermined targets have been reached, or an employee has achieved a higher performance.

2.4.1 Bonus

When a company wants to achieve a significant connection between what the company wants to accomplish and the employee’s performance, a bonus is often used. The employee receives the bonus when he/she has fulfilled objectives that are based on results. If the result is according to the budget, the employee will receive a bonus that respond to a predetermined sum. Consequently, when the result is higher than compared to budget, the bonus will become higher. Thus, when the objectives are not fulfilled, the bonus is not forthcoming. A bonus can be based on both individual and collective performance. A combination of both individual and collective performance also occurs.\textsuperscript{67} When the bonus is based on a collective performance it is distributed either in the way that each employee receives the same sum, or the employees receive a percentage of their salary.\textsuperscript{68} The individual bonus is often used as a reward for salesmen, and is often a considerable part of their total salary. The collective bonus is based on the performance of a group of employees.

\textsuperscript{65} Samuelson et. al., op. cit. p 121-122.
\textsuperscript{66} Armstrong, op. cit. p 50.
\textsuperscript{67} Smitt et. al., op. cit. p 14-16.
\textsuperscript{68} Armstrong, op. cit. p 338-339.
The advantage with using a collective bonus is that the consciousness of each employee’s responsibility may increase.\(^69\) A bonus can consist of e.g. cash, options or stocks.\(^70\)

A condition for the success of bonuses is that the company should have the opportunity to measure and assess the achieved results. A bonus that is based on results should, according to Svensson, be based on three components: financial results, improvements in productivity and improvements of quality. The bonus based on results should be based either on the company’s or the team’s result.\(^71\)

Further, bonus exists in other forms than bonus based on results. It is important to make a distinction between bonus and reward, since these terms are often used interchangeably. Bonus is a part of the reward system, which of course makes it a reward, but is only given when predetermined targets and goals have been achieved.\(^72\) Gratification is a reward that can be classified as both a reward and a bonus. Gratification is based on the company’s result after financial posts, and the company can decide to reward the employees after a year when the results have been satisfying. The employees are unaware of the situation and then the gratification takes the form of a reward. In contrast, the company can work with objectives and inform the employees that if the result exceeds a certain figure, then the employees will receive 10\% of that profit. In that case, the gratification is classified as a bonus.\(^73\)

2.4.2 Benefits

Employee benefits are the part of the whole reward which adds to cash pay\(^74\). Benefits can, according to Svensson, be divided in tax-deductible benefits, such as an official company car or a beneficial loan, and benefits that are non tax-deductible, e.g. insurances and medical care\(^75\). Armstrong has chosen to divide employee benefits into three types. Deferred or

\(^{69}\) Samuelson et. al., op. cit. p 122-124.
\(^{70}\) Smitt et. al., op. cit. p 28-29.
\(^{71}\) Svensson, op. cit. p 54-55.
\(^{72}\) Svensson, op. cit. p 19-20.
\(^{73}\) Smitt et. al., op. cit. p 30-33.
\(^{74}\) Armstrong, op. cit. p 407.
\(^{75}\) Svensson, op. cit. p 38-49.
contingent benefits, such as a pension scheme. Immediate benefits, such as a company car and benefits that are not strictly remuneration, such as holidays. Armstrong states that the aim for benefits is to provide security for the employees, and thereby make them feel they are members of a considerate company. The aim is also to increase each employee’s personal commitment to the company. 76 Smitt et. al. state that the employee’s attitude towards benefits depends on the size of the employee’s pay. If the income is low, benefits are more important. 77 We perceive benefits as one of the most long-term based rewards, and it can also function as a competitive tool when it comes to recruiting new employees.

Financial rewards and employee benefits together comprise the total remuneration. 78

2.5 Dimensions of a Reward System

2.5.1 Short-term Perspective – Long-term Perspective

The measurements that the rewards are based on can be either short-term oriented or long-term oriented. Samuelson et. al. state that using only measures that are short-term based, may cause problem for the company. An example of this is to frequently adjust the company’s investments in R&D, depending on the company’s current financial situation. The effect will be that the company’s commitment to invest capital in R&D will not be completely carried out. 79 Rappaport stresses the importance of the rewards correspondence with the company’s long-term objectives. Rappaport also points out a company should try to base the rewards on longer terms than a year, and instead try to look at performance over several years. 80 However, Samuelson et. al. question if it is possible to base rewards on long-term strategic objectives instead of short-term measures. For example, it is difficult to evaluate a manager who during several years has worked on different positions, since his/her performance varies with the position held. 81 Further, Samuelson et. al. state that it is important to create a balance between measures based on short-term and long-term

76 Armstrong, op. cit. p 391-392.
77 Smitt et. al., op. cit. p 36-37.
78 Armstrong, op. cit. p 2-3.
79 Samuelson et. al., op. cit. p 143-144.
80 Rappaport in Samuelson et. al., op. cit. p 143-144.
81 Samuelson et. al., op. cit. p 143-144.
perspectives. That is, these measures have to complement each other and not be counter productive.\textsuperscript{82} Rajagopalan defines long-term perspective as three to five years and everything beneath that is considered a short-term perspective\textsuperscript{83}.

According to Porter’s generic strategies, a cost leading company practices tight cost control, which leads to frequent follow-ups to control that costs are at the predicted level\textsuperscript{84}. We believe that this results in cost leaders practicing short-term measures as the basis for rewards. Since differentiating companies focus on innovation and R&D, short-term measures are more difficult to use as a basis for rewards since these activities focus on the company’s future, and is a mean for sustaining its competitive advantage\textsuperscript{85}. Ouchi also support this argument, by stating that if a company wants to be able to concentrate on creativity and innovation, short-term measures on monthly, quarterly or even annual intervals are inappropriate\textsuperscript{86}. Conclusively, long-term measures should be more suitable for differentiated companies.

2.5.2 Quantitative Measures – Qualitative Measures

Quantitative measures, such as return on investment (ROI), have traditionally been used to calculate rewards. However, critique against the explicit use of quantitative measures points out that these kinds of measures are short-term oriented. Employee receiving a bonus are likely to sacrifice actions which could lead to better performance in a long-term perspective, only to maximize his/her own reward.\textsuperscript{87}

As mentioned earlier, according to Porter’s generic strategies, a cost leading company practices tight cost control, which leads to frequent follow-ups to control that costs are at the predicted level\textsuperscript{88}. Govindarajan and Gupta also state that a cost leading company should

\textsuperscript{82} Ewing and Samuelson, op. cit. p 43-46.
\textsuperscript{84} Porter, op. cit. p 35-37.
\textsuperscript{85} Porter, op. cit. p 40-41.
\textsuperscript{86} Govindarajan and Fisher, op. cit.
\textsuperscript{87} Samuelson et. al., op. cit. p 139-141.
\textsuperscript{88} Porter, op. cit. p 35-37.

20(102)
emphasise financial targets. Further, since cost leading companies emphasise financial information, it is rather easy to have a follow-up on cost and revenues. We are of the opinion that companies which focus on keeping costs low use quantitative measures, since costs are a figure which can not be evaluated through qualitative measures.

Furthermore, Porter states that a differentiator use subjective measures. We share this opinion, since it is suitable to use qualitative measures to evaluate R&D and innovative activities. Govindarajan and Fisher support this suggestion when they claim that a differentiated company base rewards on a subjective judgement. A cost leading company, on the other hand, is more inclined to use objective and quantitative measures. Differentiated companies deal with a greater uncertainty, such as whether their new products will be a success or if it will be possible to enter new markets. Due to these circumstances, the focus on financial measures will be given less emphasis. It is also asserted that managers in a differentiated company are evaluated on e.g. the quality of their customer service, while cost leading companies reward their managers on e.g. the company’s results.

Conclusively, we are of the opinion that a cost leading company should use quantitative measures, while a differentiated company should use qualitative measures.

We are well aware of the fact that there may be a subtle distinction between quantitative and qualitative measures. Indirect, it is possible to consider all measures to be quantitative, since many of the qualitative measures are presented by numbers. However, our definition of a qualitative measure is that it is the basis of the measure that determines whether it is qualitative or quantitative. The division between quantitative and qualitative measures is created according to Appendix D.

89 Govindarajan and Fisher in Kald, op. cit. p 176-177.
90 Shank and Govindarajan in Kald, op. cit. p 176-177.
91 Porter, op. cit. p 40-41.
92 Govindarajan and Fisher, op. cit.
93 Biggadike and Miller in Kald, op. cit. p 176-177.
94 Shank and Govindarajan in Kald, op. cit. p 176-177.
95 Govindarajan and Fisher, op. cit.
2.5.3 Collective Performance – Individual Performance

Rewards can be either collective or individual. Bonus based on results is one example of such a reward. If the bonus is calculated collectively, it is based on the performance of either a group of employees, e.g. a team, or the performance of all employees. When the bonus is calculated individually, the bonus is instead based on a single individual’s performance. This is not a static relationship, the bonus does not have to be either individual or collective, a mixture of both collective and individual bonuses exist.96

Svensson states that when deciding to reward individual performance, there is a risk that the employee prioritizes the work that gives him/her a personal advantage. The ability to work together is an important criterion and sometimes it is desirable to reward results that are founded in superior cooperation. A bonus based on collective performance should, according to Svensson, stimulate the cooperation in different groups within the company.97 Thus, there might be a risk of the free-rider problem, which means that one member of the group will receive bonus even though his/her performance has been low. Further, individuals may end up in a situation where they do not see the link between their performance and the company’s results. This in turn affects the individual’s motivation to perform his/her job in an effective way.98 To counteract that various groups strive only for their own achievement, the bonus should be based both on the results of the group as well as the entire company’s results.99

The fact that cost leading companies emphasize cost reduction and base its rewards on quantitative measures lead us to the conclusion that the rewards should be based on collective performance. The reason for this is that a company’s costs are based on a company or divisional level and cannot be traced to a single individual. Further, since a cost leading company follows output control and also has high task programmability100, we believe cost leadership results in rewarding collective performance. This is mainly due to

96 Smitt et. al., op. cit. p 14-16.
97 Svensson, op. cit p 69-70.
98 Samuelson et. al., op. cit. p 140.
99 Svensson, op. cit. p 69-70.
100 Govindarajan and Fisher, op. cit.
when using a routine way of working, there is no need for separating the employees’ individual performance, since the awareness of processes and the different tasks is high. Hence, when evaluating the company’s result no adjustments for individual performance is necessary. For a differentiating company, which focus on innovation and personal skills, we find it more suitable to reward individual performance. This is because if innovation and learning new skills are to be achieved, the employee needs to be rewarded for his/her own effort in this area. A differentiated company has low task programmability, where the knowledge of the processes and each individual’s performance is more difficult to account for. This makes it harder to trace the performance and therefore a differentiated company should base reward on individual performance.

2.5.4 Social Rewards – Financial Rewards

The fourth dimension is whether the rewards are of a financial or a social character. A social reward can be various things, such as constructive criticism, office party or further education. Social rewards strive to create a pleasant working environment. A financial reward on the other hand is the kind of reward discussed under sections 2.4.1 bonus and 2.4.2 benefits.

According to Gómez-Mejía et. al., a differentiator tries to attract competent workforce. Social rewards are important to attract skilful and competent employees, accordingly it seems coherent that differentiated companies use social rewards to a greater extent than financial rewards. However, this does not imply that a differentiated company only uses social rewards. Further, a differentiated company emphasizes individual contribution and pay is based on individual skills. By implication, we believe a differentiator consider education for each employee an important issue. To be able to attract competent and skilful employees, we are of the opinion that both social and financial rewards should be included in the reward system. A cost leading company on the other hand focuses strictly on meeting quantitative targets, which are based on cost measures. Opposed to a differentiated

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101 Govindarajan and Fisher, op. cit.
103 Gómez-Mejía et. al., op. cit. p 32-34.
104 Gómez-Mejia et. al., op. cit. p 32-34.
company, a cost leading company carefully states what each employee needs to do and do not encourage innovation and flexibility.\textsuperscript{105} Hence, social rewards should not be of a great importance for a cost leading company, rather it focuses on financial rewards.

2.6 The Test Model

The test model is based on four different dimensions, these dimensions are the cornerstones of a reward system. In the test model these dimensions are combined with Porter’s generic strategies to illustrate the connection between positioning and reward systems. When conducting the study we will use this test model and apply it to the companies participating in the study.

\begin{figure}
\begin{center}
\begin{tabular}{|c|c|c|c|c|}
\hline
\textbf{Positioning} & \textbf{Cost Leadership} & \textbf{Differentiation} & \textbf{Cost Focus} & \textbf{Differentiation Focus} \\
\hline
1 a. Short-term Perspective & X & & X & \\
1 b. Long-term Perspective & & X & X & X \\
2 a. Quantitative Measures & X & & X & \\
2 b. Qualitative Measures & & X & X & \\
3 a. Collective Rewards & X & & X & \\
3 b. Individual Rewards & & X & X & \\
4 a. Social Rewards & & X & X & \\
4 b. Financial Rewards & X & X & X & X \\
\hline
\end{tabular}
\end{center}
\end{figure}

Figure 3 The test model

\textsuperscript{105} Porter in Govindarajan and Fisher, op. cit.
3. METHOD TO CONDUCT THE STUDY

In this section we will describe the methodological approach to the study. The purpose is to create an understanding for the conditions and choices that characterise the study.

3.1 The Jigsaw Puzzle

We would like to compare the research with a jigsaw puzzle. We have different parts of the puzzle that we have put together to see the entire picture and if there is a relationship between reward systems and business strategy. More important, we wanted to find out what that relationship looks like. Since our aim was to test a model, which has been developed by using theories, we have used a deductive approach. Starrin et. al. call deduction the way of evidence, since the approach wants to use hypotheses to reject or accept a certain phenomena.106

The theories used to design the test model, were applied by using a deductive approach. However, when modifying the test model an inductive approach was applied. Generating new theories is what an inductive approach aims for according to Starrin et. al. The authors call induction the way of discovery and states that it is a complex process.107 Thus, section 3 gives an account for the theories used to design the test model, and in section 4.7 the test model is modified according to the results. We cannot label the study with either of these concepts and we draw attention to the fact that the study mixes both inductive and deductive approach.

3.2 Choice of Method for Collecting Data

The information we aimed to collect from the respondents was not subjective information. That is, we were not interested in how the respondents experience their reward system, neither were we interested in how they perceive their strategic position. Rather, our aim was

107 Starrin et. al., op. cit. p 21-22.
to gather as much direct information as possible, to be able to make a correct classification of strategic positioning and reward systems.

When a problem statement demands that questions have to be asked, Patel and Davidson state it is suitable to use interviews and surveys when conducting the research\textsuperscript{108}. Ghauri and Grønhaug believe interviews are one of the best methods to collect data, but the authors also point out that the complexity involved when conducting an interview is underestimated\textsuperscript{109}.

Interviews are a possible method to gather information and could be appropriate for this thesis. When we started to consider what method to use to gather data for the thesis, structured interviews seemed to be the natural choice. After constructing the interview guide and the first contact with the respondents had been established, we realised that the respondents did not have the possibility to put aside time for a telephone interview. Therefore, the interview guide was reconstructed into a survey. We do not believe the results of the survey vary from if we had done telephone interviews, since the interview guide and the survey are identical. Further, the advantage with surveys is that all data will take the same form, which will make it easy to compile. The disadvantage with surveys is the lack of control over who is responsible to complete it. To minimize that error, we have talked to all the respondents to certify that they have knowledge about the phenomenon we want to study. The respondent’s position in the company is in most cases the personnel manager or the managing director. After the first contact with the respondents, we received permission to send the survey via email.

3.2.1 Choice of Industry

We chose to conduct the study within one specific industry, the Swedish clothing industry. The Swedish clothing industry is a competitive market where it is possible to clearly see how companies position themselves in order to be successful. Further, we believe that

\begin{footnotesize}
\textsuperscript{108} Patel and Davidson, Forskningsmetodikens grunder, 2003 p 69.
\textsuperscript{109} Ghauri and Grønhaug, Research Methods in Business Studies, 2002 p 100.
\end{footnotesize}
companies within the Swedish clothing industry are easy to classify according to Porter’s
generic strategies.

At first, we considered to study two industries to gain a greater scope and also be able to
compare and contrast the two industries. However, since reward systems may vary from one
industry to another, it would be difficult to draw any scientific conclusions. Instead, we
chose to focus on one industry with the aim to be able to draw conclusions from that
particular industry.

3.3 Collecting Data for the Study

We chose to use structured surveys to conduct the study. This means that we emphasize the
use of fixed answers and direct questions, which all respondents should easily understand.
There are two kinds of surveys; analytical surveys and descriptive surveys. Our survey is a
mix of both these types, since our purpose is both to describe and test a model. 110 The
survey questions were designed in advance and aimed for a thorough and systematic review
of the areas concerning the study.

3.3.1 Survey

When conducting the survey (see Appendix A), we have taken Svenning’s advice under
consideration. Svenning states that it is necessary to be sensible of what type of answers the
respondents will give, since it is difficult to correct the survey after it has been made. The
questions and the answers therefore need to be as exhaustive as possible. 111 Due to this
problem, we tested the survey on a test group in order to avoid any misunderstandings.

We studied Gyllberg and Svensson’s thesis in order to design the survey. The authors’
thesis has been especially helpful when designing the questions concerning the companies’
strategy. 112 The survey also takes into consideration Svenning’s advice concerning

110 Ghauri and Grønhaug, op. cit. p 92-102.
112 Gyllberg and Svensson, op. cit.
interview guides\textsuperscript{113}, as well as Ghauri and Grønhaug’s advice concerning surveys\textsuperscript{114}. That is, we avoid expressions like “many” since we do not want the respondent him/herself defining the answers. The questions are easy to understand and we do not ask questions where the respondents have to give two answers. If a question requires two answers, we consider Svenning’s advice and divide the question into an “a” and a “b” question. The aim is that it should not be possible to misunderstand the question. As a consequence, the survey consists of short and concise questions and the reply alternatives are precise and straightforward. Finally, we do not use either leading or emotionally charged questions.\textsuperscript{115} The area of reward systems is somewhat emotionally charged today and there may be a possibility that the companies do not reveal information about their reward systems. However, all companies in the study are anonymous and we believe this will increase their willingness to answer questions about the reward systems.

3.3.2 Selection of Companies

We used the information source Affärsdata on the internet to make the selection of companies for the study\textsuperscript{116}. Further, the selection has been made among companies with more than 50 employees within all different legal forms of companies.

According to the selection criteria, we obtained a selection of 36 companies. However, three out of these were not specialised within the clothing industry and were therefore excluded from the survey. Out of the 33 remaining companies, 25 companies were interested in participating in the study. In the end we received 21 completed surveys.

3.4 From Theory to Survey

To be able to conduct the study we will classify the companies according to Porter’s generic strategies. The companies will be classified according to the criterions in sections 3.4.1-3.4.4.

\textsuperscript{113} Svenning, op. cit. p 108-112.
\textsuperscript{114} Ghauri and Grønhaug, op. cit. p 98-102.
\textsuperscript{115} Svenning, op. cit. p 108-112.
\textsuperscript{116} <http://www.affarsdata.se> 2004-04-20.
Hamel, amongst others, has criticized Porter’s generic strategies. The author claims that the traditional competitive strategy paradigm, e.g. Porter, is too focused on product-market positioning. This aspect only focuses on the last few hundred metres of the skill-building marathon that takes place within a company. Instead, what should matter in strategy according to Hamel, is the long-term construction and consolidation of a company’s internal competences.\textsuperscript{117}

Further, Miller questions whether Porter’s generic strategies do not

“...cause inflexibility and narrow an organization’s vision.”\textsuperscript{118}

With this Miller means that a company that sets out to be a differentiator might focus too much on e.g. quality and forget about economy. Baden-Fuller and Stopford takes the example of Benetton, which managed to produce high fashion at a low cost and large scale. Another critical aspect has been brought up by Gilbert and Strebel, who takes the example of Toyota that entered the market as a low-cost producer and then chose a differentiation strategy to capture more market share.\textsuperscript{119}

We are aware of the critique mentioned above towards Porter’ generic strategies. The effect this might have on the study is that it may limit the results to the extent that we can only state what strategic position the companies possess at the present. Given that a strategic position may change in the future, if the study is carried out for a second time some years from now, the results may not be the same since a strategic position is not a static state.

Porter states that a company that adopts one specific generic strategy will do better than a company which do not succeed in establishing one pure generic strategy. Karnani disagrees with Porter, and states that a company should practise a combination of both cost leadership and differentiation strategy. Karnani reasons that differentiation and cost leadership are a

\textsuperscript{117} Hamel in Whittington, op. cit. p 22-27.
\textsuperscript{118} Mintzberg et. al., Strategy Safari, 1998b p 102.
\textsuperscript{119} Mintzberg et. al., 1998b op. cit. p 102-104.
continuum and a company needs a combination of both strategies to gain competitive advantage.\textsuperscript{120}

3.4.1 Criterions for a Cost Leading Company

The criterions for a company to be a cost leader should be the following: According to Porter, a cost leader has a broad market and serves several different segments on the market\textsuperscript{121}, therefore we are of the opinion that a cost leading company should consider its assortment to be directed to various segments of customers.

Porter states that a cost leading company always tries to keep its cost low which results in a low price\textsuperscript{122}. When applying this, the company should consider its selling price to be lower when comparing to its competitors.

Porter states that it is important that the customers view the cost leader’s products as comparable to the competitors. Otherwise the company will have to lower its prices to gain sales.\textsuperscript{123} When deciding if the company is a cost leading company we believe that the most reasonable assumption concerning the company’s product quality, is that it should be either equal or higher, since the product otherwise will not be perceived to be of the same standard. A consumer will not buy a product with a lower price if the quality is poorer. We are of the opinion that Porter’s theory about product quality and cost leading companies can be difficult to apply on the clothing industry. When buying clothes, a consumer does not necessarily think about quality when the price is low. Even though we question Porter’s generic strategies, we have decided to apply it, and therefore the company should regard its product quality to be either equal or one rank higher compared to its competitors to be perceived as a cost leading company.

\textsuperscript{121} De Wit and Meyer, op. cit. p 215.
\textsuperscript{122} Gómez-Mejía et. al., op. cit. p 32-34.
\textsuperscript{123} Porter, op. cit. p 35-37.
Brand profiling and service should be equal or lower. This is because a cost leading company tries to keep its costs down, and as a consequence may not be able to have a large staff of employees or invest a lot of money in marketing its brand. Further, they may not afford to buy high profiled brand products, since these products do not earn as high return as the other products.

As discussed above, a cost leading company focuses on reducing its costs, which in turn results in a lower price. Consequently, companies within cost leadership should identify the selling price as their competitive advantage.

We consider objectives such as short-term profitability, long-term profitability, cost effectiveness, quality and service to be of importance for a cost leading company. Quality and service are not the most distinguished objectives for a cost leading company. However, the company should not ignore these issues, since it probably would result in the customer not thinking the product to be equivalent to other products on the market. One or more of the objectives: cost efficiency, long-term and short-term profitability should be high up in the ranking, since these objectives are critical for a cost leading company. As Porter points out, a cost leader is always trying in different ways to reduce its costs\textsuperscript{124}, and therefore objectives such as profitability and cost efficiency should be prioritized in a cost leading company since it measures costs.

3.4.2 Criteria for a Differentiated Company

The criteria for a company to be differentiated should be the following: A differentiated company should direct its assortment to various segments on the market. When a company uses this strategy it sets out to be unique in its industry. However, that is not the same as direct its assortment to only one customer segment, rather, a differentiator wants to sell unique products.\textsuperscript{125}

\textsuperscript{124} Gómez-Mejía et. al., op. cit. p 32-34.
\textsuperscript{125} De Wit and Meyer, op. cit. p 215.
Exploring the Congruence between Reward Systems and Strategy – A Competitive Perspective

We find it likely that a company that is differentiated, considers its characteristics (selling price, product quality, brand profiling and service) to be considerably higher or higher than its competitors. The reason why one or several of the characteristics should be considerably higher is because it is those characteristics that the company specializes in. The company aim is to be unique by being superior to its competitors on that specific characteristic. Which characteristics that is chosen to be considerably higher is not of great importance, it is the fact that the company views that characteristic as considerably higher compared to its competitors that is relevant. A differentiated company would most likely have a selling price that is considerably higher, or higher. That is because a differentiation strategy may carry higher costs and the customers are willing to pay a higher price for its products because they are perceived as unique.\textsuperscript{126}

A differentiated company should regard its competitive advantage to be a unique characteristic or other characteristic, since that is Porter’s main criterion for a differentiated company.\textsuperscript{127}

Since differentiated companies may focus on various aspects and characteristics depending on what feature they specialize in, it is not evident how a company chooses to rank its most essential objectives. However, since a differentiated company stresses innovation and flexibility,\textsuperscript{128} innovation ability is one of the objectives that we suggest should be considered as important. Unique products should also be ranked highly for the company to be considered as a differentiator. Regarding service and product quality, one of these objectives may be important because it is an indicator of what the company specializes in. A differentiated company focuses more on R&D and innovation than a cost leading company, which leads us to believe that long-term profitability will be ranked highly, since the results of such activities can not be measured immediately.\textsuperscript{129}

\textsuperscript{126} Gómez-Mejía et. al., op. cit. p 32-34.
\textsuperscript{127} De Wit and Meyer, op. cit. p 215.
\textsuperscript{128} Gómez-Mejia et. al., op. cit. p 32-34.
\textsuperscript{129} Porter, op. cit. p 40-41.
3.4.3 Criterions for a Focused Company

A company that follows a focus strategy should consider its assortment to be directed to one segment on the market. As Porter states, choosing one segment is how a focused company gains competitive advantage. This statement is not, however, entirely true. A focused company may consider its assortment to be directed to several segments, which is contradictory to the main criterion. However, it is possible that the company specifies two or three segments that are alike, which then can be considered as a focus strategy. To determine whether the company follows a focus cost leadership strategy or a focus differentiation strategy, the criteria in sections 3.4.1 and 3.4.2 are used.

3.4.4 Caught in the Middle

We are aware of the fact that some companies may not fit into one of the four strategic positions, that is: cost leadership, differentiation, focus cost leadership and focus differentiation. The companies that we have not been able to classify are treated as one unit. We do not intend to exclude companies that do not have a reward system, since we believe it is possible to generate conclusions on basis of the strategic position and the lack of reward systems.

Porter claims that if a company can not position itself within one of the three generic strategies, the company will be caught in the middle. As a result, Porter claims that such companies are in a bad strategic position on the market and most likely have a low profitability.

3.4.5 Realised Strategies

According to Simons, it is important to distinguish between intended strategies, emergent strategies and realised strategies. Intended strategies are strategies the manager wants to accomplish. Emergent strategies are unplanned strategies that occur spontaneously within the company, while opportunities and threats arise. Realised strategies are the result of

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130 De Wit and Meyer, op. cit. p 215.
131 De Wit and Meyer, op. cit. p 215.
intended strategies that actually have been implemented, and emergent strategies that have occurred spontaneously. Thus, realised strategies reflect what has actually happened.\textsuperscript{132}

Consequently, the term realised strategies is used when considering the company’s market position. It is the company’s current position that underlies the basis for the study, not what the company wants to accomplish in the future.

We are aware of the fact that few companies have one absolute strategy, but at the same time may be influenced by another generic strategy. When classifying the companies, we have to make an adjustment depending on what strategy is dominating. The companies which are in between two different strategies, have been classified as being caught in the middle.

3.5 Considerations Concerning the Study

One aspect we have had to consider when performing the survey is the possibility of errors that may occur when you are not in direct contact with the person who complete the survey. To avoid this, we tested the survey by letting a number of people answer it, generating creative feedback. We have also tried to design both the questions and the answering alternatives as concrete as possible to avoid misunderstandings. Further, it is also difficult to be certain it is the person with most knowledge about the topic that has been responsible for completing the survey. We have tried to minimize the risk for errors by talking to each respondent to make sure that he/she has the needed knowledge.

The term reward system is a broad concept, which may have caused difficulties concerning the term social rewards. None of the companies has specified that they use social rewards. This might be due to the fact that social rewards may not be perceived as a part of the formal reward system in Sweden. We believe that social rewards exist, however they are evidently not included in the formal reward system.

When the results of the survey turned out to be unanimous and inconsistent with the theories, we had to find alternative theories to understand and analyze why the result turned out differently. However, we do not believe that it is the design of the survey that has made it difficult to analyze the results, instead it is because of the unexpected results.
4. THE RESULTS OF THE SURVEY

In this section we will present a summary of the results from the survey. More detailed answers received from each company, can be found in Appendix B.

4.1 Introduction of the Companies in the Study

A majority of the companies have between 50-99 employees. Only 4 companies have more than 200 employees. Within the Swedish clothing industry there are a few large companies that together capture a large market share. Some of these companies have chosen not to participate in the study, which explains why the number of companies exceeding 200 employees is relatively small. Further, some of the companies that have between 50-99 employees work with franchise contracts. As a consequence, the employees in each store are not included in the number of employees within the parent company. This explains why some companies that are relatively large end up in the group with 50-99 employees. In fact, they have a greater number of employees when the whole business is included. Within the companies participating in the study, there is a tendency towards trading with either women’s clothing or trading with a mix of products for women, men and children.

4.2 The Companies’ Reward Systems

After completing the compilation of the study, we found that 16 of the companies have one, or several, formal and official reward systems. The results also show that it is more common to use more than one reward system, since 9 out of 16 companies use more than one reward system. This indicates that the companies in this study try to practise different reward systems for different groups of employees. These 16 companies use a total of 28 reward systems, which in this study will be regarded as separate reward systems. The remaining 5 companies do not have a reward system.
The reward systems in this study include different groups of employees. The shop managers are most frequently included in the reward system, with 13 out of 28 reward systems aiming to reward this group of employees. We are not surprised that the shop managers are the most frequently rewarded group of employees, since they have the outermost responsibility for the results of the shop. On the other hand, it is notable that the salesmen are not as frequently a part of the reward system. Many companies often reward their salesmen to encourage greater sales, but according to the results that do not seem to be a common feature in the Swedish clothing industry. Further, the other reward systems are quite equally divided between the other groups of employees. One reward system can include more than one group of employees.

Another aspect regarding reward systems is whose performance the reward system is based on. The most common feature is that the reward system is based on a collective performance. 17 of the reward systems are based on the company’s performance, while 11 are based on the group’s performance. 3 reward systems on the other hand concentrate on the individual’s performance.
Each reward system is based/calculated on a time plan. A majority of the reward systems are calculated on a time plan of either 1-6 months or 1 year. The most common time plan is 1 year with 16 out of 28 reward systems, hence 11 reward systems has an even more short-term perspective using a 1-6 months’ time plan. Only one reward system uses a long-term perspective, and the group rewarded in this case are the executives. We had expected to find more companies that reward in a longer perspective, since according to Rajagopalan, it is an efficient reward\textsuperscript{133}. However, a long-term perspective, that is a minimum of 3 years, may be a too remote perspective in the Swedish clothing industry.

All reward systems in the study are based on quantitative measures, such as e.g. EBIT. In addition, 3 of them use qualitative measures. It is remarkable that as few as 3 reward systems use qualitative measures. In 1992, Kaplan and Norton introduced their Balanced Scorecard, where they use short-term orientated control together with a long-term vision and strategy\textsuperscript{134}. That in turn has directed more attention towards the importance of qualitative measures. Our results indicate that qualitative measures have not been embraced within the Swedish clothing industry, instead established quantitative measures are still widely used.

All reward systems include financial rewards, 27 of these consist of bonus and money whereas 1 reward system consist of options. No reward system consists of social rewards, but one reward system comprises benefits such as health insurance, health care and company car. It appears as though the companies in the study reward in a traditional way and money still prevail as an important factor. We believe that one factor why so few companies have answered that benefits are a part of their reward system, may be because benefits are not perceived as a reward but as a part of the employment contract.

\textsuperscript{133} Rajagopalan, op. cit.
\textsuperscript{134} Olve et. al., Balanced Scorecard i svensk praktik, 1999 p 21-23.
4.3 The Companies’ Market Position

A majority of the companies in the study, that is 18 out of 21, aim to serve several different segments of customers. The remaining 3 companies are adjusted to one specific segment of customers. Some of the companies have answered that their assortment is directed to several segments of the market. We question whether this is a reality or more of a wishful thinking, since for example stores which aim to serve the female market in some cases answers that its assortment is directed towards to all females, ranging from teenagers to ladies. According to our experience, there are not many stores that attract both teenagers and ladies.

This figure illustrates how the companies have distinguished themselves compared to other companies within the same business. For example, two companies have ranked their selling price as considerably lower (1) compared to other companies.

<table>
<thead>
<tr>
<th></th>
<th>Considerably Lower</th>
<th>Equal</th>
<th>Considerably Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling Price</td>
<td>2</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Product Quality</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Brand Profiling</td>
<td>0</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Trend Sensitivity</td>
<td>1</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Service</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
</tbody>
</table>

Notable is that not any company consider their product quality and service to be lower than its competitors. Our reflection is that it may be expected for a company not to acknowledge its product quality and service as lower than its competitors. Another explanation may be that when the companies compare their characteristics to their competitors, they only make a comparison to the competitors that direct its assortment to the same segment and profile its products in a similar way. They may not compare their characteristics to the competitors on the entire market.

An important aspect regarding the companies’ strategy is their competitive advantage. The figure below illustrates the competitive advantages among the companies.
A majority of the companies consider a unique characteristic to be their competitive advantage. 7 companies, on the other hand, regard the price as competitive advantage. Of those who consider another characteristic to be their competitive advantage, one company specifies it as “a large and wide assortment plus low prices”.

To receive knowledge about what objectives the companies rank as most important, they were asked to rank their four most important objectives. In this figure a summary of their answers is presented.

<table>
<thead>
<tr>
<th></th>
<th>Most essential</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term Profitability</td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Long-term Profitability</td>
<td>10</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Innovation Ability</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Cost Control</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Unique Products</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>4</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

Figure 7 Illustration of important objectives within the companies
Some objectives have been chosen more frequently than others, since only 4 objectives out of 7 were asked to be ranked. The figures in the table represent the number of companies that have chosen each objective, and how that objective has been ranked. As an example, long-term profitability has been chosen by 15 out of the 21 companies, whereas innovation ability has been chosen by 7 companies.

The companies seem to agree that long-term profitability is one of the most important objectives, since 15 out of 21 companies have chosen this objective, and as many as 10 companies have ranked the objective as most essential. Service can also be regarded as an important objective, since 15 out of 21 companies have chosen this objective, but the grade of importance varies. We believe that long-term profitability would be ranked highly in every industry. However, service may be ranked as more important in the clothing industry than other industries, since it is a business characterised by service. Most of the objectives have been granted the same significance, however short-term profitability and innovation ability have not been chosen as frequently. We do not believe innovation ability is as important within the clothing industry as it may be in a more technological industry.

### 4.4 Classification of Companies

After having categorised the 21 companies in the study into cost leadership, differentiation and focus we obtained the following results.

<table>
<thead>
<tr>
<th></th>
<th>50-99 Employees</th>
<th>100-200 Employees</th>
<th>&gt;200 Employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Leadership</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Differentiation</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Focus Differentiation</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Caught in the Middle</td>
<td>5</td>
<td>0</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td><strong>15</strong></td>
<td><strong>2</strong></td>
<td><strong>4</strong></td>
<td><strong>21</strong></td>
</tr>
</tbody>
</table>

Figure 8  The companies’ business strategies
The results illustrate that the number of companies categorised into each business strategy are quite equally divided. However, it is noteworthy that 6 out of 21 companies are categorised as caught in the middle. We did not expect to find such a great number of companies that were difficult to categorise according to Porter’s generic strategies.

An account for how the companies have been classified into the different generic strategies, is found in Appendix C.

4.5 Reward Systems within the Different Business Strategies

The occurrence of reward systems within the different business strategies is illustrated in the figure.

Within the cost leadership strategy the occurrence of reward systems, and the extent of which reward systems are used, is lower compared to the other business strategies. No more than 3 of these companies use reward systems and only 1 company uses more than one reward system. It is noteworthy that this company has two reward systems that are quite
separated from each other and it is difficult to see the relationship between them, which is possible within the other business strategies.

Within the differentiated strategy, 5 out of 6 companies have a reward system. In fact, 3 of the companies have more than one reward system. Unlike companies within cost leadership strategy, companies within differentiated strategy have a more visible relationship between the different reward systems if the company has more than one reward system. As an example, company number 8 has three different reward systems, but still they are closely linked since the same measures are used in all three reward systems. The only difference between the reward systems is the time plan used, the executives have a 1 year time plan and the others are evaluated on a 1-6 months’ basis.

In the group of companies that have been classified as focus differentiated, all 4 companies use reward systems. As many as 3 of the companies have two or three different reward systems. Although these companies are focus differentiated, it is evident that companies that differentiate themselves in the study in some way use reward systems more frequently than cost leading companies.

The companies in the study that have been classified as caught in the middle, use reward systems to the extent of 4 out of 6 companies. This result indicates that it is not possible to determine whether a company caught in the middle reward more or less than the other companies.

In order to receive a complete picture of in which extent reward systems are used within the different business strategies, this figure illustrates a summary of the frequency of reward systems within the different business strategies.
The results point out that differentiated companies use reward systems to a greater extent than cost leading companies. We do not find these results surprising, since it would be expected that a cost leading company aims to keep its costs low and practice a tight cost control. However, differentiated companies do not have the advantage of a low price and may have to find other advantages that a reward system encourages, for example service.
4.6 Dimensions of Reward Systems within the Different Business Strategies

4.6.1 Dimensions – Cost Leadership

Within cost leadership strategy, the study consists of 4 different reward systems. The results received are illustrated in the figure.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Short-term Perspective</th>
<th>Long-term Perspective</th>
<th>Quantitative Measures</th>
<th>Qualitative Measures</th>
<th>Collective Rewards</th>
<th>Individual Rewards</th>
<th>Social Rewards</th>
<th>Financial Rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>1-6 months</td>
<td>3 years (1)</td>
<td>Measures based on profit (3)</td>
<td>Co-worker satisfaction measured in sick-leave (1)</td>
<td>Company’s performance (3)</td>
<td>Group’s performance (1)</td>
<td>Bonus and money (3)</td>
<td>Bonus and options (1)</td>
<td></td>
</tr>
<tr>
<td>1 year (2)</td>
<td></td>
<td>Measures based on return (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 11 The occurrence of different dimensions within cost leadership strategy

A short-term perspective is the most commonly used dimension as well as measures based on profit and collective rewards, which consists of bonus and money and is based on the company’s performance.

Worth noticing is that one cost leading company has a long-term perspective and uses options in the reward system. According to Porter, cost leading companies practise frequent and detailed control reports which may lead to a more short-term perspective, since much emphasis is focused on that issue. We did not expect to find a reward system based on a long-term perspective within the cost leading companies. Rather, we expected this within the differentiated companies, where none of the reward systems have a long-term perspective. The qualitative measure in one reward system is also worth noticing. The measure co-worker satisfaction, expressed in sick-leave, is a measure we are not familiar with. Since we do not know the explicit use of the measure, we will not comment it further.

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135 Porter, op. cit. p 40-41.
4.6.2 Dimensions – Differentiation

Within differentiation strategy, the study consists of 10 different reward systems. The answers received are illustrated in the figure. The results received are illustrated in the figure.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Short-term Perspective</th>
<th>Long-term Perspective</th>
<th>Quantitative Measures</th>
<th>Qualitative Measures</th>
<th>Collective Rewards</th>
<th>Individual Rewards</th>
<th>Social Rewards</th>
<th>Financial Rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td>1</td>
<td>0</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>1-6 months (4)</td>
<td>Measures based on profit (9)</td>
<td>Measures based on capital (1)</td>
<td>Other measures (1)</td>
<td>Company’s performance (5)</td>
<td>Individual performance (5)</td>
<td>Individual performance (1)</td>
<td>Bonus and money (10)</td>
<td></td>
</tr>
<tr>
<td>1 year (6)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 12 The occurrence of different dimensions within differentiation strategy

A short-term perspective is used. Measures are based on profit and collective rewards, which consists of bonus and money and is based on both the company’s and the group’s performance.

The results are very unambiguous concerning the use of a short-term perspective. This is also a fact concerning the quantitative measures, which are mainly based on profit. Further, since the companies do not only base their reward systems on the company’s performance, but equally rewards the group’s performance, it may indicate that the companies try to encourage the group to act in the company’s best interest.
4.6.3 Dimensions – Focus Differentiation

Within focus differentiation strategy, the study consists of 7 different reward systems. The results received are illustrated in the figure.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Short-term Perspective</th>
<th>Long-term Perspective</th>
<th>Quantitative Measures</th>
<th>Qualitative Measures</th>
<th>Collective Rewards</th>
<th>Individual Rewards</th>
<th>Social Rewards</th>
<th>Financial Rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7</td>
<td>0</td>
<td>7</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>7</td>
</tr>
</tbody>
</table>

1-6 months (4)
1 year (3)

1. Measures based on profit (7)
2. Measures based on return (1)
3. Number of complaints (1)
4. Company’s performance (4)
5. Group’s performance (2)
6. Individual performance (1)

Figure 13 The occurrence of different dimensions within focus differentiation strategy

All of the reward systems use quantitative measures. One of these also uses qualitative measures. All reward systems have measures based on profit. One of these reward systems also use measures based on return, and another reward system combines the profit measures with qualitative measures.

The individual reward used in one of the reward systems distinguishes itself from the others. The salesman is rewarded in comparison to the achieved sale by the other salesmen. This is one of the most competitive measures in the study. Within the differentiated companies, there is one reward system based on qualitative measures. The measure, number of complaints, is a qualitative measure we did expect to find within the Swedish clothing industry. However, of all companies in the study, only 2 companies use this measure.

4.6.4 Dimensions – Caught in the Middle

Within those companies that are caught in the middle, the study consists of 7 different reward systems. The results received are illustrated in the figure.
### Dimensions

<table>
<thead>
<tr>
<th>Short-term Perspective</th>
<th>Long-term Perspective</th>
<th>Quantitative Measures</th>
<th>Qualitative Measures</th>
<th>Collective Rewards</th>
<th>Individual Rewards</th>
<th>Social Rewards</th>
<th>Financial Rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>0</td>
<td>7</td>
<td>1</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>1-6 months (2)</td>
<td></td>
<td>Measures based on profit (7)</td>
<td>Number of complaints (1)</td>
<td>Company’s performance (5)</td>
<td>Group’s performance (2)</td>
<td></td>
<td>Bonus and money (7)</td>
</tr>
<tr>
<td>1 year (5)</td>
<td></td>
<td>Other measures (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 14  The occurrence of different dimensions within caught in the middle

All reward systems use quantitative measures, all of these are based on profit, and one is combined with cash flow. One of them also uses qualitative measures. All reward systems have measures based on profit, and one of these reward systems also uses other measures. A majority of the reward systems use the company’s performance as the basis for reward and the reward consists of bonus and money.

The results from the companies that are caught in the middle are quite clear-cut. The divergences are few, such as one of the reward systems has a qualitative measure that is number of complaints. Further, a measure which we have not seen in any of the other reward systems is used, more specifically cash flow. Although benefits are not included in any of the dimensions, it is worth mentioning that one of the reward systems within this group of companies include benefits, such as company car, health care and health insurance.

### 4.7 The Results of the Model

In this model we have compiled the results of the survey. The figures in the model represent the number of answers for each category. The letter X represents the original model, created by taking the theories as a starting point.
The number of answers in each category may not correspond to the number of companies within each group of business strategy, since several companies have more than one reward system.

The model clearly indicates that the results from the survey do not correspond to the test model. The results of reward systems’ dimensions within cost leadership strategy present no divergence compared to the test model. However, companies within differentiation strategy and focus differentiation strategy turn out to diverge from the test model. The result from the survey is that the same dimensions of reward systems that are used within cost leadership strategy, are also used within differentiation and focus differentiation strategy.

Since the results of the study show that the relations in the test model are not applicable, the test model is adjusted. To adjust the test model, we have used an inductive approach. Thus, we have used the results of the survey to modify the test model. This enables us to create a
model that corresponds to the relationship between reward systems and strategy within the Swedish clothing industry.

### Figure 16  The adjusted model

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Cost Leadership</th>
<th>Differentiation</th>
<th>Cost Focus</th>
<th>Differentiation</th>
<th>Caught in the Middle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 a. Short-term Perspective</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>1 b. Long-term Perspective</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 a. Quantitative Measures</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>2 b. Qualitative Measures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 a. Collective Rewards</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>3 b. Individual Rewards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 a. Social Rewards</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>4 b. Financial Rewards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exploring the Congruence between Reward Systems and Strategy – A Competitive Perspective
5. ANALYSIS

We want to begin the analysis with comparing and contrasting the test model to the result of the survey. We will give an account for our thoughts concerning the turnout of the study. As the model below show, the theories used for making the test model do not correspond to the actual relationship between business strategy and rewards within the Swedish clothing industry. Consequently, the hypothesis that the dimensions of rewards vary between the different strategies is false concerning the Swedish clothing industry.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost Leadership</td>
</tr>
<tr>
<td>1 a. Short-term Perspective</td>
<td>X (3)</td>
</tr>
<tr>
<td>1 b. Long-term Perspective</td>
<td>(1)</td>
</tr>
<tr>
<td>2 a. Quantitative Measures</td>
<td>X (4)</td>
</tr>
<tr>
<td>2 b. Qualitative Measures</td>
<td>(1)</td>
</tr>
<tr>
<td>3 a. Collective Rewards</td>
<td>X (4)</td>
</tr>
<tr>
<td>3 b. Individual Rewards</td>
<td>(0)</td>
</tr>
<tr>
<td>4 a. Social Rewards</td>
<td>(0)</td>
</tr>
<tr>
<td>4 b. Financial Rewards</td>
<td>X (4)</td>
</tr>
</tbody>
</table>

Figure 17   The results of the survey compared to the test model

The results within the group of companies classified as cost leadership strategy correspond to the test model. Even though every strategic group is proven to use the same dimensions in their reward systems, we cannot draw any conclusion that companies within different strategies reward in different ways. Since the test model correspond to the achieved results within the cost leading companies, we could conclude there is a connection between a cost
leadership strategy and how those companies reward. However, we do not believe this is correct since the results are equivalent for all strategies, which makes it more of a coincidence that the results match the test model for cost leading companies.

We will analyze this divergence between the test model and the results, by using Ouchi’s, Simons’ and Kaplan and Nortons’s theories. Since the results within the different strategic groups correspond to such a great extent, we have chosen to focus on how the industry reward and not specifically how each strategic group reward. The theories used to analyze the results are possible ways of explaining why the results do not correspond to the test model.

5.1 Simons’ Levers of Control

A company can control strategy by using four basic levers: beliefs systems, boundary systems, diagnostic control systems and interactive control systems. According to Simons, the four control levers are linked and work simultaneously, but each one of them have different purposes.136 Beliefs systems and interactive systems develop and identify the opportunities that a specific company has. Boundary systems and diagnostic systems limit and focus on a company’s strategic domains and opportunities.137 Simons’ theories about boundary systems and beliefs systems can develop an understanding as to why the test model and the theories it is built around, do not correspond to the result.

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The purpose of beliefs systems is to communicate information about the company’s core values. It is intended to motivate the company to search for new solutions when problems arise, but also to search for new ways to create value within the business. Beliefs systems relate to strategy as a perspective. It encourages both the intended strategy and the emergent strategy.

Strategy as a position is controlled by boundary systems. Consequently, boundary systems make sure that a company’s business activities occur in defined product markets, but also take the acceptable level of risk into consideration. It imposes important limits on beliefs systems. Beliefs systems and its linked boundary systems works in parallel. While the beliefs systems provide the purpose of the organisation together with guidance and

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motivation to seek opportunities, boundary systems communicate the acceptable area for this search activity. Beliefs systems and boundary systems transform opportunity-seeking into a focused area, which encourage the employees.\textsuperscript{142}

In a competitive business, rewards that are linked with performance often create a pressure on people to act in a way that may be inappropriate. Boundary systems set limits about the behaviours and activities that are not tolerated within the organisation. If boundaries are specified incorrectly, there is a risk that they hold back adjustment to a changing environment.\textsuperscript{143}

The third lever of control is diagnostic control systems. According to Simons “... the term management control is usually synonymous with the definition of diagnostic control...”.\textsuperscript{144} Diagnostic control systems relate to strategy as a plan. They focus on achieving desired goals and are a tool for transforming the intended strategy into a realized strategy.\textsuperscript{145} The most common tools of diagnostic control systems are profit plans and budget. The purpose of diagnostic control systems is to measure outputs that are important for the chosen strategy. Simons call these variables critical performance variables (also known as key success factors or critical success factors). Accordingly, diagnostic control systems are an indicator that these critical performance variables are managed in an effective and efficient way.\textsuperscript{146}

The fourth lever of control is interactive control systems. Interactive control systems have a focus on strategic uncertainties, and consequently enable strategic renewal. Strategic uncertainties are the uncertainties that may threaten or invalidate the company’s current strategy.\textsuperscript{147} Specifically, interactive control systems are the formal information systems that managers use on a daily basis in order to involve themselves in the decision activities of

\textsuperscript{142} Simons, 1995 op. cit. p 39-42.  
\textsuperscript{143} Simons, 1995 op. cit. p 51-55.  
\textsuperscript{144} Simons, 1995 op. cit. p 60.  
\textsuperscript{145} Simons, 2000 op. cit. p 302-303.  
\textsuperscript{146} Simons, 1995 op. cit. p 59-70.  
\textsuperscript{147} Simons, 1995 op. cit. p 91-103.
subordinates. However, it is important to note that an interactive control system is not a single type of control system, rather many types of control systems that are used interactively. Interactive control systems assist and form the appearance of new strategies, i.e. they relate to strategy as patterns of action.

Accordingly, beliefs systems, strategic boundaries, diagnostic control systems, and interactive control systems work together to control the structure and implementation of the chosen strategy. Further, the power of the different control levers does not depend on how they are used separately, but how they complement each other when used together to guide strategy.

5.1.1 Reward Systems as Levers of Control?

When analyzing reward systems from the perspective of the four control levers, we are of the opinion that the reward system works both as beliefs systems and boundary systems. A reward system can work as beliefs systems since its purpose is to communicate the company’s core values and the organizational objectives. Beliefs systems motivate the employees to search for new ways to create value for the company and boundary systems limit to what extent this search for new opportunities is acceptable.

Reward systems should, according to our opinion, work as beliefs systems and motivate the employees to work in a direction that is profitable for the company. Boundary systems should impose the limits for what is desirable for the company. We believe that a reward system should work as both beliefs system and boundary systems to achieve the desired results. One possible explanation as to why the results do not correspond to the test model, and that all companies reward similarly, is that the part of the reward system that should work as boundary systems has gained too much leverage. Taking the dimensions collective-individual, quantitative-qualitative and short-term/long-term perspective under

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149 Simons, 1995 op. cit. p 93-103.
150 Simons, 1995 op. cit. p 153-158.
151 Simons, 2000 op. cit. p 301.
consideration, it is possible that the reward system work as boundary systems and limit the employee’s behavior.

Svensson states that when deciding to reward individual performance, there is a risk that the employee prioritizes the work that gives him/her a personal advantage. By using collective rewards instead of individual rewards, the company eliminates the risk of employees making choices that only benefit themselves. Also, Svensson states that a collective reward should stimulate cooperation within different groups. It may be easier to control the group’s behaviour rather than each individual’s behaviour, and in that sense this dimension of the reward system may limit opportunity seeking for the individual.

According to Jacobsen and Thorsvik, people in organisations have a strong need to be accepted by colleagues at work and they try to act in a way that will end up in a good relationship with the colleagues. According to this theory, it will be easier to manage a group of employees, since each member will act in the best interest of the group to gain the approval from the other employees.

Concerning the quantitative-qualitative dimension, all companies independent of strategy mainly use quantitative measures. A company that use quantitative measures often have frequent follow-ups to control that costs are at the predicted level. That the results show that all different strategic groups use quantitative measures are not surprising, since it is necessary for a company to be aware of its financial status. However, we consider it noticeable that the differentiated companies do not complement its quantitative measures by using qualitative measures. The fact that only quantitative measures are used results in that only one aspect of the employees’ behaviour is regarded. By not using qualitative measures, the companies set limits for what kind of behaviour that is encouraged. This can be seen as boundary systems that lead to that the employees focus on areas that are rewarded, and do not put efforts in other areas that are not measured, and thereby not rewarded.

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154 Svensson, op. cit. p 69-70.
155 Svensson, op. cit. p 69-70.
Another reason why the results show that quantitative measures are the most common measures may be that the reward system is used as diagnostic control systems. The diagnostic control systems’ task is to measure outputs that are important for the company’s strategy. Since many of the companies in the study show a negative result, it is evidently important that they consider financial measures as an important tool to manage its finances. The companies’ negative results may be an effect from the fact that the clothing industry is a highly competitive business. The extensive use of quantitative measures shows that financial figures become important to regularly keep track of the company’s financial status.

The reasoning about frequent follow-ups to control costs can also be applied to the short-term and long-term perspective. Since the clothing industry is a highly competitive industry and several of the companies in the study show a negative trend, it becomes important for a company to keep a close track of their financial situation. Many of the companies use a short-term perspective, using the reward system as a tool to reach the short-term goals. In this sense, the reward system may become a diagnostic control system since after all, the diagnostic control systems’ task is to measure outputs that are important for the company’s strategy.

We believe that by rewarding on a short-term basis, the company will be able to manage its employees’ behaviour in a desirable direction. Further, we assume that if the reward system is based on a short-term perspective, it may be easier for the employee to connect the reward with his/her actions that in turn leads to an increased motivation to perform tasks that are rewarded. This can be seen as boundary systems, since the reward system is used to make the employees focus on tasks that are considered important by the company. According to Samuelson et. al., a use of only short-term oriented measures may cause problems for companies. It will lead to sub-optimisation and that the company focus on investments that are only profitable in a short-term perspective. However, we question the importance of a long-term perspective within the Swedish clothing industry. If the reward systems are based on a short-term perspective, it will keep the employees working in

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159 Simons, 1995 op. cit. p 59-70.
160 Samuelson et. al., op. cit. p 135.
the desirable direction at all times. This in turn will lead to a positive result in the long-run too. Johnson and Welsh also state that it may be negative to focus on a too long perspective. If the time period is too distant, it will be intricate to see the results which are the basis of the delivered reward. Also, it will be difficult to see the connection between the reward and the business strategy.161

According to the theories used, a long-term perspective is regarded as a time period longer than 3 years. In the study, as many as 16 reward systems out of 28 uses a 1 year time plan. It may be a fact that the companies in the study consider 1 year, from their point of view, as a long-term perspective. With this in mind, if a 1 year time plan would have been regarded as a long-term perspective in the study, many companies would have been considered to use a long-term perspective.

We do not believe that the dimension social-financial rewards have a relationship to boundary systems or beliefs systems. The fact that none of the 28 reward systems include social rewards may point out that the companies do not consider social rewards to be a part of the formal reward system. We cannot eliminate the possibility that social rewards exist within the companies, but in a more informal and spontaneous way. Informal rewards are usually not connected to a company’s strategy and objectives, instead it is more of a spontaneous occurrence162.

5.2 Different Perspectives of the Business

When discussing quantitative and qualitative measures, Kaplan and Norton’s Balanced Scorecard is often used to direct attention to the importance of qualitative measures.

Kaplan and Norton’s Balanced Scorecard tries to connect the short-term control to the long-term vision and strategy by looking at the company from four important perspectives. The purpose of the Balanced Scorecard is to complement the traditional financial control and

161 Johnson and Welsh, op. cit.
reduce the risk of short-term approach that may be harmful to the company. By doing so, the Balanced Scorecard helps the company to create a balance between quantitative and qualitative measures.163

The Balanced Scorecard consists of four different perspectives.

- Financial Perspective – to succeed financially, what responsibility do we have towards the shareholders?
- Customer Perspective – to accomplish our vision, what responsibility do we have towards the customers?
- Internal Business Processes Perspective – in what internal business processes do we have to be successful to satisfy our customers and shareholders?
- Innovation and Learning Perspective – to accomplish our vision, how do we maintain our ability to change and improve?

Behind all four perspectives there is an outspoken vision and strategy. For each perspective goals, measures, concrete objectives and a plan of action is formulated.164

Another reason why we have not found that the companies within the Swedish clothing industry use qualitative measures, may point out that Kaplan and Norton’s Balanced Scorecard has not yet had an impact on the business. Kaplan and Norton introduced the Balanced Scorecard to complement the traditional financial control and to reduce the risk of short-term approach165. There may be a probability that the companies in the study lack important perspectives in their business activity. Olve et. al. states that only financial measures do not reflect the development of the business in a correct and fair way166. It is not possible to form an opinion whether the companies in the study are reflected in a correct and fair way, but it is possible to say that the companies do not consider all aspects of its business.

163 Olve et. al., op. cit. p 19-23.
164 Olve et. al., op. cit. p 30-32.
165 Olve et. al., op. cit. p 19-23.
166 Olve et. al., op. cit. p 27-29
5.3 Control Types and their Impact on Rewards

As stated before in this thesis, reward system is one of the tools the company use to control the employees. Further, it is a tool which the company use to encourage a specific type of desirable behaviour. Ouchi states:

“The chief function of incentives is to assign responsibility and motivate employees. Incentives ensure that employees direct their efforts towards the accomplishment of organizational objectives.”

Ouchi further states that an effective incentive system measures the employees’ effort and distributes the reward equitably. The employees’ efforts can be measured in two different ways. The behaviour of the employees can be monitored and the reward is tied to that specific behaviour. The output of the employees can also be measured in the way that the reward is determined by output levels, not behaviour.

Govindarajan and Fisher suggest that if it is possible to measure two environmental factors, namely task programmability and outcome measurability, it is also possible to determine the most suitable control for a specific company. In our opinion, if it is possible to determine the proper control, it should also be possible to determine the proper reward system based on the chosen strategy. The purpose with this section is therefore to link Porter’s generic strategies, to control and reward systems.

The model we will use is called “Control Types and Antecedent Conditions”.

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168 Ouchi in Kowtha and Quek, op. cit.
169 Govindarajan and Fisher, op. cit.
Task programmability is to what extent it is explained and defined what needs to be done to perform a certain task. If a task’s programmability is high, then the behaviour and actions needed to perform the task are easily understandable. Eisenhardt elaborated Ouchi’s model further and connected knowledge about the transformation process to task programmability. If knowledge about these processes is known, then the behaviour can be precisely defined.\(^{171}\)

Output measurability determines to what degree an output can be measured. If it is difficult to determine the correct output, it is not accurate to use output control, thus the output has to be easy to measure when using output control.\(^{172}\)

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\(^{170}\) Govindarajan and Fisher, op. cit.

\(^{171}\) Govindarajan and Fisher, op. cit.

\(^{172}\) Govindarajan and Fisher, op. cit.
5.3.1 Behaviour and Outcome Based Rewards

Eisenhardt has studied behaviour control, output control and rewards from an agency problem perspective. Eisenhardt states that behaviour and output control can only be clearly defined when the company has full knowledge and information about the employee’s behaviour and the output he/she creates. In case the company does not receive full information, it can either purchase the requested information about the employee’s behaviour or reward the employee’s based on outcomes, such as profitability. Further, Eisenhardt states that rewards based on outcomes, such as for example profitability, is surrogate measures for behaviour. This may cause the employees to be rewarded based on outcomes outside of their control.173

For the companies in the study this scenario is credible. Almost every reward system is based on profitability as well as the collective’s efforts. We see that some companies’ use behaviour based reward, such as rewarding the employees individually according to what they have sold for during a period of time. However, it is not a common feature within the Swedish clothing industry. We expected to find more behaviour based rewards, especially within the differentiated companies, since such companies focus on features that are difficult to measure, for example creativity174. The focus on outcome based rewards within the companies in this study, may have its origin in the fact that these rewards are easy to distribute and easier to measure than output based rewards. However, the differentiated companies may reduce the creative and innovative processes, when using outcome based rewards. It is a consideration which we believe may be disregarded within the companies in the study.

Eisenhardt further states that the agency model recognizes two key features of organisations. The first is effort aversion, meaning that one employee may have preferences and goals that do not correspond to the other employee’s within the same organisation. In this situation, control is used to provide measures and rewards which will make sure that one employee pursue both his/her individual and collective interests. In a perfect situation,

174 Govindarajan and Fisher, op. cit.
there would be no divergence of preferences within the company and therefore, neither
behaviour or output control would be necessary, but that is not a likely scenario. The second
feature is outcome uncertainty of companies. Eisenhardt states that companies are assumed
to have uncertain future, and the employee’s share that uncertainty. Facing a riskier future
leads according to Eisenhardt to the control becoming more outcome based. From this
perspective, control systems measures and rewards are used in order to motivate the proper
behaviour as well as altering risk sharing patterns. If there is no outcome uncertainty, the
only aspect the company needs to consider when choosing behaviour or output control, is
the cost each control would produce.175

Stroh et. al. state that a company in a turbulent environment has to protect their employees
from the uncertainty and turbulence with an increase in his/her total level of
compensation176. It is difficult to draw any conclusions about the uncertainty the companies
in the study face, since we have chosen not to consider that issue. However, the companies
we have studied have all been in the clothing industry for many years and even though some
of them show a negative trend concerning profitability, we are of the opinion that they are
stable companies. There are no indications that any of the companies use a total
compensation plan, rather rewards are synonymous with bonus. Even though we are of the
opinion that the companies included in our study are stable companies, they work in a
somewhat uncertain environment. The clothing industry is sensitive to changes in the
business cycle. When there is an economic upswing, people are more inclined to spend
money, but when the cycle changes, one of the first things people do is to purchase less
fashion items. We believe that the companies are aware of this fact and because of this they
have chosen to use frequent follow-ups on result, as well as rewarding on financial
measures.

Eisenhardt found in her research including 95 specialty stores in the United States, that
short-term, monetary compensation was the main reward in that particular setting. Other
rewards such as promotion, perquisites and stock options were not as relevant. Further,

175 Eisenhardt, op. cit.
176 Stroh et. al., Agency Theory and Variable Pay Compensation Strategies, Academy of Management Journal,
1996.
Eisenhardt categorizes outcome based rewards as a reward that which in some part is based upon outcome, for example sale which the employee is responsible for. Commission is another example of outcome based rewards. Behaviour based rewards Eisenhardt means is salary or hourly rate.\(^{177}\)

Continuing with looking at behaviour control, output control and rewards from an agency problem perspective, Stroh et. al. investigated the effects of organization-level agency theory based variables on the proportion of variable compensation that the managers receive. Although the study deals exclusively with middle level managers and concentrate on pay, we still believe that the authors’ findings can be useful for us.

5.3.2 Tradition and Cost – Affecting the Choice of Reward System?

The length of the relationship between the employee and the company is of great importance according to Stroh et. al. It is suggested that in long-term relationships, the company receives more information about the employee’s behaviour, which means that it is easier to have rewards that are behaviour based rather than outcome based. When a company wants to build long-term relationships, it uses behaviour based control systems to socialize the employee into the company’s culture. It may not be easy to assess whether the company wants to build long-term relationships, but Stroh et. al. mean that the answer can be found in the company’s human resource policies. Employment security, clear promotion ladders, investment training and development are indications that the company wants to build a long-term relationship with the employee.\(^{178}\) As mentioned before, the results show that the companies do not use a total compensation package. It may be an aspect for the companies in the study to consider in order to increase the possibility to build long-term relationships with the employees.

Examining the results, we clearly see that behavior control is not used by any of the companies included in the study. We can also see that almost every company uses quantitative measures, indicating that output is what is rewarded within these companies.

\(^{177}\) Eisenhardt, op. cit.
\(^{178}\) Stroh et. al., op. cit.
Using Ouchi’s model, if output measurability is high, both output and behavior control can be used, but this is not the case. One possible explanation is tradition and cost. If a company has used the same reward system for a long time, the employees know what they have to do to achieve their rewards and the company achieves the desirable behavior. Since both the company and employees are satisfied with the reward system, no changes are made, even though it may be appropriate. Further, reward systems based on output control are easier to administrate and not as costly as reward systems based on behavior control. This leads us to believe that the companies in the study have considered only the immediate problems, such as costs, when choosing their reward systems. Even though a reward system based on behavior control might be more appropriate, the company may not have enough resources to make it a reality.

One possible explanation may also be that the company does receive enough information about the employee’s behavior and the output they create. In that case, Eisenhardt states that the company has to purchase the requested information or reward based on outcomes that the company can measure, such as profitability. We believe that this situation is quite likely for the companies in the study, the results are clear-cut since almost every company reward their employee’s based on profitability.

5.4 Are Companies Caught in the Middle in a Bad Strategic Position?

The results of the study show that there is no concurrence between companies’ reward system and their business strategy. Above, we have accounted for different possible causes as to why no relationship can be seen and why the results are similar, independent of the chosen business strategy. However, in this section we want to discuss if companies that are caught in the middle, also are in a bad strategic position.

We have found that Porter’s claim that companies that are caught in the middle will be in a bad strategic position on the market, and most likely have a low profitability, is not applicable within the Swedish clothing industry. By taking net profit into consideration for

\[179\] De Wit and Meyer, op. cit. p 215.
the companies caught in the middle, we find no results that support Porter’s idea concerning these companies. On the contrary, a majority of the companies experience a positive trend with an annually improved net profit. Company 11 illustrates this with an increase in net profit with 300 percent in three years.\textsuperscript{180}

Porter states that within cost leadership strategy it is required that one company is the cost leader and not one of many companies competing for the same position. If there is a rivalry between the competitors about what company will be the cost leader, the effects for profitability are less prosperous.\textsuperscript{181} It is difficult to distinguish a particular trend concerning the cost leading companies. When taking net profit under consideration, two companies have a negative trend, two companies show a positive trend and one company varies between a positive and a negative result during the last three years. The results indicate that it may be difficult to be successful when being one of many companies aiming to be the cost leader in the industry. However, we cannot draw any further conclusions since the results are inconclusive.

When considering the net profit within the differentiated companies, we find that three of these companies have a negative trend. Two companies have a stable net result, although one has a negative result and the other company a positive result. The last differentiated company has a net result that has varied between positive and negative during the last three years. Porter states that for a differentiator it is the ability to give the customers what they require that gives the company a high margin, and one way can be to create a high brand loyalty among the customers\textsuperscript{182}. Since only one of the six companies we have classified as being differentiated has a stable positive result, one conclusion may be that the companies have not been able to create brand loyalty or produce products that are truly unique to its customers. Miller criticizes Porter by stating that a company that sets out to be a differentiator might focus too much on e.g. quality and forget about economy\textsuperscript{183}. The results of the survey show that all differentiated companies, except one, rank some financial aspect

\textsuperscript{180} <http://www.ad.se>
\textsuperscript{181} De Wit and Meyer, op. cit. p 215.
\textsuperscript{182} Gómez-Mejia et. al., op. cit. p 32-34.
\textsuperscript{183} Mintzberg et. al., 1998b op. cit. p 102-104.
among its four most important objectives. Thus, even though companies are differentiated, the study shows that they do not disregard the financial aspect.

The companies which we have classified as being focus differentiated, all show a positive trend. This is the only group of strategy where all companies within one strategy show a positive net result that has improved over the last three years. A company that is focus differentiated tries to serve customers with specific needs that the competitors have not been able to meet\textsuperscript{184}. The focus differentiated companies in the study seem to have managed to follow this strategy successfully by finding profitable segments within the Swedish clothing industry.

With the exception of the companies classified as being focus differentiated, no strategy has proven to be more profitable than the rest. Porter’s statement that companies that are caught in the middle will be in a bad strategic position on the market, and most likely have a low profitability, does not seem to be applicable within the Swedish clothing industry. The companies classified as being caught in the middle have been more profitable than e.g. the differentiated companies.

5.5 The Lack of Reward Systems – Does it Matter?

Finally, we want to find out if there is a difference between the companies which use one or several reward systems, and the companies that do not have a reward system. From the results it is clear that a majority of the companies in the study use reward systems, only 5 out of 21 companies lack reward systems. There is no significant divergence within the group of companies that do not have reward systems, two of the companies are cost leading companies, two are classified as caught in the middle and one is a differentiated company. When reflecting on the companies’ judgment concerning their important objectives, we cannot draw any conclusions. These companies have considered the same objectives as important to the company as the other companies that use reward systems. The net results for the companies that have no reward system do not diverge from the companies that use reward systems, two of the companies have a negative result while three have a positive

\textsuperscript{184} De Wit and Meyer, op. cit. p 215.
result. It is not possible to draw any conclusion—whether the companies that do not use reward systems prove to have a better or not as good as development than the other companies.
6. CONCLUSION

With this thesis our aim is to investigate the relationship between companies’ formal reward system and how they position themselves amongst their competitors. To accomplish this we have used theories to formulate a test model, with the purpose to empirically test the model and see how well it corresponds within the Swedish clothing industry.

Our conclusion is that the results of the study do not correspond to the test model. Accordingly, there is no concurrence between the companies reward systems and their business strategy. Concerning the cost leading companies, the results correspond to the test model. However, since the results within the cost leading companies are unanimous with the results received within the differentiated, focus differentiated and the companies caught in the middle, we believe that this congruence between the cost leading companies and the test model may be a coincidence.

We have tried to find explanations to why the results did not correspond to the test model. One possible explanation may be that the companies’ reward systems work too much as boundary systems, and beliefs systems in turn are restricted by the powerful boundary systems. We believe that the purpose of the reward systems within these companies is that it should work as boundary systems to control the behaviour of the employees. The term boundary systems may be perceived negatively, but we believe that boundary systems are a natural part of the reward system. Like all businesses, it is important to create sales to achieve a positive result. The difference between the clothing industry and other businesses is that the clothing industry needs to create a customer demand for new and trendy clothes. Because of this, it is important to motivate the employees to create additional sales. To keep the employees motivated, we believe it may be easier to use a short-term perspective to enable the employee to see the relation between the action and the achieved result.

Another possible explanation to why the reward systems are similarly designed, may be due to that all companies use output control. That is, all companies reward based on output. We believe that the companies in the study base their rewards on output for two main reasons,
that is tradition and cost. Often companies chose a reward system, which is easy to administrate and carry a low cost, compared to other more complex reward systems. Even though another reward system may be more suitable, in the end it appears as if the costs are still decisive when designing the reward system. Also, it may be likely that the companies’ business is open to changes, but it is not reflected in the reward system.

Further, it is possible to conclude that qualitative measures are not frequently used within the reward systems. Consequently, business models like Kaplan and Norton’s Balanced Scorecard has not yet had an impact on the Swedish clothing industry.

Noteworthy is that Porter’s statement that companies that are caught in the middle are in a bad strategic position, do not correspond with the results we have found within the Swedish clothing industry. The companies classified as being caught in the middle, do not show a divergence in net result compared to the other strategic groups. In all generic strategies there are companies that have a negative trend, as well as companies that have a positive trend.

Conclusively, there is no relationship between reward systems and strategy within the Swedish clothing industry. Rather, there is a possibility that the relationship is between how the participating companies reward and the business that they are in.
7. LITERATURE LIST

7.1 Literature


71(102)


7.2 Articles


### 7.3 Electronic References

[<http://www.affarsdata.se>]

[<http://www.ad.se>]
8. APPENDIXES

8.1 Appendix A - Survey

THE COMPANY’S REWARD SYSTEM

1. Do you have a formal reward system, i.e. a reward system which is official and which criterions for the system are explicitly formulated?

Yes ☐ No ☐

If No, Please move on to question 7 on page 8.

Does the company have a reward system which includes all employees or several reward systems split up on different groups of employees, in that case, how many separate reward systems do the company have?

Please answer the questions below regarding the company’s reward system.

- **If the company has one reward system** –
  do only answer the questions below Reward System 1 on page 2-3.

- **If the company has several different reward systems** -
  answer the questions for each reward system in turn below headline Reward System 1 on page 2-3, Reward System 2 on page 4-5 and Reward System 3 on page 6-7.

After answering the questions about the company’s rewards system, please answer the questions concerning the company’s strategic position on the market on page 8-9.
Reward System 1

2. Which employees are included in Reward System 1?
   - All Employees
   - The Executives
   - The Shop Manager
   - Salesmen
   - Other

   If Other, please specify.

3. Whose performance is Reward System 1 based on?
   - The Individual’s
   - The Group’s
   - The Company’s

4. What time plan is Reward System 1 based/calculated on?
   - 1-6 months
   - 6-12 months
   - 1 year
   - 1-2 years
   - 2-3 years
   - More than 3 years

5. What measures are Reward System 1 based on?
   Quantitative measures, e.g. measures based on capital (such as inventory turnover), measures based on profit (such as EBIT) and measures based on returns (such as return on investments)?
   - Yes
   - No

   Please specify the quantitative measures that are included in Reward System 1.

   Qualitative measures, e.g., customer satisfaction and complaints.
   - Yes
   - No

   Please specify the qualitative measures that are included in Reward System 1.

6. What does Reward System 1 consist of?
   - Financial Rewards
   - Social Rewards, i.e. a reward which should create a pleasant work environment.
   - Benefits

76(102)
### 6a. If Social Rewards, what rewards are used?

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If Other, please specify.

### 6b. If Financial Rewards, what rewards are used?

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If Bonus, what does Reward System 1 bonus consist of?

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<td>Shares</td>
<td>Other</td>
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<td>☐</td>
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</tbody>
</table>

If Other, please specify.

If Other Financial Reward, please specify.

### 6c. If Benefits, what benefits are included in Reward System 1?

<p>| | | | | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
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<td>Health Insurance</td>
<td>Health Care</td>
<td>Free Lunches</td>
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</thead>
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<td>Home Help Services</td>
<td>Other Benefits</td>
</tr>
<tr>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

If Other Benefits, please specify.
THE COMPANY’S MARKET POSITION

7. Which of the following statements do you agree with concerning the company’s assortment?

☐ The company’s assortment is adjusted for one specific segment of customers.
☐ The company’s assortment is adjusted for several different segments of customers.

Which segment of customers does the company tries to attract?

- Children (0-12 years)
- Teenager/Girl
- Teenager/Boy
- Youth (18-30)/Girl
- Youth (18-30)/Boy
- Woman
- Man
- Lady
- Gentleman

8. What distinguishes your company from other companies within the same business?
Mark below at each characteristic how your company distinguishes from other companies within the same business. The scale is from 1 to 5, where 1 stands for considerably lower and 5 stands for considerably higher.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Considerably lower</th>
<th>Equal</th>
<th>Considerably higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling Price</td>
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<td>Product Quality</td>
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<tr>
<td>Brand Profiling</td>
<td></td>
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<td></td>
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<tr>
<td>Trend Sensitivity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. What is the company’s competitive advantage?

☐ The Price
☐ Unique Characteristic
☐ Other

If Unique Characteristic, please describe that characteristic.
If Other, please describe the company’s competitive advantage.

10. Please rank the four objectives which are considered most essential for the company. Use in order of precedence 1-4, where 1 stands for most essential. Please note that two objectives can not be ranked with the same number, that is, the four objectives you choose have to be ranked with 1, 2, 3 or 4.

Short-term Profitability
Long-term Profitability
Quality
Service
Innovation Ability
Cost Control
Unique Products
8.2 Appendix B – Empirical Data

**Company 1**

*Description of the company*

Trade with men’s clothing.

*The company’s reward system*

Reward system: No.

*The company’s market position*

The company’s assortment is adjusted for several different segments of customers. What distinguishes the company from other companies within the same business:

- Selling price – Considerably lower (1)
- Product quality – Equal (3)
- Brand profiling – Lower (2)
- Trend sensitivity – Considerably lower (1)
- Service – Equal (3)

The company’s competitive advantage: the price.

Four objectives that is most essential to the company:

1. Long-term profitability
2. Quality
3. Service
4. Cost control

**Company 2**

*Description of the company*

Trade with men’s clothing, women’s clothing and children clothing.

*The company’s reward system*

Reward system: No.

*The company’s market position*

The company’s assortment is adjusted for several different segments of customers. What distinguishes the company from other companies within the same business:

- Selling price – Considerably higher (5)
- Product quality – Considerably higher (5)
- Brand profiling – Considerably higher (5)
- Trend sensitivity – Equal (3)
- Service – Considerably higher (5)

The company’s competitive advantage: unique characteristic.

Four objectives that is most essential to the company:

1. Long-term profitability
2. Unique products
3. Quality
4. Innovation ability
**Company 3**

*Description of the company*
Trade with women’s clothing and children’s clothing.

*The company’s reward system*
Reward system: Yes.
Employees included in the reward system: the shop manager.
The reward system is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. Sales volume and net profit.
Qualitative measures: No.
The reward system consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

*The company’s market position*
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Considerably higher (5)
Brand profiling – Higher (4)
Trend sensitivity – Higher (4)
Service – Higher (4)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1. Quality
2. Short-term profitability
3. Service
4. Unique products

**Company 4**

*Description of the company*
Trade with women’s clothing.

*The company’s reward system*
Reward system: Yes.
Employees included in the reward system: all employees.
The reward system is based on the company’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. Measures based on profit compared to previous year. Sales increase results in rewards if gross profit in percent attain a certain level.
Qualitative measures: Yes. Co-worker satisfaction measured as the level of sick leave. A certain level of sick leave does not result in rewards.
The reward system consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.
The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Lower (2)
Product quality – Equal (3)
Brand profiling – Equal (3)
Trend sensitivity – Higher (4)
Service – Equal (3)
The company’s competitive advantage: the price.

Four objectives that is most essential to the company:
1  Long-term profitability
2  Short-term profitability
3  Cost control
4  Innovation ability

Company 5
Description of the company
Trade with women’s clothing and men’s clothing.

The company’s reward system
Reward system: Yes, two different reward systems.
Employees included in reward system 1: the shop manager.
Reward system 1 is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. Sales volume and net profit.
Qualitative measures: No.
Reward system 1 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.
Employees included in reward system 2: sales men.
Reward system 2 is based on the group’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. The reward system is based on goals, which results in that sale during a specific period result in a reward.
Qualitative measures: Yes. Number of complaints, which are also based on goals.
Reward system 2 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for one specific segment of customers.
What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Higher (4)
Brand profiling – Considerably higher (5)
Trend sensitivity – Considerably higher (5)
Service – Equal (3)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1  Unique products
2  Quality
3  Long-term profitability
4  Short-term profitability

**Company 6**
*Description of the company*
Trade with men’s clothing, women’s clothing and children clothing.

*The company’s reward system*
Reward system: Yes, two different reward systems.
Employees included in reward system 1: the shop manager.
Reward system 1 is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. Profit and return on total capital.
Qualitative measures: No.
Reward system 1 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.
Employees included in reward system 2: sales men.
Reward system 2 is based on the individual’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. Sales volume/sales man compared to others.
Qualitative measures: No.
Reward system 2 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

*The company’s market position*
The company’s assortment is adjusted for several different segments and one specific segment of customers.
What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Higher (4)
Brand profiling – Higher (4)
Trend sensitivity – Considerably higher (5)
Service – Considerably higher (5)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1  Service
2  Unique products
3  Innovation ability
4  Long-term profitability
**Company 7**

*Description of the company*

Trade with men’s clothing, women’s clothing and children clothing.

*The company’s reward system*

Reward system: No.

*The company’s market position*

The company’s assortment is adjusted for several different segments of customers.

What distinguishes the company from other companies within the same business:

- Selling price – Lower (2)
- Product quality – Equal (3)
- Brand profiling – Equal (3)
- Trend sensitivity – Equal (3)
- Service – Equal (3)

The company’s competitive advantage: the price.

Four objectives that is most essential to the company:

1. Service
2. Long-term profitability
3. Short-term profitability
4. Innovation ability

**Company 8**

*Description of the company*

Trade with men’s clothing, women’s clothing and children clothing.

*The company’s reward system*

Reward system: Yes, three different reward systems.

Employees included in reward system 1: the sales men.

Reward system 1 is based on the group’s performance. Time plan: 0-6 months.

Quantitative measures: Yes. Turnover according to budget.

Qualitative measures: No.

Reward system 1 consists of financial rewards, bonus and money.

Social rewards: No.

Benefits: No.

Employees included in reward system 2: the shop manager.

Reward system 2 is based on the group’s performance. Time plan: 0-6 months.

Quantitative measures: Yes. Turnover according to budget, net profit, sales per customer.

Qualitative measures: No.

Reward system 2 consists of financial rewards, bonus and money.

Social rewards: No.

Benefits: No.

Employees included in reward system 3: the executives.

Reward system 3 is based on the company’s performance. Time plan: 1 year.

Quantitative measures: Yes. Turnover according to budget, net profit, sales per customer.

Qualitative measures: No.

Reward system 3 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers. What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Considerably higher (5)
Brand profiling – Considerably higher (5)
Trend sensitivity – Higher (4)
Service – Considerably higher (5)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1  Cost control
2  Unique products
3  Quality
4  Service

Company 9
Description of the company
Trade with men’s clothing, women’s clothing and children clothing.

The company’s reward system
Reward system: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers. What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Higher (4)
Brand profiling – Higher (4)
Trend sensitivity – Equal (3)
Service – Equal (3)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1  Long-term profitability
2  Service
3  Unique products
4  Cost control

Company 10
Description of the company
Trade with men’s clothing.

The company’s reward system
Reward system: Yes, two different reward systems.
Employees included in reward system 1: the executives.
Reward system 1 is based on the company’s performance. Time plan: more than 3 years. 
Quantitative measures: Yes. ROI.
Qualitative measures: No.
Reward system 1 consists of financial rewards, other financial reward and options.
Social rewards: No.
Benefits: No.
Employees included in reward system 2: the shop manager and sales men.
Reward system 2 is based on the group’s performance. Time plan: 1 year.
Quantitative measures: Yes. Net result.
Qualitative measures: No.
Reward system 2 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Considerably lower (1)
Product quality – Equal (3)
Brand profiling – Equal (3)
Trend sensitivity – Equal (3)
Service – Equal (3)
The company’s competitive advantage: the price.
Four objectives that is most essential to the company:
1  Long-term profitability
2  Short-term profitability
3  Service
4  Cost control

Company 11
Description of the company
Trade with women’s clothing.

The company’s reward system
Reward system: Yes, two different reward systems.
Employees included in reward system 1: the shop manager.
Reward system 1 is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. The company’s profit.
Qualitative measures: Yes. Number of complaints compared to a goal.
Reward system 1 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.
Employees included in reward system 2: all employees.
Reward system 2 is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. The company’s profit.
Qualitative measures: No.
Reward system 2 consists of financial rewards, bonus and money.
Exploring the Congruence between Reward Systems and Strategy – A Competitive Perspective

Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Equal (3)
Product quality – Higher (4)
Brand profiling – Equal (3)
Trend sensitivity – Equal (3)
Service – Higher (4)
The company’s competitive advantage: a unique characteristic.
Four objectives that is most essential to the company:
1. Long-term profitability
2. Short-term profitability
3. Quality
4. Service

Company 12
Description of the company
Trade with women’s clothing.

The company’s reward system
Reward system: Yes.
Employees included in the reward system: the shop manager and sales men.
The reward system is based on the group’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. Bonus based on achieved budget.
Qualitative measures: No.
The reward system consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Considerably higher (5)
Brand profiling – Higher (4)
Trend sensitivity – Equal (3)
Service – Considerably higher (5)
The company’s competitive advantage: other.
Four objectives that is most essential to the company:
1. Long-term profitability
2. Service
3. Cost control
4. Unique products
Company 13
Description of the company
Trade with women’s clothing.

The company’s reward system
Reward system: Yes.
Employees included in the reward system: the shop managers.
The reward system is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. Measures based on profit compared to previous year.
Qualitative measures: No.
The reward system consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Lower (2)
Product quality – Equal (3)
Brand profiling – Equal (3)
Trend sensitivity – Equal (3)
Service – Higher (4)
The company’s competitive advantage: the price.
Four objectives that is most essential to the company:
1 Service
2 Long-term profitability
3 Quality
4 Cost control

Company 14
Description of the company
Trade with women’s clothing.

The company’s reward system
Reward system: Yes, three different reward systems.
Employees included in reward system 1: all employees.
Reward system 1 is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. Results compared to budget, for example EBIT and cash flow.
Qualitative measures: No.
Reward system 1 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.
Employees included in reward system 2: the executives.
Reward system 2 is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. EBIT.
Qualitative measures: No.
Reward system 2 consists of financial rewards, bonus and money plus profit share.
Social rewards: No.
Benefits: Yes. Health insurance, health care and company car.
Employees included in reward system 3: the shop manager.
Reward system 3 is based on the group’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. Sales volume compared to budget.
Qualitative measures: No.
Reward system 3 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Lower (2)
Product quality – Equal (3)
Brand profiling – Equal (3)
Trend sensitivity – Lower (2)
Service – Higher (4)
The company’s competitive advantage: the price and unique characteristic.
Four objectives that is most essential to the company:
1. Long-term profitability
2. Service
3. Cost control
4. Short-term profitability

Company 15
Description of the company
Trade with men’s clothing, women’s clothing and children clothing.

The company’s reward system
Reward system: Yes.
Employees included in the reward system: all employees.
The reward system is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. EBIT.
Qualitative measures: No.
The reward system consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Considerably higher (5)
Brand profiling – Considerably higher (5)
Trend sensitivity – Higher (4)
Service – Higher (4)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1  Quality
2  Innovation ability
3  Service
4  Unique products

Company 16
Description of the company
Trade with women’s clothing and children clothing.

The company’s reward system
Reward system: Yes.
Employees included in the reward system: the shop manager and sales men.
The reward system is based on the group’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. Sales per hour.
Qualitative measures: No.
The reward system consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Equal (3)
Product quality – Equal (3)
Brand profiling – Higher (4)
Trend sensitivity – Equal (3)
Service – Equal (3)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1  Unique products
2  Long-term profitability
3  Cost control
4  Innovation ability

Company 17
Description of the company
Trade with women’s clothing.

The company’s reward system
Reward system: Yes.
Employees included in the reward system: the shop manager, sales men and others (storage
and office employees).
The reward system is based on the company’s performance. Time plan: 1 year.
Quantitative measures: Yes. The company’s profit.
Qualitative measures: No.
The reward system consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Lower (2)
Product quality – Higher (4)
Brand profiling – Higher (3)
Trend sensitivity – Equal (3)
Service – Equal (3)
The company’s competitive advantage: other.
Four objectives that is most essential to the company:
1 Unique products
2 Long-term profitability
3 Quality
4 Service

Company 18
Description of the company
Trade with women’s clothing.

The company’s reward system
Reward system: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Lower (2)
Product quality – Considerably higher (5)
Brand profiling – Equal (3)
Trend sensitivity – Higher (4)
Service – Equal (3)
The company’s competitive advantage: price.
Four objectives that is most essential to the company:
1 Quality
2 Cost control
3 Short-term profitability
4 Unique products

Company 19
Description of the company
Trade with women’s clothing.
The company’s reward system
Reward system: Yes, two different reward systems.
Employees included in reward system 1: all employees.
Reward system 1 is based on the company’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. Sales volume.
Qualitative measures: No.
Reward system 1 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

Employees included in reward system 2: all employees.
Reward system 2 is based on the company’s. Time plan: 1 year.
Quantitative measures: Yes. Sales volume for sales departments and cost level for other departments.
Qualitative measures: No.
Reward system 2 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for one specific segment of customers.
What distinguishes the company from other companies within the same business:
Selling price – Higher (4)
Product quality – Higher (4)
Brand profiling – Considerably higher (5)
Trend sensitivity – Lower (2)
Service – Higher (4)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1  Long-term profitability
2  Unique products
3  Innovation ability
4  Quality

Company 20
Description of the company
Trade with women’s clothing and men’s clothing.

The company’s reward system
Reward system: Yes, two different reward systems.
Employees included in reward system 1: the shop manager.
Reward system 1 is based on the group’s performance. Time plan: 0-6 months.
Quantitative measures: Yes. Turnover according to budget, personnel expenses, article of clothing per customer.
Qualitative measures: No.
Reward system 1 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.
Employees included in reward system 2: the executives.  
Reward system 2 is based on the company’s performance. Time plan: 1 year.  
Quantitative measures: Yes. Turnover according to budget.  
Qualitative measures: No.  
Reward system 2 consists of financial rewards, bonus and money.  
Social rewards: No.  
Benefits: No.

The company’s market position  
The company’s assortment is adjusted for several different segments of customers.  
What distinguishes the company from other companies within the same business:  
Selling price – Higher (4)  
Product quality – Considerably higher (5)  
Brand profiling – Considerably higher (5)  
Trend sensitivity – Equal (3)  
Service – Considerably higher (5)  
The company’s competitive advantage: unique characteristic.  
Four objectives that is most essential to the company:  
1 Cost control  
2 Unique products  
3 Quality  
4 Service

Company 21  
Description of the company  
Trade with men’s clothing, women’s clothing and children clothing.  

The company’s reward system  
Reward system: Yes, three different reward systems.  
Employees included in reward system 1: the executives.  
Reward system 1 is based on the company’s performance. Time plan: 1 year.  
Quantitative measures: Yes. EBIT (percent).  
Qualitative measures: No.  
Reward system 1 consists of financial rewards, bonus and money.  
Social rewards: No.  
Benefits: No.  
Employees included in reward system 2: the shop manager, sales men and others (customer service).  
Reward system 2 is based on both the group’s performance and the individual’s performance. Time plan: 0-6 months.  
Quantitative measures: Yes. Coverage grade in percent.  
Qualitative measures: No.  
Reward system 2 consists of financial rewards, bonus and money.  
Social rewards: No.  
Benefits: No.  
Employees included in reward system 3: others (production unity, planning, purchasing)  
Reward system 3 is based on the group’s performance. Time plan: 1 year.
Quantitative measures: Yes. Stock value.
Qualitative measures: No.
Reward system 3 consists of financial rewards, bonus and money.
Social rewards: No.
Benefits: No.

The company’s market position
The company’s assortment is adjusted for several different segments of customers.
What distinguishes the company from other companies within the same business:
Selling price – Equal (3)
Product quality – Higher (4)
Brand profiling – Lower (2)
Trend sensitivity – Lower (2)
Service – Considerably higher (5)
The company’s competitive advantage: unique characteristic.
Four objectives that is most essential to the company:
1 Long-term profitability
2 Cost control
3 Service
4 Quality
8.3 Appendix C – Classification of the Companies

8.3.1 Cost Leadership Strategy

Company 1
This is a company which is well in accordance with the criteria that we have set up for a cost leadership strategy. Company 1 focuses very much on the price, which in turn can be seen as they claim that their competitive advantage is the price. The company also judge the sales price to be considerably lower than compared to its competitors. According to the criteria set up, service and quality should be on an equal level compared to its competitors, which is also reflected in the answer given by the company. The only divergence that occurs is that short-term profitability is not among the four most important objectives. However, as discussed in section 3.4.1, also long-term profitability points out that a company is aware of its cost efficiency.

Company 4
Company 4 follows a cost leadership strategy. The company’s competitive advantage is the sales price, and it is also considered to be lower than compared to its competitors. The company has a high cost awareness, since the three most important objectives are long-term and short-term profitability and cost control. The only characteristic that does not correspond to our criteria set up, is that trend sensitivity is considered to be higher than compared to its competitors. Also, innovation ability is ranked as one of the company’s most important objectives. Though, innovation ability is ranked as the fourth most important objective and together with the other answers it is very clear that the company fulfils the criteria for a cost leading company.

Company 7
Company 7 focuses on the sales price. The company considers their sales price to be lower than compared to its competitors, and further their competitive advantage is the sales price. These answers in combination with that the other characteristics are considered to be equal compared to its competitors, lead us to the conclusion that the company follows a cost leadership strategy. Further, the company considers both long-term and short-term profitability to be important objectives.

Company 10
Company 10 follows a clearly defined cost leadership strategy. The competitive advantage for the company is the sales price and this is also noticed to be viewed as considerably lower than compared to its competitors. It is also obvious that the company is cost conscious because both long-term and short-term profitability as well as cost control is among the four most important objectives. The fact that none of the other characteristics is judged to be higher compared to its competitors is also important to more clearly show that this is a cost leading company.

Company 13
Company 13 corresponds very well to our characteristics for a cost leadership strategy. The sales price is considered to be lower than compared to its competitors and the company’s
competitive advantage is the sales price. Further, most characteristics are considered to be equal compared to its competitors, except for service which is considered to be higher than compared to its competitors. A small divergence from our criteria is that service is important for the company, which is also reflected when the company ranks service as their most important objective. However, the company points out that they are cost efficient by choosing long-term profitability and cost control as two of their most important objectives.

8.3.2 Differentiation Strategy

Company 2
The company is well in accordance with our criteria for a differentiated company. Four out of five characteristics are judged to be considerably higher than compared to its competitors. The company’s competitive advantage is a unique characteristic and it is obvious that this unique characteristic, together with product quality, are important objectives. Another important objective is long-term profitability, which is significant for a differentiated company.

Company 3
Company 3 is a good example of a differentiated company. The company has one characteristic that is judged to be considerably higher than compared to its competitors, that is product quality, while the other characteristics are judged as higher than its competitors. The company’s competitive advantage is a unique characteristic, which also can be noticed when quality is ranked as the most important objective for the company. The other objectives meet the criteria well, except for short-term profitability which is ranked as the second most important objective. It is notable that short-term profitability is such an important objective, however all the other characteristics and objectives very clearly indicate that this is a differentiated company.

Company 8
We consider company 8 to follow a differentiation strategy. The company ranks three of its characteristics, namely product quality, brand profiling and service, to be considerably higher than compared to its competitors, while sales price and trend sensitivity is higher than compared to its competitors. Further, the company’s objectives clearly indicate a differentiation strategy as they rank unique products, long-term profitability and service as important objectives. An aspect that is ambiguous is that one characteristic that they judge as considerably higher, that is service, is only ranked as number four among the company’s most important objectives. Further, cost control is ranked as the most important objective within the company, which should not be expected from a differentiated company. However, apart from this divergence, there are very clear indications that the company follows a differentiation strategy.

Company 15
Company 15 follows a differentiation strategy. Our judgement is based on the fact that brand profiling and product quality are characteristics judged to be considerably higher than compared to its competitors. Further, all the other characteristics, except for trend sensitivity, are considered as higher than compared to its competitors, which is a feature for a differentiated company. The company’s competitive advantage is a unique characteristic,
which also reflects that quality and innovation ability is ranked to be the two most important objectives. At last, the company has service and unique products as important objectives, which clearly indicates that this is a differentiated company.

**Company 20**
The company follows a differentiation strategy, in spite of a great divergence. The company is closely linked to the characteristics of a differentiated company, by indicating three characteristics to be considerably higher than compared to its competitors. Only one characteristic, trend sensitivity, is considered to be equal compared to its competitors. The company’s competitive advantage is a unique characteristic, and three out of four objectives according to our criteria for a differentiated company, are chosen. However, there is a divergence when the company considers cost control to be the most important objective. We find this choice odd, but do not have an explanation to why they have chosen this objective. This is a great divergence, however it is not possible to consider the company to be caught in the middle because of this choice, since all other characteristics and objectives clearly indicate that the company follows a differentiated strategy.

**Company 21**
Company 21 is difficult to classify. The company has one characteristic that they rank as higher than compared to its competitors, but also two characteristics that are ranked lower than compared to its competitors. Service is the one characteristic that is valued as considerably higher than compared to its competitors, but when the company ranks the most important objectives, cost control is ranked higher than service. Though, the company has a unique characteristic as their competitive advantage, and three out of four objectives set up in our criteria are matched. Nevertheless, we lack objectives such as innovation ability and unique products. However, when the company describes their unique characteristic, quality and assortment is mentioned, which make us draw the conclusion that this is a differentiated company.

### 8.3.3 Focus Differentiation Strategy

**Company 5**
The company is definitely focus differentiated. This opinion is based on the fact that two of their characteristics are judged to be considerably higher than compared to its competitors, and two characteristics are considered to be higher than compared to its competitors. Further this characteristic, that is service, is considered as equal compared to its competitors and at the same time it is not included among the company’s four most important objectives. Quality, on the other hand, is the second most important objective for the company and is at the same time considered to be higher than compared to its competitors. Further, unique products, long-term and short-term profitability are objectives that are ranked as important within the company. The only divergence that can be found is that short-term profitability is mentioned as an important objective, but it is only ranked as the fourth most important objective. However, this divergence is not that important.

**Company 6**
The company is clearly focus differentiated. The company has answered that they focus on several different segments, however these segments are very specific and closely related and
it is therefore possible to judge them as one segment. Otherwise, the answers from the company are in accordance with our criteria for a focus differentiated company. Two of three characteristics are judged to be considerably higher than compared to its competitors, while the others are considered to be higher. The company’s competitive advantage is a unique characteristic, which also indicates that service is the most important objective. The remaining objectives, unique products, innovation ability and long-term profitability clearly indicate that the company is focus differentiated.

Company 12
Our conclusion is that company 12 is focus differentiated, although the assortment is for two different segments. These two segments are very specific and closely related and can therefore be seen as one segment. The company does not consider itself to have any characteristic that is lower than compared to its competitors, on the contrary both product quality and service is ranked as considerably higher. The company’s competitive advantage is focused on quality and service. This can be seen among their most important objectives, as they indicate that the company differentiates towards service by ranking this objective as the second most important. The company also considers long-term profitability and unique products as important objectives, but divergence from our criteria by ranking cost control as the third most important objective. Though, the company indicates clearly that they are focus differentiated, and therefore we consider this divergence not to be that significant.

Company 19
The company follows a focus differentiation strategy. It is possible to consider the company to be focused differentiated, because their assortment is only adjusted for one specific segment. The company considers several of the characteristics to be higher than compared to its competitors and also one characteristic, that is brand profiling, is judged to be considerably higher. The company’s competitive advantage is a unique characteristic. This can also be noticed when the company considers their characteristics compared to its competitors, and also when the company ranks the most important objectives. Notable is that the company considers one characteristic to be lower than compared to its competitors. However, if you put too much importance into this, you ignore those characteristics that are specific for a differentiated company, that is the company should have characteristics that are judged to be higher or considerably higher than compared to its competitors.

8.3.4 Caught in the Middle

Company 9
The fact that the company considers three of their characteristics to be higher than compared to its competitors, leads to that it may seem as if the company follows a differentiation strategy. Also the fact that the company ranks three of those objectives set up in our criteria to be most important for them, also indicates that it should be a differentiated company. However, the unique characteristic that the company considers to be their competitive advantage, is not very clear and something every company could consider to a competitive advantage. Further, service is ranked as one of the most important objectives within the company, but at the same time the company does not consider service to be higher than compared to its competitors. We consider the company to be caught in the middle, since the
company is not very clear about its position on the market and which the company’s strengths are.

Company 11
This company is difficult to classify. Product quality and service is considered to be higher than compared to its competitors, but it is not reflected among the company’s objectives where they are ranked in the third and fourth place. The company’s competitive advantage is a unique characteristic, but it is defined in an indistinct way. Profitability is important for the company, these objectives are considered to be the most important ones for the company. These answers are not consistent, and therefore we consider the company to be caught in the middle.

Company 14
The company has characteristics of both a cost leadership strategy and a differentiated strategy. The sales price is considered as lower than compared to its competitors, and both cost control and short-term profitability are among the company’s most important objectives, which indicates that this could be a cost leading company. Further, the company considers the sales price to be the competitive advantage. However, at the same time the company has also answered that also a unique characteristic is considered to be the competitive advantage. Also, service is considered to be higher than compared to its competitors, and this objective is also considered to be the second most important for the company. These answers indicate that the company follows a differentiation strategy. Our conclusion is that the company is caught in the middle, because there are no clear indications whether they follow a cost leadership strategy or a differentiation strategy.

Company 16
We consider the company to be caught in the middle, in spite of the fact that three of their objectives correspond to the criteria set up for a differentiated company. The answers given by the company are not consistent, and we believe that you can find contradictions in the different answers. The company considers themselves to be equal on every characteristic compared to its competitors, except for brand profiling where they judge themselves as considerably higher than compared to its competitors. In spite of this, the company considers their competitive advantage to be a unique characteristic. However, we believe this unique characteristic should be more reflected among the company’s characteristics, that is one or more characteristics should be ranked as higher, or considerably higher, than compared to its competitors.

Company 17
We consider company 17 to be caught in the middle. We make this judgement because the company’s characteristics do not correspond to the criteria for a differentiated company. The considers its product quality to distinguish them from its competitors, however product quality is only considered to be higher than compared to its competitors. It becomes contradictory when the company considers the sales price to be lower than compared to its competitors. Also, the company considers unique products to be the most important objective. The competitive advantage shows that the company wants to differentiate, and at the same time follow a cost leadership strategy. The conclusion is that we consider the company to be caught in the middle.
Company 18
The company can be viewed to have characteristics specific for both cost leadership and differentiation strategy, and therefore our conclusion is that the company is caught in the middle. The considers their sales price to be lower than compared to its competitors and also the sales price is considered to be the company’s competitive advantage. Simultaneously, the company judges itself to have characteristics that are both higher, and considerably higher, than compared to its competitors. Quality is ranked as the most important objective for the company and these answers clearly indicates that the company differentiates towards product quality and at the same time the sales price is their competitive advantage.
8.4 Appendix D – Crib Sheet for the Survey

QUANTITATIVE MEASURES\textsuperscript{185}

**CAPITAL MEASURES**
- Solidity
- Capital turnover
- Working capital/turnover
- Cash liquidity
- Assets/turnover
- Machines and inventory/turnover
- Financial assets/turnover
- Inventory and hand/turnover
- Other short-term receivables/turnover
- Cash/Bank and short-term investments/turnover
- Current debts/turnover
- Equity/turnover
- Non-taxable reserves/turnover
- Allocation + long-term debts/turnover
- Leverage of debts
- Stock-in-trade turnover
- Customer credit
- Inventory earnings
- Loan grade

**PROFIT MEASURES**
- Operating margin
- Net margin
- Turnover/employee
- Personnel costs/turnover
- Gross margin
- Interest coverage grade
- Operating profit/employee
- Net profit/employee
- Profit in percent
- Coverage grade

**MEASURES OF RETURN**
- Return on equity
- Return on total capital
- Debt interest
- Risk cushion total capital
- Return on working capital
- Risk cushion working capital

**OTHER MEASURES**
- Shift in turnover
- Shift in total capital
- Shift in equity
- Shift in average number of employees
- Personnel costs/added value
- Personnel costs/employee
- Depreciations/turnover
- Net finance/turnover
- Investments assets/turnover
- Premises costs/turnover
- Sales costs/turnover
- Administration costs/turnover
- Other operating costs/turnover
- R&D/turnover
- Cash flow

\textsuperscript{185} BAS-nyckeltal: för bättre analys och effektivare ekonomistyrning, 1998.
QUALITATIVE MEASURES\textsuperscript{186}

Customer satisfaction
Innovation ability
Delivery in time guarantee
Complaints
Development projects
Learning activities
Suggestions for improvement
Product quality

\textsuperscript{186} Olve et. al., op cit.