Aligning Compensation Strategy with Business Strategy
A case study of a company within the service industry
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Abstract

Business strategy and compensation strategy are commonly recognized as important strategic issues in an organization over the past decades. Collectively, they play a crucial role in determining organization’s performance and economic success, hence the correlation and interaction between the two is gaining more attention among companies and researchers. Literature states that an optimal alignment between business strategy and compensation strategy facilitates organization to secure its competitive advantages in specific market place.

The purpose of this thesis was to examine the alignment of business strategy and compensation strategy. For this reason, a qualitative case study was conducted in a company within the service industry, operating in the Nordic market. This was supported by existing literature that was studied to gain comprehensive knowledge of the researched topics and their current stage. The empirical data was collected by interviewing three managers, as well as three employees, in order to obtain triangulated and deep insight. The results showed that the organisation has adapted a cost leadership business strategy and the pay structure is largely dictated by the union. Due to this, the competitiveness of monetary compensation is limited, hence in order to retain talent and motivate employees, the company has established an extensive intangible compensation strategy. The professionality and quality of service is assured and in line with the strategy when it is facilitated by management transparency, team spirit, and positive or constructive feedback. Furthermore, the analysis demonstrated that the link between business strategy and compensation strategy in the case is stewardship theory, and the empowerment of employees is enabled in order to foster commitment and engagement.
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1. Introduction

This chapter will give an introduction to business strategy, compensation strategy, and compensation and clarify the problem and purpose of this thesis. In addition, definitions of essential terms are also presented.

1.1 Background

Strategy is the determination of organisations, designed to achieve long-term or overall goals as well as the adoption of a course of action (Chandler, 1990) and it is widely acknowledged that the field of business strategy has increased in importance since its emergence in the 1950s (Langfield-Smith, 1997). Approaches that organizations undertake in order to create and sustain their competitive advantages, can generally be categorised as business-level strategies, such as overall cost leadership, differentiation, and focus (Porter, 2004; It, 2004; Hill, 1988). Organizations’ sustainability and competitiveness are heavily relying on the compatibility and execution of their business strategy implementations. Therefore, the study and evaluation of a well-fitted business strategy is vital for an organization to undertake in order to be successful in its specific market place. During the recent decades, researchers have largely advocated that achieving organisational efficiency requires obtaining a close articulation between overall business strategy and human resource strategies, specifically compensation strategy (Gomez-Mejia & Welbourne, 1988).

Furthermore, several writers have argued that the field of compensation is going through a transformation from an applied discipline towards a broader field, which focuses on concepts such as linkages that involve a distinctive fit with business strategies (Gomez-Mejia & Welbourne, 1988). An organization's compensation strategy, the structure and design of compensation package, have different pattern dimensions that vary in range (Gomez-Mejia, 1992). The first type of compensation pattern emphasizes internal equity and hierarchical position as basis for compensation distribution (Gomez-Mejia & Welbourne, 1988; Balkin & Gomez-Mejia, 1990). Employees’ opportunities for cross-department and upward mobility are narrowly defined under a highly centralized grade structure (Gomez-Mejia, 1992). On the contrary, the second type of compensation pattern is more flexible and adaptive to varying business circumstances, in which personal skills and attributes are the basis for compensation
determination (Gerhart & Bretz Jr, 1994; Gomez-Mejia, 1992). A decentralized and less hierarchical administrative structure allows the existence of greater employee input. In addition, an organization’s compensation strategy can fall into any position between these two extreme patterns depending on its business strategy (Gomez-Mejia, 1992).

Within an organization, employees’ satisfaction regarding their compensation packages is one of the management’s main determinants when designing a suitable compensation strategy. In a perfectly competitive labour market, workers entering the workforce expect to receive compensation equal to their opportunity cost and companies aim to provide a compensation package sufficient to retain workers of the desired quality (Krueger & Summers, 1988). Organization’s compensation strategy is the collection of reward choices available to the management (Balkin & Gomez-Mejia, 1987) that may affect the organization’s performance and the effectiveness of human resources. Therefore, successfully implementing various compensation choices depends heavily on the contingencies facing the organization at a certain moment in time (Gomez-Mejia & Welbourne, 1988).

Furthermore, an organisation might not be fully in control of its choices of tangible compensation. The role of unions in the determination of wages is inevitably significant, meaning that the wage structure across different industries generally is maintained at a set level under unionization. The union bargaining power drastically decreases organization’s ability to implement its own pay structure (Krueger & Summers, 1988; Milkovich, Newman & Milkovich, 1999). It could be argued that organisation's compensation strategy under such conditions might shift its focus to intangible compensation. Moreover, Krueger and Summers (1988) state that understanding of the nature and effects of different compensation alternatives in an organization will not only help to improve or reinforce current compensation strategy, but also better serve the aim of organisation’s business strategy, which in turn leads to success in the market.

Ultimately, the effectiveness of strategy implementation and organisation performance, at both corporate and business level, depend heavily on the existence of a match between compensation strategy and competitive business strategy (Gomez-Mejia, 1992; Balkin & Gomez-Mejia, 1990). As evident from the existing literature, organisation’s compensation strategy is influenced by both the corporate and business strategy, and the design of organisation’s benefits package may additionally reflect the business strategy (Balkin & Gomez-Mejia, 1990). The study of the connection helps to understand the formation of both
strategies and their overall effects on organisation and its employees. This thesis is aiming to examine the actual links between compensation strategy and business strategy in a service industry company.

1.2 Problem

During the past decades, a large amount of strategic management literature and research have devoted effort on aiming to understand the hidden factors that underlie the management of compensation strategy, particularly how they are related to firm performance. Much of the work is based on agency theory of which the central idea is how to design compensation strategies in ways that motivate employees to work in the interests of equity holders and not involve in self-gaining behaviours (Werner, Tosi & Gomez-Mejia, 2005). Numerous compensation foundations have been identified in the design of tangible pay system, such as job versus skills based pay (Kerr, 1985), individual versus group performance based pay (Kerr, 1988; Carrol, 1987; Mount, 1987), short- versus long-term oriented pay (Rappaport, 1978), compensation level versus market based pay (Gerhart & Milkovich, 1990), fixed pay versus incentives based pay (Galbraith & Merrill, 1991), and many more (Gomez-Mejia & Welbourne, 1988; Gomez-Mejia, 1992).

In addition to the pros and cons of various compensation strategies, the currently challenging business environment makes it more difficult for companies to design a suitable compensation strategy for their employees. A well-designed compensation strategy should promote desirable employee behaviours which are essential to the successful implementation of business strategies (Milkovich & Newman, 2005). Therefore, it is crucially important for companies to optimally fit and align their business strategy and compensation strategy in order to improve organisational effectiveness (Gerhart, 2000) and achieve their overall organisational goals (Heneman, 2002). A functional alignment between company’s business strategy and compensation strategy contributes to the improvements of tangible compensation which can significantly reinforce the employee behaviors that are in-line with company’s business strategy (Lawler III, 1990). As previously stated, numerous authors argue that the requirements for business success include a fit between business strategy, human resources
and compensation strategy, however, the research on the concept of fit has been limited (Gomez-Mejia & Welbourne, 1988).

Furthermore, the unionization of pay system can effectively limit the range of an organisation’s compensation strategy (Krueger & Summers, 1988). The case in this thesis is a company operating in the service industry that utilizes a cost leadership business strategy. Moreover, their tangible compensation, the pay structure, is in line with the union pay system that is commonly deployed in the service industry. Hence, the organisation is not able to compete in wages to attract and retain employees. As a compensation strategy they therefore utilize intangible compensation in addition to a stewardship management style. Due to this, the attention of this thesis was directed on the gap occurring when considering how does the company attracts and retains its employees when it can not compete in tangible way, but focuses on intangible compensation instead.

1.3 Purpose

The purpose of this qualitative thesis is to further explore how business strategy may influence compensation strategy and specifically to create in-depth understanding on the relationship between the two aspects, in case of a company within the service industry. The authors aim to gather insight into the reasons behind compensation and business strategy relationships as well as to evaluate the details of stewardship theory as a tool to describe the link.

Hence, the thesis will have an explanatory purpose, aimed towards making a theoretical contribution through adding to the existing literature of strategic compensation by linking it with business strategy, in order to go further than to describe it. Finally, with the case study, the authors additionally strive to provide a good description of intangible compensation and stewardship theory in a service industry in the Nordic countries.
1.4 Research Question

The research question that intrigues the authors is:

*How can a company within the service industry optimally align business strategy with compensation strategy?*

1.5 Definitions

The aim of this thesis is to investigate business strategy, compensation, especially compensation strategy, intangible compensation, cost leadership business strategy and stewardship theory. Therefore, it is important for the authors to provide the correct definitions of these concepts, in order for the reader to comprehend what the authors are meaning with these terms within this thesis.

1.5.1 Compensation - The aggregate package of returns - financial rewards, services and benefits - that are provided to the employees by the company, in return for their labor. Two basic components are included, direct benefits and indirect benefits, which are designed and administered by the managers (Milkovich & Newman, 1993).

1.5.2 Compensation Strategy - In this thesis compensation strategy refers to the deliberate utilization of the compensation system as an integrating action through which employees’ efforts are directed toward the fulfillment of a company’s strategic objectives (Gomez- Mejia, 1992).

1.5.3 Intangible Compensation - A non-monetary compensation that employees achieve by performing work tasks. Examples of intangible compensation include job satisfaction, challenging tasks, autonomy, pride in work and a feeling of achievement (Heery & Noon, 2009).
1.5.4 Cost Leadership Business Strategy - Cost leadership business strategy demands aggressive development of efficient-scale facilities, effective pursuit of cost reductions from experience, strict cost and overall control, avoidance of marginal customer accounts, and cost reduction in areas such as service, sales force, advertising and so forth (Porter, 2004).

1.5.5 Stewardship Theory - A framework of managerial behavior, which argues that people are intrinsically motivated to work for others or for organizations to accomplish the tasks and responsibilities with which they have been entrusted. It argues that people are collective minded and pro-organizational rather than individualistic and therefore work toward the attainment of organizational, group, or societal goals because doing so gives them a higher level of satisfaction (Idowu, 2013).

2. Theoretical Frame of Reference

This chapter aims to present a view of the literature on business strategy, compensation strategy, and stewardship theory. What is more, the concept of intangible compensation and focus on intrinsic motivation is presented.

2.1 Business Strategy

Chandler (1990) defines strategy as the determination of the general long-term goals and objectives of an organization, the adoption of courses of action and the allocation of the resources necessary for carrying out organizational goals. On the other hand, Johnson, Scholes and Whittington (2008) describe strategy as the long term direction of a company, the scope of their activities, operational decisions and the decisions used in gaining advantage over competitors. Strategy can be divided into four levels: network alliance level, corporate company level, business unit level and functional department level (De Wit & Meyer, 2010).
It was as late as the 1970s that the field of strategy became known and studied, however, during the last three decades the interest has grown exponentially (Johnson et al., 2007; Boxall & Purcell, 2008). As a reaction to the escalated growth of fresh and innovative technology, competitive change and reformed regulations, business leaders needed more ways to design and implement successful strategies (Boxall & Purcell, 2008). The academic field of strategic management and consultancy practices therefore responded to this exploded interest.

Strategic management can be described as the identification of the purpose of the organisation as well as the plans and actions to achieve that purpose (Lynch, 2012). According to De Wit and Meyer (2010), it additionally concerns relating a company to the environment so as to successfully attain its long-term objectives. Furthermore, in the analysis stage of the strategy process, individuals deciding on the strategy identify the opportunities and threats in the business context, as well as the internal strengths and weaknesses of the company. This is followed by the formulation stage, where strategists determine and identify the strategic options that are available to them, evaluate them and make a decision on the chosen one. Lastly, the selected option of strategy is translated into concrete activities, which are carried out in the implementation stage (De Wit & Meyer, 2010).

According to Porter (2004) there are three possibly successful universal strategic approaches to exceed other companies in an industry: overall cost leadership, differentiation and focus. Most often it is possible for the company to commit to only one of these strategic approaches as the main target, but sometimes the company can successfully follow more than one strategic approach. When focusing mainly on overall cost leadership it can be examined that the strategic advantage of this approach is its low cost position industry wide (Porter, 2004), since in order for a company to be successful it must gain competitive advantage over competitors that operate in the same area of business (De Wit & Meyer, 2007).

As stated by Boxall and Purcell (2008) the most important element for companies is to secure their economic viability in those industries they are aiming to compete in. The company has to be cost-effective enough in order to satisfy its shareholders and those who it has borrowed money from. Moreover, to back up the economic viability, managers are generally concerned with the problem of how to attract the kind of labour they desire within a cost structure that
the company is able to afford. Specifically, management tries to create a cost-effective system for their labour management (Geare, 1977; Osterman, 1987; Godard, 2001).

Furthermore, Porter (2004) states that holding a cost leadership position produces the company above average returns in the industry where it is operating regardless of the strong competitive forces present. The company’s cost position provides the company protection against competitors’ rivalry as its lower costs indicate that it can still gain returns after its competitors have already consumed their gained profits through rivalry. A low-cost position can function as a defense for the company against strong buyers, as these buyers can use their power to lower the prices only to the level of the next most powerful competitor. Moreover, low cost yields a defense against strong suppliers as well by providing more flexibility to manage with cost increases in inputs. Finally, it can be stated that cost leadership position most often places the company in an encouraging position vis-à-vis substitutes respective to its competitors in the industry. Consequently, a cost leadership position secures the company against all five competitive forces - entry, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitor - as the less efficient competitors will get into trouble first due to the competitive pressures. Additionally, once the cost leadership position has been achieved it provides high margins, which the company can reinvest in new equipment and modern facilities to maintain their cost leadership (Porter, 2004).

Moreover, De Wit and Meyer (2010) claim that strategies are in fact formed incrementally as organizations act in small iterative steps, letting strategies emerge as they go along. However, Johnson et al. (2007) disagree, as the focus more on strategy as an activity that individuals in organizations do on a daily basis. For example, differentiation strategies include individuals doing activities differently and in means that are difficult to imitate, hence strategy processes include professionals physically making strategies. What is more, they claim that the current field of strategy should emphasize the activities the individuals engaged in strategizing in fact do and how do those activities have an effect on the strategic outcome.

The current business environment has amplified the need to consider not only how to address customer needs more astutely, but also how to capture value from providing new products and services (Teece, 2010). A business strategy articulates the logic and provides data and other
evidence that demonstrates how a business creates and delivers value to customers and are needed to protect competitive advantage, the core of the fundamental question asked by business strategists (Teece, 2010). In order to be successful, firms must closely align their HR strategies and programs with environmental opportunities, business strategies, and the organization’s unique characteristics and distinctive competence (Gomez-Mejia, Balkin & Cardy, 2004). Furthermore, according to Balkin and Gomez-Mejia (1987) it is also crucial for the company to focus on the right compensation strategy, which can be carried out as tangible and intangible forms.

2.2 Compensation strategy

Within the compensation strategy the authors are examining tangible and intangible compensation.

2.2.1 Tangible compensation

Balkin and Gomez-Mejia (1987) state compensation as one of the most important parts of the strategic core of human resource management. Compensation, which can also be referred as reward system, belongs to one of four main policy areas of HR about which all the general managers should be aware of. Moreover, employee influence, human resource flow and work systems are three other of those policy areas (Beer et al., 1985). Schuler and MacMillan (1984) emphasize that human resource practises, which include compensation, can function as a factor giving competitive advantage to one company over its competitors.

Costs arise due to the differences between firms and employees in the key areas of objectives and information. Organisations seek to maximize their profit, and increased compensation affects profitability by motivating employees’ efforts and attracting more skilled employees (Prendergast, 1999), in turn leading employees seeking to maximize their utility. Increased compensation has an effect on utility by increasing income, yet employees must balance utility and income with the cost of increased effort. A firm can incentivize higher effort from all employees by offering a low guaranteed compensation with a large performance element, however it can also attract and retain high skill level employees, while eliminating low skill level workers (Lazear, 1986).
Moreover, in terms of development of a compensation strategy, Milkovich and Newman (2008) suggest that managers must consider four policy choices: internal alignment, employee contributions, management of the compensation system, and external competitiveness. Internal alignment includes the pay relationships within the organization. An appropriate alignment between a company’s business strategy and its compensation systems leads to improved organizational effectiveness (Gerhart, 2000; Gomez-Mejia & Balkin, 1992a).

In general, the service industry could potentially benefit more from bonus and incentive programs for employees. This type of compensation is useful as many firms would like to provide incentives to their employees with performance-based pay, but can not do it as the performance of a sole employee is difficult to measure (Torres & Adler, 2012). In addition, Larkin, Pierce and Gino (2012) state that psychologically, social comparison and overconfidence costs can also dramatically impact the overall strategy of the firm by limiting the firm’s ability to apply crucial incentives or a wide variance in employee compensation levels. Under these conditions, team-based or scale-based seniority compensation strategies are often used to address those issues (Larkin, Pierce & Gino, 2012). Besides, it is genuinely examined that empirical research has not been able to find a connection between organizational success and performance-related pay (Frey & Osterloh, 2001).

Employee contribution examines the way employees contribute to the profit of a company and the way it is related to the compensation system (Milkovich & Newman, 2008). According to Yanadori and Marler (2006) organisations make a distinction to the compensation system of strategic employee groups and non-strategic employee groups based on their varied strategic contributions for future organisational actions. The strategic employee groups generally have significant compensation packages both in tangible base pay and in intangible bonus benefits compared to other employees in the company. Therefore, they usually possess a higher job security than others, which is important for the retention of highly skilled employees (Yanadori & Marler, 2006).

External competitiveness is concerned with the relationship of compensation with competitor firms (Milkovich & Newman, 2008). In general, there are different types of income that employees can earn: fixed compensation, which is paid to the employee independent of
output, and variable pay, which is paid to the employee contingent on output. Third type of compensation that has been discovered is payments that are based on overall corporate performance. This type of compensation has some incentive pay–type effects: It has positive effects on both employee effort and job satisfaction (Christen, Iyer & Soberman, 2006). For instance, Bloom and Milkovich (1998) suggested an Earnings Risk compensation systems study within a group of hospitality sales reservation agents. This demonstrated that reduced salaries and increased incentive pay motivated employees to increase their sales productivity (Bloom & Milkovich, 1998).

Additionally, unions may also influence the selection of reward or payment systems. Those can be categorized into two different systems, input-based reward systems, which are connecting the pay to the employee’s skills, competence or time that the workforce invest in their work. Secondly, output-based systems, which are connecting pay to measures of the employee’s performance, such as output, productivity, sales and profit (Kessler, 1995). Moreover, unions tend to emphasize equality, equivalence and redistribution (White & Druker, 2000). What is more, another point of view into compensation gives the two different ways an employee can be motivated. For some extrinsic motivation functions as their main purpose to perform well and receive tangible compensation for it, as for others intrinsic motivation that is to say the job itself is already an intangible reward on its own (Frey & Osterloh, 2001).

2.2.2 Intangible compensation

A company may obtain a competitive advantage when it combines a well-designed pay structure with intangible compensation (Lawler III, 1983). Moreover, according to Dessler (2009) fringe benefits can be perceived as an important part of every employee’s pay and benefits can also be described as indirect monetary and nonmonetary rewards that the employee receives for his effort and work for the company. Benefits can include time off with pay, health and life insurance, and help with child-care. Most employers face benefits as their major expense (Dessler, 2009). In addition Boxall and Purcell (2016) state that intrinsic rewards are almost as important as extrinsic rewards, if the person is motivated enough to do the job. Frey and Osterloh (2001) enumerate that non-tradable intangible resources include
corporate culture, unique stakeholder relationships, company-specific training, specific customer and supplier relationships, organisational knowledge and trust.

According to Frey and Osterloh (2001), people can be motivated in two different ways. **Extrinsic motivation** leads to a situation where a job is simply a tool that the employee uses to satisfy his needs by the salary that the job pays. Moreover, when it comes to **intrinsic motivation** there are three main patterns that demonstrate how the activity itself can function as a satisfaction for the employee. First pattern displays that the activity itself can be a cause for satisfaction, creating a motivating experience. Second pattern states that it is important to meet standards for the employee’s own sake, such as ethical standards and the feeling of respect. Furthermore, third pattern comes when an employee achieves a goal that he has set for himself. Even though, extrinsic and intrinsic motivation differ from one another, they still supervene each other, depending what is the goal being pursued (Frey & Osterloh, 2001).

It can be stated that companies are reliant on their employees’ motivation for at least five main reasons. These reasons include **firm-specific pool resources**, **multi-tasking**, **fuzzy tasking**, **the transfer of tacit knowledge**, and **creativity and innovation**. Furthermore, firm-specific pool resources can contain, for example, a company’s unique corporate culture, as well as the good name that the company can have achieved. Multi-tasking in this sense means that employees who are intrinsically motivated work even harder the more diverse and complex the job is. On the other hand, fuzzy tasking includes the company’s employees in the goal-setting process (Frey & Osterloh, 2001). In addition, Shapira (1976) claims that if a financial incentive is introduced, the employees will choose simple, easily solved tasks in order to improve their chances of getting a reward. Moreover, Frey and Osterloh (2001) continue that the transfer of tacit knowledge is dependent on intrinsic motivation as tacit knowledge is not generally tradable and it can not be coded, in other words, it depends on a certain employee how much knowledge he is willing to put into his work. Creativity and innovation come from the employee’s intrinsic motivation as well, because if the employee has solely extrinsic motivation in his work, he does not question his tasks, only follows the tried-and-tested route (Frey & Osterloh, 2001).

Further, Frey and Osterloh (2001) state that there are three types of intrinsically motivated employees: **loyalists**, who identify themselves personally with the company’s goals, **formalists**, who have assimilated the rules and regulations of the company very carefully, and they have become part of nature. Third employee group is called **autonomists**, they...
concentrate only on their own non-financial goals and trail their own ideology. When examining closer, reward can consist of both extrinsic and intrinsic elements. As stated earlier, monetary rewards remain the primary source for work for the majority of employees, but what is more, many employee also appreciates benefits, like pensions, healthcare and company cars. Additionally, opportunities for personal development in the company, job satisfaction and recognition of achievement can function as compensation (White & Druker, 2000). Moreover, when the employees of the company are motivated by their natural desire to improve themselves in order to be even better employees for the company they are engaged in, it can be concluded that their behavior follows the stewardship theory (De Wit & Meyer, 2010).

2.3 Stewardship theory

Davis, Schoorman and Donaldson (1997) state stewardship theory’s aim to be in defining situations where managers are not motivated by their individual goals, but instead they are stewards whose motives are adjusted with the goals of their principals. The behaviour of the steward can be said to be collective as the steward tries to achieve the objectives of the organisation, for example, the profitability. This behaviour will help principals, outside owners for instance, as well as principals who are managerial employees, because the steward is working on behalf of their goals. Moreover, a strong relationship between successful organisation and satisfied principle can be expected.

Furthermore, Craig, Dibrell, Neubaum and Thomas (2011) agree on how a steward would decide on a pro-organisational and more coordinated option as it will give the steward higher utility. This would lead into a situation where the principal receives protection on his interests, as well as the steward will maximize his utility, which is the optimal situation within this theory. The personal beliefs guiding the steward in their individual actions, will also adjust them to design their organisation’s atmosphere in a way that is able to obtain stewardship behaviours from their employees (Craig et al., 2011).

As the steward aims at utility maximization, it can been examined that a steward protects and grows the wealth of the owners by firm performance. In addition, the steward is able to perceive the trade-off between personal needs and organisational goals and relies on the
matter that by working for organisational results, even personal needs are met. Stewards consider that their personal interests are in alignment with the ones of the organisation and its shareholders, even though the interests and utility motivations of the steward are forwarded to organisational instead of personal goals. Intrinsic motivation being the most important factor to a steward means that self-efficacy, self-determination and feelings of purpose are critical in order to make stewardship theory function (Davis et al., 1997).

Stewardship theory can be connected into sociology and psychology, as in this theory the manager is perceived more as a steward than a self-interested rational person of agency theory. The motives for managerial behaviour in stewardship theory are non-monetary and can include, for example, a need for achievement and appreciation, the intrinsic enjoyment of successful performance, respect for control and the ethics of work (Muth & Donaldson, 1998). Donaldson and Davis (1991) state how managers are seen as interested in gaining high performance and able to use a high level of attention to the benefit of shareholders. Predictions of stewardship theory include expectations how the shareholders can maximize their returns when the company’s structure aids effective regulations by management. Stewardship theory also confirms that the interests of managers do not conflict with those of the shareholders (Muth & Donaldson, 1998).

Three psychological factors of stewardship climate scale can be identified as follows, *intrinsic motivation* that is the core of stewardship theory, unlike in agency theory, where the main focus is on economic and tangible rewards for agents. Intrinsic motivation characteristics can include desires for personal growth and achievement, association with an organization and self-actualization. These characteristics can be the motivation for stewards to work harder for the company and align their behaviours with the principal's interests (Craig et al., 2011).

*Identification with the Organization* arises when managers identify themselves into the corporation by accepting its certain mission, vision and objectives (Davis et al., 1997). Craig et al. (2011) add that someone who is able to identify himself with the corporation and perceive being part of the business is more probably being able to see the company as an extension of himself. Moreover, this strengthens the individual’s satisfaction with the company’s success and disappointment of its failures, and notably will make the individual to work hard to overcome the company’s possible problems and obstacles. The third psychological factor is *Use of Power*, and power can be divided into two dimensions: institutional power and personal power. Stewardship theory is more consistent with personal
power as it builds on long-term relationships providing intrinsic rewards, personal power has also a high impact on influencing others (Craig et al., 2011).

2.4 Reflection on the literature review

The frame of reference and previous research discussed above aim to create a foundation for formal understanding on the business strategy and compensation strategy. As further examined in the empirical data, the authors discovered that the company of their interest operates within a cost leadership strategy. According to this, the intangible compensation is having a more crucial role than the tangible compensation in the company case study, and therefore deserves greater focus in this thesis. Furthermore, the authors of this thesis noticed there is limited amount of literature available on intangible compensation, stewardship theory and the linkage between them, thereby this intrigued them to further study the research question:

How can a company within the service industry optimally align business strategy with compensation strategy?

The authors believe that stewardship theory can be of help when trying to understand the alignment between business strategy and compensation strategy and examine the relationship between them. More specifically, it could be perceived how the intrinsically motivated working behavior of the employees was similar to the patterns of the stewardship theory.

3. Method

In this chapter the authors present, describe and justify the methods used within this thesis. A section discussing the data collection along with data analysis methods are also presented, following a summary at the end of the chapter.

3.1 Methodology

The reason for conducting a research is to systematically gather insights of a problem and increase knowledge. However, in order to successfully conduct a research, it is beneficial to
understand the difference between method and methodology (Saunders, Lewis & Thornhill, 2009). Methodology is the underlying beliefs and assumptions of the researchers who determine the usage of method. Unlike method, which emphasizes the practical approach of collecting and analysing data, methodology is concerned with how research should be designed and executed under consideration of theories’ assumptions (Saunders et al., 2009).

3.1.1 Research Philosophy

Choosing a suitable research philosophy is necessary for the execution of a thesis study as it reflects the purpose, perspective and strategies in which the authors develop knowledge throughout the study. There are mainly two prevailing research philosophies, positivism and interpretivism (Saunders, Thornhill & Lewis, 2009). The essence of positivism philosophy argues that only the phenomenon that can be observed will lead to the generation of reliable data and findings for consistencies and correlations. However, this thesis’ study is conducted based on the interpretivism philosophy.

Interpretivism suggests that, unlike natural science, developing knowledge in research fields involving social actors, such as humans, should be treated differently. This is due to the fact that people tend to possess their own set of understanding towards the social world, whereas physical objects generally hold intrinsic data and are independent of human interpretations. The main characteristic of interpretivism is that circumstance is complex and individuals are constantly interpreting it. The interpretations of other social actors are ultimately adjusting people’s own behaviors and actions. Therefore, the key of interpretivist philosophy is to observe the context of research subjects and understanding their unique perspectives (Bryman & Bell, 2011; Saunders et al., 2009).

Interpretivism philosophy is generally linked with qualitative researches, since it allows researchers to develop understanding of complex social phenomenon or human behaviors in a subjective manner. Qualitative research methods equip researchers with tools to examine the why and how questions of a study, instead of simply what, where, when or who. It is therefore more common to see small samples and in-depth investigations in a qualitative research. Moreover, qualitative research focuses on the understanding of the social world by examining and interpreting its participants’ interactions (Bryman & Bell, 2011).
The authors of this study conducted a qualitative research using the interpretivism philosophy, since the research question of the thesis is complex as it involves individuals and an organisation, as well as being in format of “how”. Through the interpretivist perspective, the authors were able to gain insight of the business strategy and compensation strategy of a company operating in the service industry, and obtain a greater understanding of how the two organizational strategies are linked with each other. In addition, the abstract study subjects, such as business strategy and compensation strategy, are difficult to be quantified and measured since the variables are too complex to be pinpointed. Thus, through investigation interviews of a small sample, the authors applied the qualitative research method to collect, store, analyze data, and develop findings throughout the study instead of testing a pre-determined hypothesis.

3.1.2 Research Approaches

Following the clarification of research philosophy, it is important for researchers to explore the different approaches for achieving the stated purpose. There are three major research approaches, deductive, inductive, and abductive, which differ in the order of theory and empirical data (Saunders et al., 2009). Regarding the order of focus in a research process, a theory or data is the primary step. A deductive approach is began by constructing hypothesis that is linked with existing theories, followed by using empirical data to explain findings. An inductive approach in turn allows the formulation of theory come after the analysis of data collection. Finally, the inductive approach enables alternative explanations of the study subjects instead of grounding on strictly predefined theories suggested by deductive approach (Saunders et al., 2009). While in this thesis, the authors decided upon an abductive research approach.

The abductive approach enables researchers to form research foundations using existing theories while allowing new theories to be developed through analyzing patterns or themes in the empirical data collection. The abductive approach is a combination of deductive and inductive approach, and it is more prone to handle qualitative data (Saunders et al., 2009). In this thesis study, the authors combined a deductive approach, where a theoretical foundation
with some assumptions from existing researches were established, with an inductive approach, where a gap in previous literature on compensation strategy was spotted within a single case study. Hence, the abductive research approach is most appropriate for this thesis as it enables research foundations to be formed using existing theories, which evolved to be the case in this study.

3.2 Research strategy

When conducting a research there are two methods that are most commonly used, quantitative and qualitative research. In a quantitative research the data collection consists of quantity such as scores and counts, whereas the qualitative data refers to non-numeric data and may consist of responses based on a questionnaire or an in-depth interview (Bryman & Bell, 2011). In order to answer the research question, the authors made use of the qualitative research method.

3.2.1 Case study

A case study is an empirical investigation of phenomenon in real-world context, using multiple sources of evidence and theoretical propositions (Yin, 2013). Case study can be carried out by using both qualitative and quantitative data. However, qualitative data is the optimal way of gaining knowledge since a case study design often uses methods such as observations or unstructured interviewing (Bryman & Bell, 2011). The case study strategy is used best when there is little understanding about the occurrence of certain social phenomenon and the researchers have little or no control over the phenomenon and its context (Yin, 2013; Eisenhardt, 1989).

Research questions of “how” and “why” characteristics are often conducted through a case study and in some cases it is favorable to use multiple case study strategies in order to evaluate findings in different contexts (Yin, 2013; Saunders et al., 2009). An essential part of conducting a case study is to determine the scope of the research by establishing the rationale and direction of the case as well as the units of analysis for defining the case’s limits and data collection context (Yin, 2013). This procedure not only gives researchers the feasible limits of
their studies in order to identify the most relevant information about the selected subjects, but also eliminates the possibility of an ambiguous and superficial research design (Yin, 2013).

There are two different varieties of case studies, single- and multiple (Bryman & Bell, 2011; Saunders et al., 2009; Yin, 2013). Firstly, a single case study may be used when the objective is to gain in-depth knowledge of the details of a case and secondly, a multiple case study is conducted as two or more cases are examined when the aim is to identify similarities or differences (Bryman & Bell, 2011; Saunders et al., 2009). Moreover, single case studies can be divided into two types, holistic and embedded. The holistic approach is to study and examine the case in total, while embedded is when one studies the identifiable various subunits within the case. It is arguably beneficial to conduct a single case study under certain situations where the case represents a critical test of an existing theory or serves a revelatory purpose (Yin, 2013).

The authors decided to use a case study corresponding to the how type of research question in this thesis in order to obtain descriptive answers on a profound level. A holistic single-case study of a company in service industry with managers and customer surface level employees as the units of analysis were settled on. Moreover, the aim of this study is to investigate how the company’s compensation strategy can be linked with the business strategy and the relationship between these aspects. The reason for authors to have chosen to gather empirical data on three of the company’s managers and three employees as the units of analysis, is to be able to gain a deep and triangulated understanding on the topics of focus.

The service industry is a part of the economy that operates in order to mainly produce services and experiences, rather than tangible objects. Moreover, the service industry includes establishments such as banking, hospitality, communications, wholesale and retail trade, all professional services, non-profit economic activity, all consumer services and all governmental services. Since the authors perceive the importance of human resources as the main resource of service industry, hence it correlates with the human centric intangible compensation. Furthermore, the authors acknowledge the industry an appropriate unit of analysis as the proportion of service industries in the world economy has been growing steadily during the 20th and early 21th century (Britannica Online Academic Edition, 2015).
Moreover, the managers of the service industry are one of the leading managerial figures in the literature of the past decades, as they lead their subordinates, as well as their employees to implement the business strategy in organizations (Eder & Umbreit, 1989; Nebel & Ghei, 1993). The managers have different roles during work operations such as planning, implementing strategies, delegating tasks, allocating resources, controlling and so forth. Effectively performing in different positions requires the manager to obtain diversified and competitive skills (Tavitiyaman, Weerakit & Ryan, 2014). Therefore, conducting interviews with three different managers within the service industry, enabled the gathering of insightful and in-depth information regarding the case and study subjects. Also, the authors used other employees such as receptionist, shift leader, and booking agent as additional analysis units to obtain a more comprehensive and reliable empirical data base.

3.2.2 Interviews and data collection

The reasoning to choose interviews as the data collection method for this study was mainly the flexibility they give to the research. Furthermore, interviews also allow deviations to be existed in order to locate the most relevant data for the abstract subjects studied in this thesis. In qualitative interviewing, the interviewees tend to provide in-depth, rich and detailed answers about the study subjects from their own perspectives (Bryman & Bell, 2011).

There are three main types of interviews: structured, semi-structured and unstructured (Bryman & Bell, 2011). Moreover, a structured interview provides all interviewees the same strictly formulated questions aiming at directly identifying similarities and variances in the answers. Furthermore, an unstructured interview is considered to be the most informal type of interviews and the follow-up questions are usually generated during the course of the interview (Bryman & Bell, 2011; Saunders et al., 2009). The interview type chosen for this study was a semi-structured interview as it offers a mix of structured and unstructured interviews, the questions are generally open-ended and closely related to the research question.

In addition, the secondary data of this thesis was mainly collected from online databases such as Jönköping University Library’s search service Primo, and Google Scholar. The articles were found using search terms as “business strategy”, “compensation strategy”, “intangible
compensation”, “stewardship theory”, for example. The reference lists of the most relevant articles of this thesis were also used to find other applicable articles. The library of Jönköping University was also utilized by the authors, in order to find relevant books and printed documents in the field of interest.

3.2.2.1 Semi-structured interviews

Regarding semi-structured interviews, the researchers have a list of questions on relevant topics that should be covered, however, the order of the questions is not specified and there is room for additional impromptu questions. Also, the interviewees have the choice to answer freely to the questions (Bryman & Bell, 2011).

A crucial aspect that must be considered when conducting an interview is the question formulation (Bryman & Bell, 2011). According to Saunders et al. (2009), there are four type of questions, which may be used for optimal results when conducting a semi-structured interview open, probing, specific, and closed questions. Open questions generally start with what, how or why and they provide insightful and broad answers (Saunders et al., 2009). Furthermore, similar to open questions, probing questions are prone to direct respondents to disclose certain information (Turner III, 2010). On the other hand, specific and closed questions are aimed to obtaining specific information and are mostly used in structured interviews (Saunders et al., 2009).

In this study the authors decided to use semi-structured interviews with open style questions for the purpose of having a general line of questions covering the study subjects, thus the data could be easily structured and analyzed while it still allows additional discussion. The fact that respondents are allowed to answer freely in semi-structured interviews gave the authors more data material to utilize later in the analysis, as well as minimized potential answer bias at a maximum scale. The interviews are not entirely unstructured, therefore the study topics are still in focus.

Three managers and three employees were interviewed for the purpose of obtaining a triangulated view of the business strategy and compensation strategy of the company case. This was done in order to collect reliable and possibly high representative empirical data.
while under the study limitations of time, cost and accessibility. The authors wanted to provide anonymity for the interviewees in order for them to be able to answer the interview questions more openly. However, the positions are disclosed since the authors feel that they give necessary details to the perspectives of the interviewees. In order to gather data from a diverse information pool, the managers that were chosen and compliant to participate in the interviews were a human resource manager, a general manager and a regional manager. The authors pursued an acute illustration of the leadership in the company, hence several customer surface employees were interviewed as well, a receptionist, a booking agent and a shift leader to gain their perspectives.

All of the six interviews were conducted at a professional workplace. Furthermore, every interview was recorded and transcribed for further data analysis process. English was the language used in the interviews, in order to avoid possible misunderstandings in the translation phase. The more specific details of durations and dates of the interviews can be seen below:

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>HR Manager</th>
<th>General Manager</th>
<th>Regional Manager</th>
<th>Receptionist</th>
<th>Booking Agent</th>
<th>Shift Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Interview</td>
<td>2016-04-01</td>
<td>2016-04-06</td>
<td>2016-03-23</td>
<td>2016-04-21</td>
<td>2016-04-21</td>
<td>2016-04-21</td>
</tr>
<tr>
<td>Duration of Interview (Minutes)</td>
<td>49:24</td>
<td>49:25</td>
<td>50:12</td>
<td>11:50</td>
<td>11:50</td>
<td>11:50</td>
</tr>
</tbody>
</table>

3.3 Data analysis

Analysing the data is the heart of building a theory from a case study. There are several methods for analyzing data, some of these include pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis (Bryman & Bell, 2011; Saunders et al., 2009; Yin, 2013). Explanation building method is generally used in exploratory case study, whereas time-series method is commonly applied in experiment research, further logic
models method requires a causality relationship to exist in a case study. Moreover, a cross-case synthesis method only applies to the analysis of multiple cases (Yin, 2013). Hence, the authors’ choice of data analysis was pattern matching.

Furthermore, pattern matching is the process of comparing two patterns, the empirically observed and predicted pattern. The validity of the case study increases when the similarity between these two patterns increases (Bryman & Bell, 2011; Saunders et al., 2009; Yin, 2013). For case studies, pattern matching is the most popular method of analysis (Yin, 2013). The authors found the pattern matching to be the most suitable method for this thesis study, since the aim was to compare the patterns discovered in empirical data to the ones related in existing theory in order to discover a new theory from the case.

Firstly, the authors conducted a within-case analysis (Eisenhardt, 1989), in which a pure data description was generated. A major step in conducting a single-case study is defining the units of analysis (Yin, 2013), in this case those were the three managers and three customer surface level employees. Furthermore, the empirical data was then collected and transcribed. The description of the responses mainly focused on data regarding the compensation strategy and business strategy of the company. This process facilitated the authors to increase their familiarity with the case and allowed unique case patterns, such as relationships between company’s compensation strategy and business strategy, to be emerged before the generalization of compared patterns between the case and existing theory (Eisenhardt, 1989).

Moreover, the data description helped to ensure that the units of analysis were in fact relevant to the research question in this single-case study. Secondly, the research question is based on examining the relationship between business strategy and compensation strategy. The data that was collected through the interviews as well as the data perceived from the theoretical framework helped the authors to recognize stewardship theory to be a relevant method of alignment between the relationship patterns of the managers and employees, as well as between the company’s business strategy and compensation strategy.

Furthermore, the authors of this thesis compared the empirical case patterns with the stewardship theory to determine the similarities and differences. The stewardship theory suggests that managers in an organization consider themselves as stewards rather than agents,
persons that are self-interest oriented. Instead, they value the *intrinsic motivation* more than tangible rewards and they find their personal interests in alignment with organization’s vision, mission, and objectives. By working towards the common goals in an organization, they are able to achieve self-development with high individual satisfaction (Davis et al., 1997; Craig et al., 2011). Therefore, the authors of this thesis examined empirical evidence in the service industry company case with a focus on the managerial style within the company and the relationships between business strategy and compensation strategy. Finally, a conclusion of pattern matching results are established.

Moreover, if the empirical case evidence successfully matches the predicted stewardship patterns, the results confirm and enrich the existing theory with a strengthened internal validity (Yin, 2013). However, if more differences are found during pattern comparison, the results will then generate a new and unanticipated theory that perhaps provides a rival explanation to the predicted stewardship theory. Patterns of the stewardship theory were established in the theoretical framework of this thesis and empirical patterns were identified during the data analysis process. The authors in this single-case study did not attempt to construct case explanation nor were in need of collecting data over a long period of time, therefore, other analysis methods mentioned above were dismissed.

3.4 Quality criteria

According to Yin (2013) there are four case study quality tests: construct validity, internal and external validity, and reliability. Validity is mainly concerned with the integrity of the research’s conclusions (Bryman & Bell, 2011). More specifically, for construct validity, researchers must be able to define the study subjects and relate them to the original objectives of research question of the study. Also, researchers need to use credible sources of evidence for the data collection. The internal validity is more concerned with conclusions that are of causal relationship nature however fail to include additional variables into consideration. External validity in turn is concerned with whether the conclusions can be applied to other studies that lie outside of the specific research context using results generalization. Finally, reliability deals with whether the findings can be repeated or not by allowing others to replicate the documented research studies (Yin, 2013).
The authors generated construct validity for this thesis by including various sources of evidence such as scientific books and articles. Internal validity is confirmed by the theories’ relationship model in the reference framework and external validity is shown through the conclusion’s analytical generalization. Finally, the authors documented the whole research process for the purpose of creating reliability. However, the thesis was limited to six interviews within a single company and are since not generalizable. In order for future studies to reach further entail, the sample size should be increased. The findings may be applicable for other countries and industries as the strengths of human resources are arguably universal.

3.5 Summary of Methods

The authors of this thesis applied interpretivist research philosophy with an abductive approach. Moreover, the authors used a case study qualitative research method. The primary data of the thesis was collected through semi-structured interviews and analyzed using the pattern matching method. Finally, the thesis’ quality criteria was based on four tests: construct validity, internal and external validity, and reliability.

4. Empirical Findings

This section will present the data collected from the interviews with general manager, HR manager, regional manager, and employees in different positions, such as receptionist, shift leader and booking agent. Total of six interviews conducted were anonymous and made within a company in the service industry.

4.1 Description of occupations

In order to facilitate the understanding of the empirical data and to provide background information, a brief description of the interviewees’ occupations is included. The descriptions are purely based on the information supplied by the specific interviewees during personal communication and are modified by the authors to support anonymity. Firstly, the regional manager has the highest responsibility of operations within a specific region, including several branches, and operates as the supervisor of general managers within the region. The
general manager is in charge of the operations in a specific branch and securing the delivery of services to customers, as well as ensuring operational activities are in line with the company’s values. In addition to this, the general manager is responsible for delivering various aspects of tangible and intangible compensation to the employees, such as feedback, internal career planning, managing the fringe benefits and bonuses. Both of these positions co-operate with the chief executive officer in making strategic decisions that affect the branches and departments as well as regularly updating values, mission and vision.

Lastly of the interviewed managers, the human resource manager’s responsibilities include recruitment activities and employer image related tasks, as well as being the primary contact of the general managers in terms of attracting talent. The HR department of the company is described as unusually small for an organisation of its size and managing human resources is seen as an important aspect of all the company’s managers’ job description. They are required to involve traditional HR activities in their daily work. The three interviewed employees include a shift leader, a receptionist and a booking agent, each are primarily operating in delivering customer service that matches the company’s standards.

4.1.1 Background of the business strategy

“The business strategy of the company is directly derived from our values, mission and vision” (Human resource manager, personal communication, 2016-04-01).

When asked to describe the context of the company’s business strategy, the human resource manager firstly explains that strategic decisions are taken by the chief executive officer in cooperation with the general and regional managers, based on various values, goals, mission and vision. Moreover, all the interviewed managers stressed the importance of measures made to implement business strategy into daily practice and that strategic policies are known throughout the organization. To confirm this, the employees were asked to elaborate on their knowledge of the business strategy. The shift leader stated that in her opinion everyone working in the organisation is well-aware of the mission, vision and values that the company has, due to extensive annual meetings concerning the company’s strategic choices. In addition, brief meetings are held monthly concerning urgent matters the staff should be aware of. The receptionist adds that the managers regularly go through issues that are in need of
improvement with the employees, as well as discuss matters that the company, employees and managers have succeeded in.

“With us it is not an old fashioned strategy that is left on a shelf, but that it is known through the organisation. Traditionally strategy is kept in the top management’s awareness in many companies and I feel like this has been a change in our corporate culture during the recent years, that we want the employees to be familiar with our business strategy and how it affects their work, to think how to systematically support the business strategy” (HR manager, personal communication, 2016-04-01). According to her, the current consensus is that the shared company values are an important aspect of the strategy and that in turn dictates all the organizational activities and duties. It was apparent from all the managers’ interviews that each employee must be aware of how the business strategy affects their daily activities and know in detail how to incorporate it systematically to their work. Furthermore, the region manager disclosed that the organization’s purpose of existence is to be an outstanding employer that provides a pleasant working environment as well as to be the best in delivering a great service experience.

“The entire staff of the company must work together as a team in order to achieve the best possible results for the company, the goal is to continuously improve service” (General manager, personal communication, 2016-04-06). She adds that the atmosphere among colleagues as well as the customers is extremely positive and this is a priority in the company.

4.1.2 Strategic goals, missions, visions and values

“We have always wanted to make sure our services are for everyone, one of our visions is that everyone is welcome” (General manager, personal communication, 2016-04-06).

The general manager indicates that the company differentiates itself in the industry by focusing on being within the affordable price range of the mass market, as well as providing facilities that welcome people with various special needs, such as children and disabled individuals. These efforts have been supported by awards and recognitions the organisation has gained for being one of the best family-friendly companies in the service industry. One of the company’s missions is to create great experiences of many people and the HR manager acknowledges that “the service industry has gradually become an experience industry” (HR
manager, personal communication, 2016-04-01). She further elaborates that their business strategy is not meant to attract customers with design or decadence, but to be affordable to “many people” as the managers acknowledge that they cannot exclude any major customer group. Indeed, efforts have been made, for example families, small children and disabled people to be able to utilize their services, by setting facility and service standards. The HR manager adds that the term for many people is set in their vision, and furthermore, practices need to be in alignment with it for the vision to be visible to customers.

The company’s mission to be world class does mean neither expanding; the largest in the world, nor premium pricing; the finest in the world, according to the HR manager. However, she explains that the organization strives to excel at actual activities and processes, as well as providing better services than their competitors. Furthermore, she stresses the importance of making the company’s strategic decisions visible in each employees’ daily work and she perceives the quality of service as an attribute of competitive advantage. In order to provide an example of the vision, she explains that the company’s external and internal communication must be considered to represent the term world class and that the managers aim daily to challenge the employees in order for them to reach their full potential. The HR manager summarizes her view of the brand by disclosing that the company does not differentiate itself in the market as a luxury brand or consider other operators in the premium price range as direct competitors.

4.1.3 Strategic tools in practice

“This year we have chosen a strategic tool called Must win battle” (HR manager, personal communication, 2016-04-01).

According to the HR manager, after the board had decided on the outline of the business strategy, the general managers and managers of the support functions co-operated this year in a workshop to form strategic focus areas in form of Must win battles. The concept includes current issues derived from the vision and values that the organization as a whole must succeed in, in order to reach set financial targets and intangible goals.

When asked to elaborate on the ways managers are implicating the business strategy, the general manager mentions ensuring that the company’s values are upheld in activities and in
the planned way of working, without failing to take into consideration the requirements of the staff, properties and brand. The interviewed employees explain that they are expected to know the organisation’s goals, what the company aims to be and work within these values. Furthermore, the booking agent mentions that the staff work abiding a 4 C programme, employee values which are creative, casual, competitive and caring. Moreover, according to the general manager, key stakeholders of the company are employees, who are divided throughout the company, as everyone in the company has an important role and in those different roles everyone has different expectations. The HR manager mentions the customers are a priority as well as the shareholders, however also stating that the employees are the key to all operations.

The HR manager portrays the company as large enough to have an established and respected brand, yet small enough to be agile when an organizational change is needed. According to the general manager, for example each of her colleagues aim to keep an entrepreneurial spirit in managing a branch, maintaining the values of the large brand “while having a local mindset and to staying close to the local community” (General manager, personal communication, 2016-04-06). Indeed, a competitive advantage making the company stand out locally which is mentioned by all of the interviewed managers, is that the operating units belong to one of the largest chains of businesses in the service sector in the Nordic countries, as well as possessing a well-known brand. An additional advantage mentioned is the strong co-operation of the the general managers of the region, as well as the support function managers, in terms of working closely with each other while sharing knowledge and assisting one another regularly, in order to succeed in the industry. The neighboring branches often share key employees when needed and maintain a frequent communication, according to the regional manager, adding that maintaining smaller units with a relatively high level of independence facilitates agile organizational change.

Business strategy and compensation strategy have to be well connected in order to provide the best service as well as ensuring the implementation of strategy, states the general manager. As an example of this, the HR manager mentions that most units have the company values displayed on boards in the staff room and the employees are encouraged to write positive feedback of their colleagues who are acting in accordance with the values. This is used as a basis for the employee of the month prestige and employees exceeding expectations are awarded with gift cards.
4.2 Compensation

“We have a straightforward way of working with the union, making sure that we are following the guidelines on pay levels” (general manager, personal communication, 2016-04-06).

The tangible compensation and wages are directly in accordance with the union levels, according to all the interviewed managers, “the minimum service standards are met with the minimum union salary” (General manager, personal communication, 2016-04-06). The HR manager admits that it is not possible to compete with tangible compensation in the service sector, particularly with their business strategy. Additionally, certain bonus pay agreements are set in the contracts and not to be varied, according to the HR manager. In addition, she clarifies that the employees operating in customer service have the same base pay, however, additional performance based compensation might vary. None of the interviewees are able to elaborate on the details of monetary compensation, however the HR manager states that she believes that optimal motivation based on monetary rewards is achieved with a rise in the employees’ bonuses biannually.

4.2.1 Fringe benefits

“We call fringe benefits internal service” (General manager, personal communication, 2016-04-06).

According to the general manager, it is important to keep the intrinsic motivation high, which is why the company aims to offer different activities and education for their employees. Team members from different areas are able to have creative meetings with each other, in order to improve their service skills. In addition to this, the company offers meals, informal coffee meetings, private guidance and lottery for example, to keep their employees satisfied and committed to the company. Hence, an important aspect of the compensation strategy are the fringe benefits, the HR manager agrees. She adds that the employees receive up to 50% discounts from their partners, as well as healthcare and exercise incentives. According to the interviewed employees, the benefits that the company offers include further discounts to
utilize the company’s services, moreover the employees receive a bonus in their salary regularly, depending on how much they have worked and the position they have had.

4.2.2 Intangible compensation policy and talent retention

“The HRM vision is to attract, recruit, develop and retain, engage our team members to live our values, inspire to love service and have potential for more” (HR manager, personal communication, 2016-04-01).

According to the human resource manager, the company is no longer simply looking for workforce, they are recruiting talent with varied competences and expects the employees to grow with the company. The general manager states that the main focus of managing human resources is to enable all the employees to grow and develop themselves, additionally it is important that they are aware of the possibilities they are able to obtain in order to build careers within the company umbrella. She reveals that successful employees with great potential are strategically promoted. Since the regional managers work together with the entire management team to ensure all positions are foremost offered to existing employees, the internal career path development strategy of the company is strong, in order to retain and nurture talents.

Moreover, the general manager discloses that the career development possibilities are already stated in the recruiting process as “the company wants to attract those employees who truly aim to better themselves and welcome more responsibility” (general manager, personal communication, 2016-04-06). In the general manager’s opinion, it is important for the employees, as well as the managers, to have the right tools to be able to work with HR issues professionally, primarily to enable coworkers to perform to the best of their abilities. The company has a talent development program, which she herself completed during a timeframe of a year. Furthermore, she adds that the managers have talent meetings each year with all heads of the departments in order to examine which employees should be promoted or given a possibility to explore a different position or department. The company has developed a business school as well, focusing on e-learning courses, many of which are mandatory for gaining the knowledge needed to exceed their service standards.
The company utilizes various types of talent training throughout the employees’ career paths, including introduction trainings, courses, as well as development and talent programmes. All the interviewees said that the company intensively promotes internal career path development, which means that most recruitment processes are aimed firstly at current employees through internal communication channels, before external recruitment is commenced. This is to enable motivation, variation, learning and development among the employees. The restaurant shift leader, booking agent and receptionist all affirm that the company devotes time and effort to educate their employees and sends them to education days that respond to their fields of interest. The general manager feels that the employees perceive themselves as being compensated in several ways, however mostly she believes they value tools and possibilities to develop themselves. Additionally, she says that the company wants the employees to regard their employer as highly secure, characterized by various position possibilities. According to all the managers, the organisation ardently strives to have a positive image as an employer based on strong human resource values, exemplary talent retention as well as talent development.

4.2.3 Feedback as intangible compensation

“Yearly we have a bigger meeting, where the manager also asks the staff their opinion on the manager and what they could do better in addition to giving us feedback” (shift leader, personal communication, 2016-04-21).

Development discussions are held yearly between employees and managers, in order to examine that certain criteria are being met, to discuss personal growth, set goals, clarify standards, discuss career path interests and learning. The HR manager further stressed the importance of fostering new talent as well as taking care, developing and nurturing employees throughout the years. According to her, the employees find their motivation from a sense of accomplishment in their work, successful work experiences and service interaction. The receptionist agreed, stating that the relationships with the regular clients function as a good motivation as it is easy for the customer surface employees to create a special bond with them. In reference to the employees’ motivation, she states that while working in the service industry, how the guests are feeling eventually becomes a priority. She also emphasizes how
this is one of the main reasons behind finding motivation to perform the tasks as well as possible.

Moreover, all the employees are required regularly to answer a specific survey on their opinions and satisfaction of the company as a whole, the managers, the workplace, their colleagues and the cooperation between different departments. The general manager further adds that all the managers keep the answers in high regard and reflect back on the results in meetings with the different department managers as well as with the teams, while investigating the reasons behind the scores. Furthermore, based on employee feedback, it is discussed “what should be the practical plan to continue forwards and whether something of the strategy should be changed” (General manager, personal communication, 2016-04-06). The HR manager mentions the annual job satisfaction survey as an important aspect of the company’s leadership principles. Based on the results, the entire team co-operates during a thorough workshop to decide on implications and measures in order to convey job satisfaction to the customers through daily activities.

The general manager emphasizes the importance of employee job satisfaction as “everyone should enjoy their days at work as it is where they all spend a majority of their time” (general manager, personal communication, 2016-04-06). According to her, the company has a strong intangible compensation plan, since it wants to be competitive in other fields of compensation besides monetary rewards, as non-monetary reward policy is easier to differentiate in the industry. Furthermore, different aspects of intangible compensation that the company has been focusing on are as mentioned by the general manager: various training methods, internal development, different incentives, team building, documentation and discussions on the employees’ personal development. Additionally, the HR manager stresses the importance of giving feedback, encouragement, listening, having conversations, continuous interaction and communication.

According to her, giving positive feedback has been as of late an aspect practiced throughout the organization horizontally and vertically, thanking for “a job well done”. It is believed in the company that appreciation has a deep impact on motivation and vocalizing a recognition of valuation. Moreover, customer feedback is collected and distributed in a newsletter to disclose successful service experiences throughout the company as an encouragement and
prestige. Related to those practices, the company has rewarding methods based on feedback, for example providing a set bonus for each positive customer feedback.

4.3 Stewardship aligned with intangible compensation

“As an example, empowering leadership that gives responsibility is something we want to teach the managers, an authorizing management style, to enable team members to give and receive responsibility” (HR manager, personal communication, 2016-04-01).

The HR manager describes the nature of their employees as highly motivated and she states that they are often committed to their work primarily due to the positive group dynamic and working relationships. This is affirmed by the employees, when asked on their source of motivation. According to the general manager, the employees feel a strong emotional commitment to the organization, fueled by the corporate culture that promotes comradeship and sense of community among coworkers. The relationship between the managers and employees is relatively informal, in the receptionists’ opinion, which means that it is effortless for the employees to communicate with their managers, regardless of the subject. Furthermore, competition among the employees is not seen as a positive situation and not behavior that is encouraged, instead the teams work towards a common goal, additionally contributing to the fact that the corporate culture is perceived as caring and supportive.

Moreover, the HR manager concurs with the receptionist and describes the relationships between managers and employees as close, respectful, caring and somewhat informal. She adds that the hierarchy in the company is relatively flat and decision-making is decentralized, managers as senior as the chief executive manager are approachable to all the employees. Especially in small city branches, the managers are required to take part in daily activities working together with the employees in the customer surface with minimal hierarchy, hence gaining deep understanding of their employees. The HR manager further adds that she believes the priority is that managers provide tools and encourages a corporate culture that enable the employees to succeed in their work and to provide excellent, tailored and flexible customer service.

The employees concur that they all feel appreciated and motivated by the managers of the company, as they enable a supportive and open atmosphere to fully enjoy daily activities with
co-workers. Furthermore, the employees and the general manager agree that the relationship between the employees and the managers can be perceived as congenial. The restaurant shift leader highlights that she as well as her colleagues feel that there is a low threshold to approach any manager at the company, even if the manager would not be directly in charge of them, hence the hierarchy is not perceived as inconveniently high to intervene with a free flow of communication. Each of the interviewees mentioned that the working atmosphere in the organization feels like “one big family”. The receptionist adds that she believes there is a common understanding amongst each team, generated by leaders’ stewardship, that the organizational goals are the same throughout the company and everyone needs to achieve the same results, regardless whether the person is a manager or an employee.

The HR manager mentions a key example of their strategic tool *Must win battle*, that has been a priority in their management strategy, which is empowering leadership. It has been highlighted in various workshops and courses, that managers are required to delegate responsibility where deemed appropriate, exercise an authoritative leadership style and to seek support from human resource functions when needed. Managers must learn to foster an atmosphere amongst team members that they are comfortable to give responsibility to each other and to additionally receive responsibility from each other. According to the HR manager, good leadership is a critical aspect of intangible compensation, and the company directs a large amount of resources into organizing leadership training occasions.

Furthermore, the HR manager explained that the human resource support function department is relatively small compared to the size of the company, since all the managers are required to invest effort and time into managing human resources. The department is aimed at providing tools and help to the general managers in order for them to practice excellent personnel management as a part of their other responsibilities. She adds that a large portion of service related decision making is decentralized, leaders aiming to practice delegation and motivate employees to ask for more responsibility, in order to enable personal growth. According to the employees, they find motivation from the managers who encourage them to achieve certain goals. The receptionist states that it can truly be perceived that the managers care for and appreciate the employees and “are grateful of their work after their shift ends” (receptionist, personal communication, 2016-04-21), which leaves a positive conception that remains until the next day.
The HR manager expresses her view on the importance of widespread comprehension specifically that, in addition to managers, colleagues across departments understand each other’s work and the reasons behind work processes. The managers are required to acknowledge successful tasks, appreciate effort and verbalize positive feedback, however the company additionally promotes bottom up appreciation to include feedback from employees to managers. According to the HR manager, the corporate culture can be summarized as that of appreciation, support and respect.

“Moreover, the company has a corporate culture that promotes independent decision making and enables everyone to influence each customer service experience to be of high quality” (HR manager, personal communication, 2016-04-01). The managers believe in their employees’ competence and allow them to have a certain level of freedom in their work, to not restrict them too much with operating standards or strict policies. All the managers express their trust that the customer surface employees have enough competence to provide high quality service for an excellent customer experience, while maintaining a certain level of standards to be met in order to ensure the quality that is expected from the brand.

Intangible compensation is of great importance to the company and the HR manager assures that employees are enabled to be able to influence their own work and to make independent decisions, as it is found to have a clear correlation with motivation. According to her, the employees experience successes and independence that is based on trust, as well as are encouraged to learn from various decisions, successful or failed. The desired outcome is to support a culture that employees of all levels are relatively independent and able to make decisions, to avoid overly restrictive management that prevents educational and motivating autonomy. Furthermore, the restaurant shift leader discloses that the entire team of the department has a staff meeting each month, during which the general manager request the employees’ feedback of themselves and their leadership. “Once a year there is a thorough meeting, where the managers ask staff about their opinion to respect their view on what the managers could do better or what could be improved in the company” (shift leader, personal communication, 2016-04-21). To conclude the employees’ opinions, all of them state that everyone feels equal in the company to a certain level, as “without the employees there would not be managers and without the managers there would not be employees, they depend on each other” (shift leader, personal communication, 2016-04-21).
5. Analysis

In this section the patterns in the empirical findings are identified and the themes are further explained by linking them to the frame of reference in order to find the alignment between the business strategy and the compensation system.

Enquiring the respondents’ description of their positions was the basis of each interview, in order to assure the collective of gathered responses forms a triangulated vision of the topics. As the various positions and responsibilities of each respondent might have an effect on the outcome of the interviews, thus it was crucial to take these aspects into consideration when analyzing the results. Moreover, prior to conducting the interviews, the authors predicted data to reveal the managers to perceive themselves as stewards and the employees to disagree, in favour of viewing them as agents. When the authors conducted pattern matching analysis in order to examine the predicted patterns to the patterns of the empirical data, they found a coherent view of managers as stewards. Hence, the validity of the case study was increased as the similarity between these two patterns increased (Bryman & Bell, 2011; Saunders et al., 2009; Yin, 2013).

The authors’ analysis is based on the answers of three managers and three employees within a company operating in the service industry, in addition to the frame of reference. The managers and employees were interviewed to gain a thorough view of the organisation’s strategy, on the business as well as the functional level, and to understand both giving and receiving perspective of the compensation system. Thus, the primary focus was to gather insight on how these two aspects were aligned in the company and to understand the relationship between them. However, the respondents were not able to disclose certain strategic details, as it would breach corporate secrecy and these gaps were intended to be filled with analysis.

5.1 Transparency and implication of business strategy

The findings demonstrate that the managers, as well as the employees, are knowledgeable of the outlines of the business strategy and the compensation policies, as the company and its
managers have established a transparent approach to policies. The HR manager highlighted that company’s top management had made a conscious decision to avoid nondisclosure, distancing themselves from the arguably traditional way of keeping strategic aspects solely a topic of managers. Instead, they have ensured the entire organisation is kept informed of the company values, goals, strategies and present state. It was evident from the data that employees are included and respected in the strategic decision making processes, which in turn motivates them to commit to the company. As stated before in the frame of reference, three types of intrinsically motivated employees can be categorized: loyalists, personally identifying themselves with the company’s goals, formalists, who have assimilated the rules and regulations of the company, and they have become part of nature. Third employee group is called autonomists, they concentrate only on their own non-financial goals and trail their own ideology (Frey and Osterloh, 2001). In this case, the employees could be referred as both loyalists and formalists as they tend to be eager to explore internal career building, in addition to each of them being knowledgeable of the business strategy and aiming to achieve organisational goals.

**Analysis:**

*Keeping the employees informed on strategic aspects of the company makes them connect to the company on a deeper, emotional level as they perceive themselves as included. In addition as a consequence the employees feel respected enough to be trusted and treated as professionals in their work. This leads to achieving a superior motivation to perform in a way that is in line with the desired business strategy*

In order to study the accuracy of the managers’ claim that the business strategy of the company should be known throughout the organization, the employees were enquired of their knowledge on the matter. The assumption was confirmed as the employees said they in fact attended a meeting on values and vision the week before the interview. Furthermore, one of the employees mentioned that she believes everyone employed at the company is fully aware of the goals and aspirations as well as the current strategic stance of the organization as a whole. As the employees are knowledgeable of what they are working towards or what is expected of them, they are able to perform according to what is necessary to implement the functional strategy. In order to be motivated daily to consistently deliver high quality work performance, one of the employees stated she must know what she is contributing to and how.
Additionally, the managers implied that their work is facilitated by a mutual understanding and knowing the employees are working towards a common goal. Moreover, as stated by an employee, the managers have been transparent in their vision of continuous improvement, they are encouraging the employees to better themselves and in turn improve the organization as a whole.

**Analysis:**

The company’s aim to implicate business strategy as concrete, daily actions and building shared vision, that then is carried out as practice through the company, causes the employees to perceive themselves as key stakeholders and managers as stewards. Moreover, it can be observed from the interviews that as the employees operating in the customer surface receive an additional bonus based on positive customer feedback, they can be categorized as a strategic employee group. As previously stated in the frame of reference organizations tend to make a distinction between strategic employee groups and non-strategic employee groups based on their varied strategic contributions for organizational actions (Yanadori and Marler, 2006). Generally the managers spend additional resources and effort on strategic employee groups’ compensation, both in tangible rewards and in intangible compensation.

5.2 Identifying the business strategy

All of the interviewed managers expressed the importance of professionalism and quality in each department’ provided service, and that it should meet the service standards outlined by the company policies. This means that the work performance should be in line with the mission, vision, goals and strategy of the organization. The term mentioned by two of the managers that represents work in all levels of the organization is *World class*, which signifies performing with a high quality that represents the company as a multinational brand. However, the HR manager stresses that the intent is of this is not to classify the company brand as sumptuous, but simultaneously to distance the company from any type of luxury and solely to aim to deliver services that are attainable for many people.

**Analysis:**

The findings indicate that the business strategy of the company is striving for economies of scale in order to achieve a certain standard of quality. This corresponds to Cost Leadership
strategy from Porter’s (2004) generic strategy types, as the competitive advantage source is cost and the company’s scope is broad. As stated in the frame of reference cost leadership requires productive development of efficient-scale facilities, effective inquiry of cost reductions from experience, strict control on costs, and cost minimization on areas such as advertising and service (Porter, 2004).

5.3 Perceiving business strategy in practice and retaining talent

According to all the interviewees, surveys, discussions and meetings are an utmost priority to make sense of business strategy in practice and to exercise transparency. Moreover, an example of strategy as practice, mentioned by the HR manager, are value boards in staff rooms. They are aimed to remind the employees of the company values as well as intended as a form of peer review, since the employees are asked to write positive feedback on their colleagues who have succeeded in acting according to the values, such as creative and caring. As mentioned in the frame of reference, the perspective of strategy as a practice is key to avoid nondisclosure of strategy throughout the organisation (Johnson et al., 2007).

Furthermore, all the interviewees stressed the importance of teamwork, a sense of community and common strategic goals. As stated in the frame of reference, the benefit of a mutual support of co-workers, particularly in stressful customer facing roles cannot be overestimated (Wood & De Menezes, 2007). Johnston and Clark (2008) explain the benefits of having high performing teams, which include obtaining complementary skills and experience that exceeds those an individual could attain alone. This facilitates succeeding in continuously learning to have an effective response to dynamic customer service demands. Moreover, when individuals work together as a team, in order to improve the processes they are involved with and to develop unambiguous common goals, they additionally develop increasingly effective communication. Not only does collaborative and close working relationships lead to success of the team, but additionally to more enjoyable working experiences. A sense of humour that is communal can be powerful in order to managing the stress of customer transactions that are intensive.
Analysis:

When motivation and emotional commitment is largely based on hard to imitate and intangible aspects, the retention of talent can be made significantly stronger. These aspects include team dynamics, shared humour and a sense of community that are held in high regard in the company. As the business strategy of the company focuses on cost leadership, an important link can be made between cost limitations leading to reduced attention on monetary compensation and increased focus intangible ways of retaining talent.

An advantage mentioned by all the managers is that the company has managed to maintain an image that is local and agile but simultaneously remaining a large established brand. This gives the company credibility and a trustworthiness while remaining entrepreneurial and agile. The general manager enjoys a certain degree of independence to remain regionally adaptive, while the HR manager applauds the ability to subtly tailor the branches to the local needs. These observations correspond to interpretation of managers being stewards for stakeholders. Moreover, the managers stress the importance of a local, sense of community throughout the organization and through it enjoying one’s working environment. This acts as a way to achieve a necessary tailored quality of service, hence leading to succeeding in organizational goals locally and multinational. As stated in the frame of reference, a cost leadership position secures the company against five competitive forces - entry, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitor - as due to the competitive pressures, less efficient competitors will be lead into problems first (Porter, 2004). Hence the company has been able to secure its position against these forces by obtaining a cost leadership position in the service industry.

Analysis:

As the general managers are enabled to maintain a level of locality and entrepreneurial agility, they are able to adapt better to the local environment and especially the area’s specific customer needs that vary throughout the Nordic countries. In addition, the regional and general managers enjoy a heightened perception of influence to lead their branches and teams of employees with a larger amount of self-governance than might typically be expected of a multinational organisation. The managers’ autonomy further leads to a more entrepreneurial leadership, shaping management practices to suit each team and closer
relationships with employees. Hence, the employees feel valuable to the branch and are motivated to tailor their customer interaction and service to match the environment.

5.4 Appreciation and career building as key characteristics of intangible compensation

As evident from all the interviews, a common attribute of the organization’s corporate culture that is shared by the employees as well as the managers is a thorough appreciation of each other. This is ensured by organising workshops and courses devoted to practicing expressing appreciation. All the employees stress that they feel thoroughly appreciated for their work, which is vital for their motivation and job satisfaction. As the HR manager mentioned, the company prides itself for being an employer that is considered of the demands of the employees’ personal life, for example regarding family situations and adamant that each potential, as well as current, employee is treated equally. According to the existing literature, high-involvement, equal-opportunity and family oriented initiatives have appeared at the forefront of human resource management discussions for the past two decades. Academics and policy decision makers widely view them as vital ways to simultaneously improve the wellbeing of employees as well as the efficiency of companies (Wood & De Menezes, 2007).

**Analysis:**

As evident from the frame of reference, expressing appreciation is an important aspect of intangible compensation, as well as stewardship theory of leadership. This ensures that employees’ success is validated and encouraged, making them more motivated to continue improving themselves. Furthermore, when employees feel appreciated, respected and enjoy equal treatment, are they more likely to commit to the company, thus talent retention is strengthened by intangible compensation.

The company has spent considerable resources and effort into internal career building, as evident from all the interviewees. The HR manager demonstrates this by explaining that all the open positions of the company are first open through internal platforms to the current employees. Moreover, additional education and training is provided to those who request it, through multiple ways such as the business school established inside the organization. This means a certain level of learning curve is eliminated when recruiting from inside the
organization, as well as ensuring the organizational learning is kept within the company and information leaks are kept to a minimum. Employees additionally attain valuable information by experiencing different tasks and working in multiple branches within their time in the company, which enables them to attain a diverse view of the organization and transfer knowledge between divisions. Thus, pattern of improvement, competence and personal growth is additionally clearly highlighted as a crucial focus of the organization.

Analysis:

The encouragement to apply to higher positions, to build a career within the company umbrella, personal development and asking for responsibility, causes further long term commitment to the company. Retaining talent for years or the entire career is a significant advantage, as this leads to the employees to perceive themselves as a long-term and valuable investment. This is in line with observations made in the frame of reference, regarding opportunity for personal development, job satisfaction and recognition of achievement functioning as an important characteristic of intangible compensation (White & Druker, 2000).

5.5 Examining tangible compensation

The tangible base pay is directly dictated by service industry unions, identical to competitors within the same industry, which signifies that competing for talented and service minded employees must be done in alternative ways since the pay cannot be varied. This is supported by the frame of reference, as unions tend to influence the selection of reward or payment systems (Kessler, 1995). The HR manager and general manager acknowledge the utmost importance of intangible compensation, which is used throughout the organisation, in addition to tangible compensation. According to the general manager, intangible rewards are a key to achieving employees’ job satisfaction, which is important as the company wants to ensure that each individual enjoys their work. This is in line with observations made in the frame of reference, regarding opportunities for personal development in the company, job satisfaction and recognition of achievement functioning as compensation (White & Druker, 2000).
Analysis:
Since the company’s monetary rewards are in accordance with the union’s base pay, as a consequence, the authors found a lack of competitive monetary reward strategy. Hence, in order to compensate for the economically restrictive cost leadership business strategy, the managers apply leadership method of stewardship, through intangible compensation.

5.6 Leadership as a tool of intangible compensation

A pattern of importance of intangible compensation was evident in all the interviews, described by the general manager as the tools to develop one’s competence and sense of security as well as independent decision making. This is in line with the frame of reference, as strategically important employees tend to possess a higher job security, which is additionally vital for the retention of talent (Yanadori & Marler, 2006). Furthermore, the general manager added that appreciation, strong values, nurturing talent and granting possibilities to develop oneself within the company are an equally important characteristics of their intangible compensation strategy that should be a part of each leader’s practices. This is enhanced due to various management training programmes and online courses. Compared to other companies in the industry, she argues that they have an exceptionally strong intangible compensation strategy, which the employees value more than monetary rewards. Moreover, she highlighted the particularly high level of encouragement that each manager portrays to employees who have the ambition to apply for higher positions within the organization, and are willing to develop themselves. The regional manager disclosed that she personally had worked in numerous regions and in diverse positions internally before her current title.

Analysis:
The utmost importance of leadership as a motivator, and as a crucial aspect of intangible compensation, was present in all the interviews. As apparent from literature, different settings require differing leadership qualities and the type of leadership described in this case study can be identified as stewardship, utilizing positive feedback and praise in form of intrinsic motivation. As mentioned in the frame of reference, the employees set organizational results over their personal needs and within following this they also fulfill their personal needs. An example of collective efforts is the cooperation of the general managers, participating monthly in dynamic meetings with each other and different support function of the region.
They work closely with each other, sharing of ideas and support, transferring knowledge and discussion talent that could benefit from a change of division.

Bottom-up leadership in practice is another pattern observed from all the interviews, as the managers do not want to provide overly restrictive standards and allow independent decision making. An example mentioned by a manager and an employee is the custom of bottom-up feedback, seeing as managers frequently ask for constructive criticism as well as positive feedback from their employees. The opinions of the employees are respected to the level that they are treated as competent individuals who are experts of their own tasks. Moreover, according to the HR manager, they are allowed to influence their work and responsibilities, which additionally has clear a correlation with intangible compensation.

Employees are expected to experience unsuccessful moment as well as successful decisions, in order for them to gain experience and learn. She adds that a leadership that is too binding prohibits creativity. Furthermore, it was evident from the interviews that the managers are encouraged to foster the team dynamic of each department by delegating different tasks that the team members are able to work towards together. This can be linked to the frame of reference, as the company can be perceived to be dependent on its employees' motivation as the organisation has firm-specific pool resources and the employees transfer their tacit knowledge into this company (Frey & Osterloh, 2001). The HR manager mentioned that one of the topics that is central to the core of human resources of the company is empowering leadership, which translates to giving responsibility and delegating to those employees deemed appropriate, hence fostering appreciation of the employees

**Summary of analysis:**

*To compensate for the economically restrictive cost leadership business strategy, and the lack of competitive monetary reward strategy, the managers apply leadership method of stewardship through intangible compensation. This impels the company to continuously spend resources on leadership trainings, courses and meetings, as for to ensure stewardship and intangible compensation is of required quality. Moreover, the transparency of the business strategy is enabled by openness of communication, a positive group dynamic, flat hierarchy and frequent meetings, which in turn cause the employees to be able to further emotionally commit to the company. Hence, the themes of the empirical data reflect managers acting as*
stewards for the employees as well as the other stakeholders. The link between the company's cost leadership business strategy and compensation strategy is therefore stewardship management style. The company has established a corporate culture that thrives on intangible compensation, sense of community and a stewardship leadership, which in turn makes the employees commit to the organization.

6. Conclusions

In this chapter we conclude the findings by including a discussion related to the purpose and an overview of the main findings of our study.

The purpose of this thesis was to further explore how business strategy may influence compensation strategy and specifically to create in-depth understanding on the relationship between the two aspects, in case of a company within the service industry. The aim of the authors was to evaluate details of stewardship, the compensation process and understand the type of business strategy, in order to observe a linkage between them, by using a theory as a tool. In order to remain trustworthy, interviews were conducted by interviewing three managers and three employees to achieve a triangulated perspective. Hence, this thesis had an explanatory purpose, aimed towards making a theoretical contribution through adding to the existing literature of strategic compensation by linking it with business strategy, in order to go further than to describe it.

As observed from the empirical data, the business strategy can be described as cost leadership strategy, as the company’s mission is to deliver affordable services to a wide customer segment, while aiming for economies of scale to be able to offer experiences of high quality. Moreover, as the monetary rewards are invariably in line with the unions, primary focus of the human resource management is on intangible compensation, which includes internal career development, praise, trainings and feedback. Furthermore, according to the interviews, the corporate culture promotes comradeship, teamwork and sense of community among coworkers. With a flat hierarchy, the leadership is described as empowering as managers are required to delegate responsibility when deemed appropriate. Consequently, the relationships between managers and employees are seen as close, respectful, caring and somewhat informal.
The research yielded a response to the research question of how can a company within the service industry optimally align business strategy with compensation strategy. As apparent from the empirical data, leadership was seen as a motivator, and as a crucial aspect of intangible compensation. The literature in turn explains that different settings require differing leadership qualities and the type of leadership described collectively in the case can be identified as stewardship. The employees set organizational results over their personal needs and within following this they additionally fulfill their personal needs. Hereby, using the theory of stewardship management as a tool to motivate, retain and compensate the employees, the company links cost leadership business strategy and the compensation strategy. In conclusion, the study challenged the authors to gain an understanding on the topics and analyse the relationships between them.

7. Suggestions for further research

In accordance to the research question, this thesis was made specifically concentrating on a specific industry and case study was made based on empirical findings from six individuals. Moreover, the sample size of the case study was limited due to time as well as resources, and the results received from the interviews gave somewhat homogeneous results. Although this is positive according to the study and enables the authors to answer the research question, in order to receive greater variance and be able to generalize the results, a larger sample size would be needed. Furthermore, as the study focused on a company that has adapted a cost leadership strategy, to expand the research, other types of business strategies could be examined. Lastly, since the approach of this thesis was qualitative, an alternative perspective might be derived with a quantitative approach.
List of references


## Appendix

*Interview Guide:*

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<th>Interview questions</th>
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<td>How would you describe the business strategy of the company, short term and long term?</td>
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<td>How do you differentiate yourself in the industry?</td>
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<td>What are the key stakeholders of the company, in your region?</td>
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<td>What do you think are the strengths of your business strategy?</td>
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<td>What would be the improvements you would like to do to the business strategy, in order to be more competitive within the industry?</td>
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<td>What is the compensation strategy of the company, tangible and intangible?</td>
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<td>How does the compensation strategy look like in day to day activities?</td>
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<td>Do you think the compensation strategy reflects the consideration and serves the purpose of satisfying employees?</td>
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<td>What forms of intangible compensation does the company use to motivate its employees?</td>
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<td>Which do you feel works better to motivate employees, tangible or intangible compensation?</td>
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<td>Do you think the compensation strategy should be linked to the business or corporate strategy?</td>
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<td><strong>Human Resource Management</strong></td>
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<td>What are the strategic goals of HR?</td>
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<td>How does the business strategy show through the HR activities and compensation?</td>
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<td>What do you consider to be the business competitive advantages?</td>
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<td>Do you and do you think other employees are satisfied with current compensation system and do you think that contributes to business competitiveness?</td>
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