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Rapport
Report

Beyond Bonuses

A case study on bonuses and their impact on work motivation from a Beyond Budgeting perspective

Emil Hvattum Bjørnstad
Johan Fredrik Hillveg

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by

Emil Hvattum Bjørnstad
Johan Fredrik Hillveg

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Preface

This master thesis is a part of a double degree program in Master of Science in Business Analysis and Performance Management (BUS) from the Norwegian School of Economics (NHH) and Strategy and Innovation from Louvain School of Management at Université Catholique de Louvain (LSM). The study is done on behalf of "Samfunns- og Næringslivsforskning" (SNF) at NHH and is funded by Statoil.

This research report focuses on the link between bonus systems and their effects on work motivation through the perspectives of the Beyond Budgeting philosophies. The report is based on a research methodology where we have conducted several qualitative interviews with higher-level managers in an unnamed bank and financial institution. This company will be referred to as "Bank & Financial Corporation" throughout the paper for confidential purposes. Additional to the qualitative interviews, we have also conducted a quantitative survey across the organization for both managers and employees in non-managerial roles.

The report is a part of the Beyond Budgeting research program at NHH. Being a part of this research environment has given us valuable insight in conducting research and writing this master thesis. We would like to send a special thanks to our supervisors Paul Gooderham from the Norwegian School of Economics and Evelyne Léonard from Louvain School of Management for much appreciated advice in this process. We would also like to acknowledge the support that the "Bank & Financial Corporation" has provided us with in this research project. We sincerely thank you for all the time and resources that you have devoted to this study. Finally, a special thanks to consultants at PwC; Kristoffer Loftesnes and Bjarne Rugelsjøen for much appreciated support and advice in the process of planning and writing this thesis.

Emil Hvattum Bjørnstad

Johan Fredrik Hillveg

Louvain-la-Neuve, May 30th, 2013

Executive Summary

The purpose of this research report is to understand the relation between bonuses and motivation through answering the following problem statement:

‹‹(How) do bonuses impact motivation in a dynamic management model?››

This relation is explored by applying "Bank & Financial Corporation" as a case study. "Bank & Financial Corporation" is a major organization in the Scandinavian bank and finance sector and they are operating with a management model much inspired by the Beyond Budgeting principles. Within this new management model they have adopted a new bonus system that consists of one team based bonus scheme, one corporate-wide profit-sharing scheme as well as an individual bonus scheme for corporate managers. Through the use of qualitative and quantitative research, this study takes a holistic view of analyzing the motivational impact of the three different bonus schemes on employees across the whole organization. By taking this holistic approach, the report also explores if the team based bonus scheme has any different motivational impact on managers compared to non-managers in the organization.

Our findings prove that there is little overall enthusiasm for the bonus systems at "Bank & Financial Corporation". The higher-level managers find very little motivation from the individual bonus scheme, although they find the goal setting process and the achievement of the goals that comprise the bonus to be very motivating. The overall perception of the team bonus is that it does not function as a good tool for rewarding or motivating employees. Firstly, because the employees struggle to see how their work influences the targets that trigger the team bonuses. Secondly, a large share of the employees also find it difficult to understand how the overall bonus system works, as it is perceived to be rather complex and is little communicated. The research also suggests that a large part of the company anticipates receiving annual bonuses. This has led to a view of the bonus as an entitlement which causes frustration and demotivation when it is not given. The research report also finds that non-managers are significantly more motivated from the team bonus than managers.

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Chapter 1: Introduction

This chapter presents the report background, the problem statement and the research questions addressed by this study. The chapter also portrays this study's intent and relevance in today's business environment. Finally, the chapter provides a brief explanation to the empirics of "Bank & Financial Corporation" and a short explanation to how the report is structured.

1.1 Report background

There is generally no question about the importance of employee engagement for work performance. According to a survey conducted by ACCOR, 90% of leaders believe that engaging employees is essential for the success of their business (Lupfer, 2011). A study conducted by Gallup proved that companies in the top ten percentile on employee engagement outperformed their competitors by 72 percent in earnings per share between 2007 and 2008 (Fox, 2010). Another survey by Gallup further emphasizes the importance of employee engagement by showing that disengaged workers cost the US economy as much as 370 billion USD every year (Lupfer, 2011).

According to Merchant and Van der Stede (2003) the lack of motivation among workers is one of the major problems of management control (Merchant & Van der Stede, 2003). A common approach to increase work motivation is by designing and implementing pecuniary incentives and rewards systems. Here, bonuses are the most widely used tool (Lazear & Gibbs, 2009), with individual bonuses utilized three times more frequently than group- or team based bonuses (Gomez-Mejia et al., 2011). The most common rationale behind implementing bonus systems in a firm is to create an incentive to motivate employees (Treanor et al., 2013). This rationale originates from the era of traditional management control systems, where organizations pursued to effectively utilize their resources by controlling and directing the employees' behavior through a widespread use of bonuses and other extrinsic motivators. These views were predominant in the business society for large parts of the beginning of the 19th century. It was not until the 1950s that the view of money as the only source of work motivation was challenged. Through the need-theories of Abraham Maslow and David McClelland, and later theories by the behavioral scientists Douglas McGregor and Frederick

Herzberg, motivation was viewed from a different perspective. These men argued that motivation was intrinsic, and that money does not work as a tool to encourage and stimulate motivation. Instead, they argued that humans are motivated through other factors that are intrinsic to the job, including the needs of personal growth, the work itself and recognition. These views conflicted with the traditional view of management control at that time. But since the emergence of these theories, there has been an evolution where managers have made more use of more informal and soft management tools. Within these tools lies a belief in line with McGregor's theory Y that employees are best motivated through intrinsic motivators relating to autonomy, mastery and purpose (Pink, 2009). Still we observe reluctance from organizations to let go of bonuses and extrinsic motivators as tools to motivate employees (Bogsnes, 2009).

Through the emergence of Hope and Fraser's Beyond Budgeting-philosophy in the beginning of the new millennia, the view of using traditional management tools to stimulate higher performance was criticized even further (Hope and Fraser, 2003). As the name suggest, the Beyond Budgeting philosophy aims to eliminate the budgeting process as a management tool. Instead it is built on the notion that organizations operating in today's highly complex business society need to be agile and quickly adapt to unexpected changes in the market to stay competitive. The Beyond Budgeting philosophy argues that the budgeting process undermines this agility. Elimination of the budgeting process is thus seen as an important step in becoming more adaptive to the business society in which today's firms are operating. As a management philosophy, Beyond Budgeting was made famous through the Swedish bank Handelsbanken. Two years after abolishing the budgeting process in 1970, Handelsbanken started to outperform their competitors by being more profitable than industry average, and they have continued to do so ever since (Bogsnes, 2009). Many companies have looked to Handelsbanken's example of abandoning the budgeting process for inspiration since, where a large share of these companies has been Scandinavian. Along with the abandonment of budgets, Handelsbanken also abandoned individual bonuses as an important feature of their new management model. Instead of individual bonuses, Handelsbanken adopted a companywide profit-sharing system where they allocate parts of the profits equally to all employees. The payout is triggered if the bank achieves a higher return on shareholders' equity after standard tax than their average competitor

(Hope and Fraser, 2003). In line with Handelsbanken's approach, the Beyond Budgeting philosophy criticizes traditional methods of rewarding employees, such as individual bonuses. They claim that individual bonuses do not have a major motivational effect and believe that they are in fact counterproductive, preventing the fostering of high performance instead of facilitating it (Hope and Fraser, 2003; Hope and Player, 2011; Bogsnes, 2009). Accompanying the elimination of budgets, Hope and Fraser (2003) call for a wider use of recognition and sharing team-based success collectively.

This research report will employ "Bank & Financial Corporation" as a case study. Within the adoption of the new management model inspired by the Beyond Budgeting theories, "Bank & Financial Corporation" has also adopted a new bonus system. Additional to the new bonus structure including two bonus schemes that revolve around rewarding team performance, the company also operates with an individual bonus scheme for their corporate managers. The organization is currently also experimenting with a system of allocating the bonus from their profit-sharing scheme based on individual performance within teams. These structures may be argued to conflict with the Beyond Budgeting principles of sharing success collectively and by viewing individual bonuses as a poor source of motivation. So what might "Bank & Financial Corporation" gain from adopting these individual bonuses? Could it be that bonuses indeed are important motivational factors, and contribute to high performance, and that the Beyond Budgeting philosophy has underestimated their potential motivational effect?

1.2 Problem statement and research question

Based on the report background and by employing "Bank & Financial Corporation" as a case study, we have formed the following problem statement:

‹‹(How) do bonuses impact motivation in a dynamic management model?››

In order to answer this problem statement we have defined four research questions:

1. What is Beyond Budgeting and why is it so critical of individual bonuses?
2. What contextual factors within a dynamic management model influence motivation from bonuses?
3. What factors within a bonus system motivate employees?

4. Do team bonuses impact motivation differently between managers and employees in non-managerial roles?

1.3 The study's purpose and intent

The research questions will help to answer the overall problem statement. Firstly, they do so by understanding what Beyond Budgeting is and why this philosophy is so critical of financial incentives and individual bonuses. Secondly, they do so by understanding the importance of the context. This is done by exploring which contextual factors within a dynamic management model that may enhance or reduce work motivation stemming from bonuses. Thirdly, by exploring which factors within a bonus scheme that affect work motivation. And finally, by understanding if bonuses do impact the motivation of managers and non-managers differently. These answers will ultimately help us understand *if* bonus systems motivate in a dynamic management model, and *which* factors within the researched bonus system that contribute to this.

The study is built on a former master thesis by Vilde Målsnes (2011) from the Beyond Budgeting research program at the Norwegian School of Economics (NHH). In her thesis, Målsnes (2011) analyzes how the motivation of managers is affected by the management control system as a whole. Målsnes' thesis suggests that further studies should analyze the potential motivational effects of particular parts of the management control system and specifically singles out bonus systems as a potential research area. In her research, Målsnes (2011) finds that bonus systems are not a source of motivation. Based on these suggestions, we wanted to further research whether bonus systems are motivating or not, as numerous text books on incentive compensation argue that they are. We found it particularly interesting to apply this question to a dynamic management control system much inspired by the Beyond Budgeting philosophy and its principles, as the Beyond Budgeting philosophy is very critical of individual bonus systems and financial incentives in general. "Bank & Financial Corporation" was therefore chosen as a case study based on their adoption and implementation of their dynamic management model. Since "Bank & Financial Corporation" also incorporates individual bonuses in their bonus system, through individual bonuses for their corporate management, this makes the organization an interesting case objective, as the Beyond Budgeting principles state how bonuses are best shared collectively. The

research report therefore seeks to understand how "Bank & Financial Corporation's" adopted bonus system of both individual and team bonuses impacts employees' work motivation, and if the bonus system motivates managers and non-managers differently.

1.4 Relevance

Beyond Budgeting and dynamic management models have become increasingly relevant over the last few years. The relevance of this study comes from combining a new mind-set of managing organizations with theories on incentives and motivation. There are numerous studies on the use of Beyond Budgeting and dynamic management as a foundation for management control and leadership. However, there is very little research and literature that links dynamic management models to the motivational effect from incentive and bonus systems. As the Beyond Budgeting movement continues to draw attention among leaders worldwide (BBRT, 2013), it becomes increasingly relevant to view bonus systems in the light of firms that operate with dynamic management models, instead of those that rely on budgets or traditional management control. As no organizations are identical, a management model based on the principles of Beyond Budgeting is not generally applicable to other organizations. The findings of this study is thus to a large extent dependent on situational factors. By conducting a case study, where we only study one firm, the applicability and generalizability of this research report is limited. However, the research may still be relevant for organizations operating within a similar context as "Bank & Financial Corporation".

1.5 Empirics

The methodology used in this research is a combination of qualitative, in-depth interviews and a quantitative survey. These were conducted as part of a case study on "Bank & Financial Corporation". The qualitative interviews were done with six higher level managers across different sub-divisions of "Bank & Financial Corporation", while the survey was conducted on a representative population across the whole organization including all levels of the hierarchy, from top managers to lower level employees. The reason for choosing to include employees from all levels of the hierarchical structure was to analyze differences as to how team bonuses may motivate differently depending on an employees' role in the organization.

The qualitative interviews were used to provide the researchers with insight on the

design, purpose and use of "Bank & Financial Corporation's" bonus system. The interviews also served to identify important attitudes and opinions about the current system, as well as potential drawbacks. The discussion and analysis of the bonus system are done in the light of various theories on motivation, incentive theories and the principles of Beyond Budgeting. The survey builds on the information gathered from theoretical research and from the qualitative interviews, and was developed to analyze the motivational effect of the bonus system across the whole organization of "Bank & Financial Corporation". The research report has also made use of available reports, plans and procedures on how the management control system of "Bank & Financial Corporation" has been structured and implemented.

1.6 Structure

This thesis is structured in three main parts, consisting of a total of six chapters. The first part presents the theoretical foundation of the research paper. The theory is mainly built from understanding what work motivation is and how work motivation is promoted through the use of bonuses as a tool in management control systems.

The second main part of this thesis includes a chapter explaining the applied methodology for the master's thesis. This chapter seeks to give a more in-depth reasoning to our choices of research methods, as well as explaining how the research was conducted. Further, we present the empirics of this paper through a presentation of the case company, "Bank & Financial Corporation". This part also seeks to detail and explain the bonus structures used in this organization today.

The third main part consists of the analysis of the results from the qualitative interviews and the quantitative survey conducted at "Bank & Financial Corporation". This analysis lays the foundation for the conclusions presented in chapter six, where we answer the problem statement and the underlying research questions. The conclusions are followed by a short overview of this report's strengths and weaknesses, and suggestions for future research.

Chapter 2: Theoretical perspectives

The purpose of the following chapter is to provide theoretical perspectives needed to answer and address the problem statement of this research paper:

‹‹(How) do bonuses impact motivation in a dynamic management model?››

Firstly, this chapter explores theories for fully understanding what motivation is and how motivation is fostered in an organization through the use of management control. Secondly, the chapter explores the purposes of incentive systems and bonuses. Thirdly, it investigates how bonuses may impact work motivation by applying four process theories of motivation. Then, the chapter explains the Beyond Budgeting philosophy and examines why Beyond Budgeting is so critical of individual bonus systems. Lastly, the chapter is concluded with a summary and a presentation of our analytical framework.

2.1 What is motivation?

An organization's most valuable resource is its human capital represented by its workforce (Langeland, 1999). The best way to ensure high productivity and performance in the firm is by having highly motivated employees who want to do well and serve the organization in its best interest. Yet, this is not a straightforward relationship. Merchant and Van der Stede (2003) claim that the lack of motivation is one of the major problems of management control. This has made them view lacking motivation as a significant factor to low business performance. This makes it vital for organizations to understand how their employees are and can be better motivated.

The word motivation stems from the Latin word "movere", which can be translated into "what causes change" (Pinder, 1998). Motivation is therefore seen as an inner process that directs us to do what we do, and behave in the way we behave. From an organizational behavioral point of view, work motivation can be defined as the psychological process that causes the initiation, excitement, intensity, persistence, and direction of behavior (Klein, 1989; Pinder, 1988; Campbell & Pritchard, 1976). In order for organizations to ensure high performance and productivity, there is consequently a need to align the employees' behavior with the goals and the overall strategy of the firm. Yet, this is not possible unless the organization know what really motivates its employees (Huczynski & Buchanan, 2010).

Work motivation can be broadly categorized into two different theoretical perspectives; content theories and cognitive process theories (Borkowski, 2009). Content theories of work motivation, or more commonly known as needs theories, are associated with determining and explaining *what* factors motivates employees and what drives their behavior (Borkowski, 2009). Process theories on motivation focus on the cognitive processes behind an individual's level of motivation (Borkowski, 2009). These theories look to explain *how* an individual's employee motivation is aroused, directed and sustained, and how it may be halted (Borkowski, 2009; Nelson & Quick, 2003). While this research paper will mainly look to analyze the motivational impact of bonuses based on process theories, exploring the content theories on motivation is vital to fully understand work motivation.

2.1.1 Content theories on motivation

At the turn of the 19th century, the global business world was largely ruled by the ideals of the father of scientific management, Frederick Winslow Taylor. He stated that a person's motivation to work was purely based on monetary rewards (Porter et al., 2003). With his book ‹‹The Human Side of Enterprise››, Douglas McGregor (1960) presented one of the first content theories on work motivation. In it McGregor challenged Taylor's presumption that humans were fundamentally inert and that we would not do much without extrinsic rewards and punishments. McGregor (1960) presented his two opposing views on how employees were motivated, labeled theory X, and theory Y. Theory X was built on the beliefs of Taylor, that people largely disliked work and responsibility, had low ambitions and preferred to be under control with clear directions. In stark contrast, he also presented theory Y that was built from a belief that motivation was intrinsic to people. This theory suggests that employees want to be involved, take responsibility and develop their skills and capacity. McGregor's personal views favored theory Y, and he argued that work was something that stems from within a human's nature, and that we are indeed creative and self-motivated.

In line with McGregor's arguments, Herzberg et al. (1959) also argued that motivation was something intrinsic to the job, and that it was the content of the work that motivated people, not financial incentives. In an attempt to theorize that job satisfaction and dissatisfaction act independently of each other, Herzberg presented his two-factor theory (Herzberg, 1966). These factors were split into motivational factors and hygienic

factors. The motivational factors (motivators) included achievement, recognition, work itself, responsibility, personal growth and advancement, while the hygienic factors included working conditions, company policy and administration, status, relationships with peers, relationships with supervisors, personal life, security, and salary (Mawoli & Babandako, 2011). With the two-factor theory, Herzberg (1966) argues that the hygienic factors in themselves cannot motivate, but need to be present to avoid dissatisfaction. However, in order for the motivator factors to be motivating, the hygienic factors also have to be satisfied. Herzberg (1966) further explains that solely stimulating the hygienic factors in themselves will not lead to increased motivation.

2.1.2 Process theories of motivation

With the fundamental understanding of the content theories of motivation, the report now looks to explore how an individual's motivation may be influenced by cognitive processes. Through analyzing process theories of motivation, managers may get better at predicting behavior and understand how employees can be influenced to stimulate high business performance (Borkowski, 2009).

Expectancy theory

Expectancy theories on motivation try to explain employee behavior as something that is guided by the expectation of a desired outcome, often in the form of a reward. From his research, Victor Vroom (1964), developed and defined the first expectancy theory based on the three principles of; 1) expectancy, 2) instrumentality and 3) valence. According to Vroom (1964) people will act according to expectations that their behavior will lead to goals that are specific and desirable. The variable of *expectancy* is explained as an individual's belief that for a given level of effort, this will result in an outcome of achieving a desired goal, while the *instrumentality* relates to the belief that if a performance expectation is met, the employee will receive the promised reward. Lastly, *valence* refers to the value, or the depth of the want, that the employee holds for the reward. In order for the valence to be high, the reward needs to be substantial or meaningful to the employee. According to Vroom (1964), these three factors are multiplicative. This way, it is the sum of all three factors that decides a person's motivation, meaning that all factors have to be present in order for an employee to be motivated. According to Porter and Lawler (1968), if you repeat rewarding high performance, this is doomed to create an expectancy of being rewarded again. Lawler

(1971) further argues that the belief in the link between efforts and rewards is crucial for employee motivation, and the stronger the belief is, the higher is the motivation.

Goal setting theory

According to Edvin Locke's (1968) goal setting theory, performance is largely determined by the nature of a set goal. Locke (1968) argues that higher goals lead to greater effort and persistence, compared to goals that are moderately difficult, easy or vague. Locke (1968) further argues that employees will be motivated by goals that are clear and challenging, given that the employees have the belief in the ability to reach the goal and that the feedback is present.

From these arguments, the goal setting theory has proved that there are four mechanisms that determine the relationship between goals and performance (Locke & Latham, 2006). These key mechanisms are 1) the feedback, 2) the commitment to the goal, 3) the task complexity, and 4) the situational constraints. First of all, the feedback is important to track progress, while commitment to the goal is also crucial for the goal to have an impact on behavior. This commitment may be strengthened by self-efficacy and viewing the goal as important. Task complexity refers to how hard it is to obtain task knowledge for complex tasks. By being dependent on having the right task knowledge or skills, goals may motivate by putting existing knowledge into use, or by motivating to search for new knowledge (Locke & Latham, 2006). Situational constraints may for instance imply how an overload of tasks or the lack of resources to accomplish them, will moderate the effect of the goal (Locke & Latham, 2006).

Goals in which people set for themselves with the purpose of attaining mastery are usually healthy (Locke & Latham, 2006). Additionally, goals have a tendency to narrow focus, which makes them effective in guiding direction. For the same reason they are also restrictive in looking beyond the intended area of focus to a broader and perhaps more holistic picture. This may limit the creativity of an employee. It is thus important that goals are not too narrow and focused. Goals imposed by others may also limit the personal commitment to the goals (Ordonez et al., 2009). In line with the goal-setting theory, Doran (1981) argues how goals need to adhere to the SMART principles, in which they need to be Specific, Measurable, Achievable, Relevant and Time bound.

Equity theory

The equity theory on motivation was first developed by behavioral psychologist John Adams in 1963. This theory is based on how an employee's motivation is related to his or her perception of the *equity*, *fairness* and *justice* that the management in the organization practices. According to Adams (1963), an employee evaluates fairness from comparing his effort to his own compensation. The employee will then observe his peers' compensation based on their efforts, and compare the effort/compensation ratio with his own (Adams, 1963). These comparisons can be made with peers working in the same company or with peers working in similar positions in other firms. From these comparisons, an employee can feel both over and under-rewarded. Both these situations may lead to a negative state where the employees feel a lack of motivation. If an employee's effort is not observable and measurable, it does not adhere to the principles of equity and fairness. Then the employees might become demotivated, which may lead to organizational inefficiency and lower performance. Based on this, one can argue that the equity theory is more useful in describing what factors that contribute to a lack of motivation, rather than describing factors that increase motivation (Adams, 1963).

Self-determination- and cognitive evaluation theory

Another important theoretical aspect of motivation is the self-determination theories. These theories were developed in the 1970's and 80's, evolving from the understanding that motivation is dominantly intrinsic, similar to the views of Herzberg and McGregor. The self-determination theory that was developed from Deci and Ryan's (1985) research focuses on how individuals' goal-directed behavior is self-motivated and self-determined. Deci and Ryan (1985) argue how performance-contingent rewards *reduce* self-determination compared to when being asked to achieve the same standard without being promised a reward. This is perfectly in line with Porter and Lawler's (1968) views of how repeatedly rewarding high performance will create performance-reward expectancies. On the other hand, Eisenberger et al. (1999) argue that performance-reward expectancy conveys a message to the employees that the organization has little control over the employee's daily performance. By offering a reward it thus *increases* the worker self-determination to do well, as the organization needs to ensure that the potential reward recipient will cooperate (Eisenberger et al., 1999).

Deci and Ryan (1987) also developed the cognitive evaluation theory. This is a sub theory from the self-determination theory. The cognitive evaluation theory proposes how tangible and extrinsic rewards are assumed to be a form of social control that reduces an employee's perceived self-determination. Thereby it also reduces intrinsic motivation. This theory focuses on the perception that employees have needs of competence and autonomy in order to be motivated. The self-determination theory is often discussed with relation to rewards, which Deci and Ryan (1987) regard as extrinsic motivational tools that may harm employees' intrinsic motivation.

2.1.3 Motivation - a mismatch between what science knows and what businesses do

When it comes to motivation in today's business world, Pink (2009) states that there is a mismatch between what earlier behavioral scientists like Herzberg and McGregor say, and what businesses actually do. Pink (2009) argues that business systems are still built on the views of Taylor where there exists a strong belief among organizations that employees need to be motivated through financial incentives (Pink, 2009). Similar to the Beyond Budgeting-literature (Bogsnes (2009); Hope & Player (2012); Hope & Fraser (2003)) which this report examines in greater depth in chapter 2.5, Pink (2009) questions the unreliability of motivating through a carrot-and-stick mentality and argues that financial incentives do more harm than good.

In order to understand the criticism of extrinsic motivators better, we need to better understand what a management control system is, and examine how the management control system can be used to motivate employees. Through this we can understand what role bonuses naturally have within a management control system. This is useful when exploring how bonuses are used as a tool to motivate employees.

2.2 Management control systems and motivation

In an increasingly changing business environment with a high level of complexity in structure and tasks, companies require well-behaved management control systems to accomplish their goals (Otley, 1999; Bergstrand, 2009). According to Bergstrand (2009) companies rely on management control systems to make sure that employees are doing entrusted tasks and strive towards reaching the firm's overall targets. However, the main reason for having a management control system is to facilitate for efficient management and control of the company (Nyland & Østergren, 2008).

2.2.1 What is a management control system?

The classical definition of management control was given by Robert Anthony (1965, p. 27) as

> *"the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objective."*

Based on this classical definition, Robert Anthony and David Young (2003) described traditional management control as a continuous process encompassing four different control processes: 1) Strategic planning, 2) budget preparation, 3) operation & measurement, and 4) reporting & evaluation. This process can be illustrated as a closed and continuous loop as seen in figure 1 below:

Figure 1: The Management Control Process by Anthony and Young (2003)

The purpose of incorporating all these elements into one system was to provide managers with the relevant information in decision-making, planning and evaluation (Merchant & Otley, 2007). The idea of management control is thus to create a seamless

and continuous process that links strategic planning to operational control, and in this way, help managers to carry out the intended strategy (Otley, Broadbent, & Berry, 1995). In more recent times, Malmi and Brown (2008) further state that management control systems not only revolve around one form of management control alone, but on multiple control systems working together in a symbiotic fashion.

Although history has provided us with a large set of definitions to what management control is, the extent of needed control versus encouragement to align employee behavior with company goals differs. According to Flamholtz (1983), controlling employee actions is a necessity for every firm. This requires having well-functioning management control systems in place, which encourages and ultimately compels employees to consider and pursue company goals instead of their own interests. Additionally, Merchant and Van der Stede (2003) add that management control systems are also needed to make the employees behave in accordance with the firm's long-term goals. Their rationale was that only if you could trust your employees at any given time, the need for management control would be redundant (Merchant & Van der Stede, 2003). These views originate from traditional management control systems of the past, and it seems evident that such views were built on a notion of human distrust (Bogsnes, 2009). As previously mentioned, traditional management control systems were built in an era when Frederick Winslow Taylor's views were held in high regard and motivation was still viewed as extrinsic to employees. For that reason, people needed to be controlled and directed. From this view, management control systems were designed to control and reward employees based on fixed targets related to budgets. As the times changed, these beliefs were challenged, most notably through the content theories of Maslow, McClelland and Herzberg (Kaufman & Kaufman, 2003). This resulted in a more widespread adoption of McGregor's (1960) theory Y, and the belief that motivation was something intrinsic. Theory Y further argued that more employee responsibility and better feedback would increase the individual's work motivation and eventually increase overall firm performance. Leaders eventually came to realize that the world was not as black and white as Winslow Taylor had pointed out in 1911, and so the management control systems gradually moved away from only incorporating strict financial controls and budgets to more holistic systems, where a company's culture and

values receive a stronger focus. And it is through the different parts of a management control system that organizations can facilitate and nurture employee's motivation.

2.2.2 Instruments of control

Not so different from the management control systems package-theory of Malmi and Brown (2008), Lars Samuelson (2004) claimed that management control in a firm is composed by formal and informal instruments of control. By adding organizational structure as another instrument of control, Ax et al. (2010) built further on the framework. Formal control systems incorporate all planning and control systems such as budgets, balanced scorecards and benchmarking, and is therefore categorized as "hard controls" (Ax et. al, 2010). On the other side are the "soft controls", such as the company culture, types of leadership and ways to increase learning and empowerment in the firm. These soft control mechanisms compose the informal control system. The organizational structure includes the degree of responsibility and the level of decentralization in the firm, the firm's reward system and personnel economics (HR). The whole management control system is illustrated in figure 2 below.

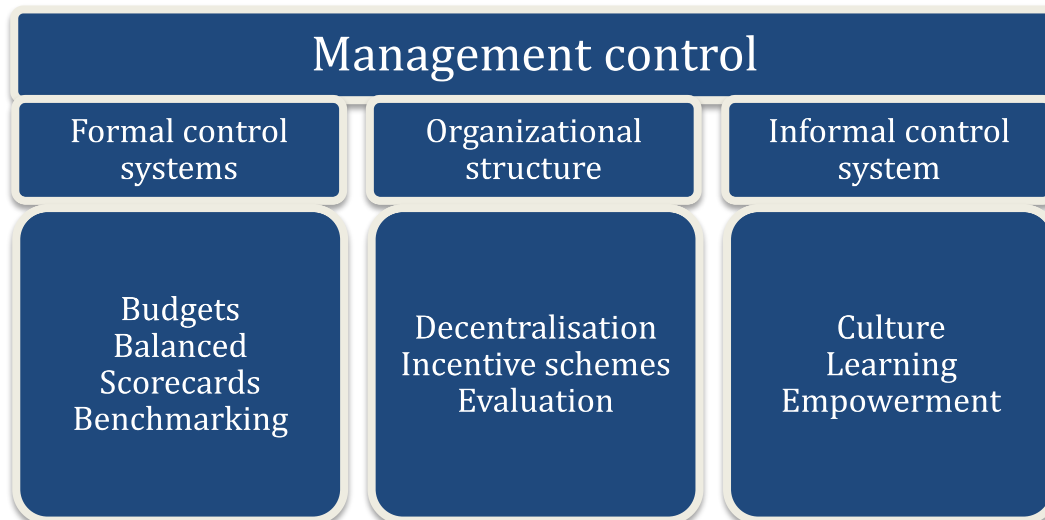


Figure 2: The Instruments of Control Framework based on Samuelson (2004)

In order to understand how the different components of a management control system motivate employees, they need to be studied as a whole (Malmi & Brown, 2008). However, such a study would be very complex and require large resources. This report will therefore look at motivation through only some parts of the management control

system. More specifically, the report looks to analyze how bonuses can motivate employees as a control mechanism relating to the organizational structure in Samuelson's (2004) expanded instruments of control model. Analyzing the motivational aspects of bonus systems separately can however provide a skewed picture of what really motivates. The study of the motivational effect of bonuses is therefore done in relation to both the formal and the informal components of management control systems. In this report, we will use the formal components of budgeting and benchmarks, and the informal components of company culture and empowerment.

Formal control systems

Formal control systems include all planning and control systems implemented in the firm (Samuelson, 2004). With continuously changing business environments, firms have sought to adjust their formal systems accordingly. Yet, how organizations adjust their management control systems to dynamic environments has altered throughout history of time (Bjørnenak & Kaarbøe, 2011). Throughout this apparent evolution within management accounting, traditional budgeting has played a key role. During the 1970s, budgets were regarded as the cornerstone of any firm's management control system (Anthony & Govindarajan, 2007). In times of great turbulence, like the oil crises of 1973 and 1979, the argument was that *more* budgeting and *more* rigid planning was the remedy to, and not the cause of, financial distress (Bjørnenak & Kaarbøe, 2011).

Hope and Fraser (2003, p. 4) define budgeting as:

> *"… a performance management process (…) about agreeing upon and coordinating targets, rewards, action plans and resources for the year ahead, and then measuring and controlling performance against that agreement."*

Due to its widespread use and the fact that smaller firms typically implement budgets as a primary type of management control (King, Clarkson, & Wallace, 2010), the budget has traditionally been the main source of work motivation in the firm (Bergstrand, 2009). By defining clear-cut goals, budgets reduce the potential uncertainty regarding operational activities in the organization. This makes it easier for employees to understand how to perform and to see the impacts of their contributions in a greater picture (Bergstrand, Boye, & Bjørnenak, 1999). By carving out explicit goals, budgets have also been used to form the basis for firms' bonus systems (Marginson & Ogden, 2005). How budgets affect

the bonus is, however, not universal. In European companies, employees typically redeem a bonus by «hitting the budget» which is in contrast to American organizations, where bonuses are typically paid out by outperforming the budget (Bergstrand, 2009).

However, although budgeting became more established in the latter part of the 1990's, criticism that drew on the theory X/Y dichotomy began to be voiced (Bergstrand, 2009). Some of the titles for these critical research papers include: [Budgets are] *An unnecessary evil* (Wallander, 1999), *Budgets: The hidden barrier to success* (Hope & Fraser, 1999a), [Budgets] *Take it away* (Hope & Fraser, 1999b) and *Figures of hate* (Hope & Fraser, 2001).

The criticism of budgeting can be categorized into two main branches (Libby & Lindsay, 2010). The first branch originates from academia and the classic Relevance Lost-debate initiated by Kaplan and Johnson (1987). Most of this criticism aims at the apparent lack of connection between budgets and strategy (Niven, 2006), which undermines the very nature of implementing management control systems. Here, Kaplan and Norton claim that as much as 60 percent of organizations have not linked their budgets to strategy, resulting in a vicious circle of repeating demeanor where short-term financial goals are always prioritized and long-term strategy neglected (Niven, 2006). Kaplan and Norton argue how budgets are misused and how they ultimately can be improved by adapting other management practices and/or management accounting tools. This discussion gave rise to a whole new set of management accounting tools, tying accounting information closer to strategic decisions (Bjørnenak, 2003). Activity Based Costing (ABC), Strategic Management Accounting (SMA), Economic Value Added (EVA), the Balanced Scorecard (BSC) and Value Based Management (VMA) are among the most renowned management accounting tools from this era.

The second branch of criticism is the Beyond Budgeting philosophy fronted by Jeremy Hope and Robin Fraser (2003). This philosophy views the budget and the process of budgeting itself as inherently flawed and dysfunctional, and calls for its immediate elimination. The Beyond Budgeting philosophy is further explained in chapter 2.5. Jan Wallander, former CEO of the Swedish bank Handelsbanken was among this movement's pioneers. Instead of relying on absolute budgetary targets, Wallander

(1999) claimed that firms should embrace relative performance measurements through benchmarking. Benchmarking is defined by Elnathan, Lin and Young (1996, p.40) as:

> *"a process by which an organization targets key areas of improvement, studies the best practices of others and implements processes and systems to enhance its own performance."*

As Niven (2006) explains, basing budgetary targets on the past year's performance is much like driving by solely looking in the rear-view mirror. Little improvement is made. Relative performance measures, however, promote a firm-wide consciousness of striving for continuous improvement (Wallander, 1999), as the company and its employees are always evaluated against their closest peers. According to research by Bain & Company, this will in time improve performance, create a better understanding of costs, enhance strategic advantages and increase organizational learning (Rigby & Biloudeau, 2011). It may also encourage intraprenuership and allow for more reasonable goal setting (Hope & Player, 2012).

Benchmarking may be conducted through both financial and non-financial Key Performance Indicators (KPIs), which are to represent the most critical factors for both short-term and long-term success for the company. In line with theory Y, Kaplan and Norton propose using a balanced set of non-financial and financial KPIs (Kaplan & Norton, 2008), in contrast to the traditional management control systems, to evaluate employees. Together with benchmarking they stipulate employees with a larger extent of freedom and encouragement, and may provide stretch-targets that motivate and improve performance.

Informal control system

While "hard" controls have traditionally been the only instrument of control in large corporations, the additional use of soft controls have increased in significance in recent times (Ax et. al, 2010). These controls include the company culture, learning and empowerment (Ax et. al, 2010). According to Ax et al. (2010), the company culture is highly influential in communication within and out of the firm, how decisions are being made and in understanding what is desirable for the firm. Building a great company culture is often viewed as the most important aspect of a company's success, and a great

company culture ensures a work environment where employees are motivated through seeking engagement and responsibility.

Empowerment is organizational arrangements that give employees more autonomy, discretion and decision-making responsibility (Buchanan et al., 1988). It is a way of treating employees on a more equal level, like partners rather than subordinates (Goldsmith, 2010). Empowerment is achievable by encouraging and supporting a decision-making environment, through provision of knowledge and resources to all employees, and by allowing people to take their own actions and accomplish results on behalf of the firm (Goldsmith, 2010). In terms of organizational design, decentralization often goes hand in hand with empowerment (Buchanan et al., 1988), as the formal boundaries between units and individuals in different levels of the hierarchy are decreased. This implies less bureaucracy and gives room to innovation and collaborative work. It also provides employees with a greater sense of ownership to their work, which will result in increased motivation (Buchanan et al., 1988).

Control through organizational structure

According to Ax et al. (2010), control through organizational structure is achieved through the physical design of the firm, the distribution of responsibility, the firm's reward systems and the process of decision-making. The design of the company denotes the company's physical operating structures, such as if the company has a functional, divisional, network based, or matrix structure. Whether the company tends to lean towards a vertical or horizontal integration is also of significance (Ax et. al, 2010). The distribution of responsibility in a company implies whether the different units of the company are economically responsible for their performance throughout the firm. This can be based on costs, revenues, contribution margins or net profits. Basically, what the units are responsible for and the extent of authority they have to influence their results are the two most critical factors of responsibility that must be addressed (Ax et al, 2010). The process of decision-making usually follows the design of the company, but may vary if decisions are made in groups or by certain individuals (Ax et. al, 2010).

In the instruments of control framework of Samuelson (2004), reward and incentive systems are defined as a control mechanism relating to the organizational structure. Reward- and incentive systems are designed to motivate employees to "walk the extra

mile", and can be both financial and non-financial (Ax et. al, 2010). This report will now explain what financial incentives or bonuses are, and explore how they may impact employees' work motivation.

2.3 Incentives and rewards

Organizations seek to influence and direct employee behavior through designing incentives schemes that act as motivators. Incentives can be defined as rewards that change behavior. They are contracts that are meant to increase organizational efficiency by getting the employees to work harder and smarter (Bragelien, 2011). Lazear and Gibbs (2009) specifically state how they believe that "*incentives are at the heart of effective economies, as well as effective organizations*." (p. 262). Rewards can be both tangible and intangible. Tangible rewards include pay raises, bonuses and benefits, and are external to the work itself. Intangible rewards are rewards that are intrinsic to the work and includes praise and recognition (Thomas, 2009). According to the research of behavioral scientists like Herzberg and McGregor presented earlier in this chapter, tangible rewards are extrinsic to motivation. This makes them more of a hygienic factor than well-suited as motivators. Still, we observe a large amount of firms who continues to use financial rewards as a source of motivation (Bogsnes, 2009).

2.3.1 Bonuses as financial incentives

Pre 1980, financial and monetary incentives did not hold a significant role in the management of larger corporations (Bragelien, 2011). Variable pay first became popular amongst top leaders in the USA in the 1980's and 1990's as an answer to leaders' lack of incentives to do a good job for the shareholders (Bragelien, 2011). The use of incentives then spread to middle-level employees and regular employees all over the world. According to Lunde and Grini (2007, as cited in Bragelien, 2011) the share of employees that received bonuses in the private sector in Norway rose from 18 to 28 percent from 1997 to 2005. The share of higher-level managers that received bonuses in the private sector in Norway in 2002 was 34 percent, while the number in 2011 was thought to be around 50% or higher (Bragelien, 2011).

The greatest challenge with variable pay is how challenging it is to design and use as an incentive scheme in organizations (Bragelien, 2011). There are numerous possible approaches to how to design compensation and reward systems, and they range from

individually based systems, to systems that reward teams, departments, or even whole organizations (Bragelien, 2011). The large number of different approaches that companies use when designing their bonus systems can be partly explained through the context in which they are given, adjusted to different management systems and organizational differences. But these differences may also reflect a general trend of organizations experimenting with bonuses and the fact that there exists an overall insecurity towards how to design a well-behaved bonus system, due to its ambiguous effects (Bragelien, 2011). A survey conducted in 2007 revealed that over 40 percent of the respondents from the 637 companies of the study were not satisfied with their current payment structure (TowersPerrin, 2007, as cited in Bragelien, 2011). With the widespread insecurity towards how to design well-behaved bonus schemes, and an apparent dissatisfaction with such bonuses, why are they still being used so extensively?

2.3.2 Purposes of bonuses

There are various argued purposes as to why firms choose to offer bonuses to their employees. Before exploring the different purposes, we need to differentiate on how bonuses are being given. According to Pink (2009) there are two methods of rewarding. First, there are the contingent rewards or what he names as the "if-then"-rewards which promise an up-front reward if a given level of performance is met. On the other hand, there are what Pink (2009) refers to as the "now-that"-rewards. These kinds of rewards are given in hindsight of the effort or evaluated performance.

One common argued purpose as to why organizations operate with bonus schemes of different kinds is that organizations view them as a good tool to attract and retain talent (Gomez-Mejia et al., 2011). This purpose is often justified by organizations as a result of bonuses being an industry standard. In order to attract the best workers, the organization designs bonus schemes to offer competitive terms and conditions. Another argument is that bonuses provide the organization with a flexible pay option. Since the employer is not making a permanent financial commitment, the risk of using bonus payments as a part of the compensation package is deemed lower than increasing the base pay. This provides the firm with a certain cost-flexibility (Lazear & Gibbs, 2009).

The most apparent purpose of bonuses however, and the one that this report will closely

examine, is the organizations' effort in trying to increase work effort by using bonuses as motivational tool (Gomez-Mejia et al., 2011). According to Lazear and Gibbs (2009), the most important reason to tie pay to performance is to increase employee's work effort. This is built on a presumption that extrinsic incentives will lead to higher performance. Bonuses are therefore most often used as a contingent reward to stimulate increased efforts by the employees. The purpose of motivating through bonuses is also closely linked to the purpose of aligning the employees' interests with the ones of the organization (Lazear & Gibbs, 2009).

2.3.3 Different types of bonus systems

With understanding why bonuses are used, we need to explore and understand different theoretical perspectives of how bonuses can be designed. This will ease the understanding of under what circumstances different bonuses may be advantageous and disadvantageous, and when they are likely to motivate or not.

Individual bonuses

Individual-based pay plans are the most common pay-for-performance plans (Gomez-Mejia et al., 2011). Of the individual pay plans; merit pay is by far the most common, where employees receive an annual raise in their base pay. Individual bonuses are somewhat similar to merit pay programs, but are rather given as one-time payments (Gomez-Mejia et al., 2011). According to Gomez-Mejia et al. (2011) an important advantage of individual bonuses could be explained by the fact that higher pay leads to higher performance, as employees tend to do those things that are rewarded. This view is in line with Vroom's (1964) expectancy theory, and according to Lazear and Gibbs (2009) a further argument for individual bonuses is that when there exists a strong link between performance and pay, this will make individuals improve their work performance through increased effort.

But even though there are certain advantages of individual bonuses, there are also some pitfalls. A common effect of tying financial incentives to the achievement of goals is that it narrows focus (Pink, 2009). A too narrow focus could be perceived as a straitjacket and block an employee's ability to see the larger picture of what effort is needed. Another disadvantage of individual bonuses can arise if the employees feel their effort and performance have a weak link to the reward. Surveys have discovered that up to 80

percent of employees do not see a connection between their personal contributions and the pay they receive (Gomez-Mejia et al., 2011). This will in turn make the motivational effect of the bonus very limited. The Beyond Budgeting principles extensively criticize individual bonuses, which is further discussed in chapter 2.5.

According to Gomez-Mejia et al. (2011), individual-based pay-for-performance plans need to be used with great care and there are very limited circumstances in which they are successful. When the contribution of employees is easy to measure and accurately isolated, it is easy to assess their performance and reward them accordingly. The more independently one work, the easier it thus is to justify individual rewards. Using individual bonuses is also better suited to environments where cooperation is less critical to successful performance or when competition amongst employees is encouraged. Pink (2009) argues that individual bonuses only should be used for simple, routine tasks that require little creativity.

Group based bonuses

There is a common agreement that workers in today's complex organizations need to work smarter, and not just harder. Therefore, group incentives that are based on wider and more general indicators are believed to foster smarter efforts (Langeland, 1999). A team-based approach to the compensation system can provide vital support for effective team arrangements (Gomez-Mejia et al., 2011). Such plans normally reward team-members equally, based on the performance and outcome of the group. One advantage with the use of group bonuses is how they foster group cohesiveness. Having pre-set goals and targets as a group will encourage and motivate group members to think and act as a unit, instead of competing individually (Gomez-Mejia et al., 2011). Studies have also shown that it can be easier to accurately and reliably measure performance as a group (Deresky, 2011). This is because measuring group performances lowers the requirement for precise measurements compared to when singling out individuals and evaluating them in relation to their peers.

According to Gomez-Mejia et al. (2011), individually based incentives are used three times more frequent than group-based incentives. In this relation, there are some important pitfalls organizations need to avoid. First of all, team-based incentives may possibly clinch with the cultural values of the organization (Gomez-Mejia et al., 2011).

Another disadvantage is the possible free-rider effect in large groups, which may result in conflict rather than the intended cooperation that the team bonus looks to foster (Lazear & Gibbs, 2009). Adjusting the pay incentives to encourage individual performance within teams and base the payout on individual levels of performance within the group can reduce the free-rider effect (Gomez-Mejia et al., 2011).

Even with the possible disadvantages of team-based bonuses, there are certain conditions that make such plans successful. For instance, when work tasks and effort are difficult to separate, and the performance is a result of group effort, a team-bonus may seem the most sensible option. Also, group-based bonuses are easier to implement in organizations with few levels of hierarchy and where teams consist of individuals from the same level, with little dependence on upper management (Gomez-Mejia et al., 2011).

Corporate wide bonuses

Corporate wide pay-for-performance plans or bonuses are the most macro type of incentive plans. These reward employees based on the entire corporation's performance. The most commonly used program is known as profit-sharing (Gomez-Mejia et al., 2011). Another possibility is to establish employee stock ownership plans (ESOPs) where the employees are issued company stocks, either through grants or offered at a favorable price (Gomez-Mejia et al., 2011). Corporate-wide plans are argued to offer financial flexibility to the firm, as the firm's cost is automatically adjusted downward during economic downturns. Additionally, profit sharing or ESOPs may also result in a stronger sense of ownership and commitment to the organization among the employees (Gomez-Mejia et al., 2011).

However, there are disadvantages to such corporate-wide plans as well. The connection between an individual's performance, goal achievement and the firm performance is small, and may be difficult to measure (Lazear & Gibbs, 2009). This limits a corporate-wide plan's ability to motivate and affect behavior to increase performance, as the influence of each individual on the overall target is likely to be small (Lazear & Gibbs, 2009). Because of this, corporate wide plans are best used together with other incentives or pay-for-performance plans to motivate employees. Such a combination can contribute to greater commitment to the firm by creating common goals and a sense of partnership across the hierarchical levels of the organization (Gomez-Mejia et al., 2011).

2.3.4 Summary on bonus and financial incentives

Despite its prevalence, and the number of various designs, Hope and Player (2012) argue that it is hard to find any evidence that financial incentives motivate. Other researchers share the same view, where William Mercer argues that incentive compensation is dysfunctional and "makes everybody unhappy" (Pfeffer, 1998). Similarly, Bruno Frey (1997) finds it puzzling that organizations even think people are largely motivated by external financial incentives. According to Rynes et al. (2004) however, there are discrepancies between what people say and what their behavior tells us when employees report what is motivating to them. Rynes et.al (2004) backs this argument by stating that people are likely to underreport the importance of pay on motivation and that pay indeed is a motivating factor. According to Pink (2009) however, and in line with Herzberg's two factor theory, money is seen as a hygienic factor. Pink (2009) agrees that organizations need to pay the employees fairly in order for pay not to be demotivating. He states that by paying employees a fair base salary, money should be taken out of the equation, and not be given variably as pay-incentives, as they do not drive performance.

2.4 Process theories of motivation and bonuses

The theoretical part of this research report has so far provided an understanding of what motivation is, and how there seems to be a discrepancy as to what businesses do and what earlier social scientists argue to have proved. In the following we revisit the four process theories we presented in chapter 2.1 and explain how these theories relate to bonuses. This will provide an understanding of how bonuses can, and under what circumstances they are likely to work as a good tool for motivating employees. The theories are to a large extent complementary and should thus be interpreted as a whole.

2.4.1 Expectancy theory and bonus

According to the expectancy theory of Vroom (1964), an employee's motivation for high performance is determined by *expectancy, instrumentality* and *valence*. When an organization designs a bonus system as a part of its performance management system, it is therefore important that the organization understands what is of importance to their employees and what motivates them (Målsnes, 2011). Consequently they must make their employees understand the level of effort needed for them to achieve a desired level of performance through clear communication and feedback. If the reward does not meet

the expectations of the employees, this can have a negative effect on motivation. We use the following three criteria in assessing a bonus scheme's motivation:

Valence: In line with the research of Vroom (1964), management control systems need to reward employees for the effort they put in the firm. Organizations therefore need deep insight to what their employees desire. A wrong perception of what is valued as rewards by the workforce may thus provide a bonus scheme with little or no motivational effect. If the reward is undesirable, the valence may even be negative.

Expectancy: The expectancy-criterion relates to the link between effort and performance (Vroom, 1964). In short, this means that the bonus scheme needs to be based on factors that the employees are able to affect and control. The bonus also needs to be tied to achievable goals which will increase an employee's self-efficacy. These factors underline the importance of the bonus system being clearly communicated. That way the employees are better equipped to see the link between individual effort and the targets that trigger the rewards.

Instrumentality: In order to ensure a high instrumentality, the employees must be able to expect that a given level of performance will lead to a given level of rewards. Clearly defined targets and goals will therefore be motivating by providing a clear picture of what is needed to reach those targets. If the targets are met and the employees for some reason do not get the expected reward, it is likely to have a negative impact on work motivation.

2.4.2 Goal setting theory and bonuses

When combining Doran's (1981) SMART-principles and Locke and Latham's (1990, 2006) key mechanisms between goals and performance, there are four classifications that are considered important when setting goals to motivate employees:

Specific and clear: First of all, the goals need to be specific and clear. This means that goals are well-defined, measureable and unambiguous (Whetten & Cameron, 2002). The employees must be able to understand the goals and understand what the organization expects from them in order to reach the goals. The specific goals also need to be clearly communicated in order for the employees to understand what is expected from them.

Having a transparent bonus system, where information is easily available, eases the communication of the goals. If the goals are unspecific and vague, it is difficult for any employee to understand what is expected from him or her, and there might be misunderstandings about what behaviors that are rewarded (Locke & Latham, 2006). At the same time, the goals should not be too specific as they could narrow the focus too much, and be perceived as a straitjacket that discourages creativity and empowerment.

Challenging and complex, yet achievable: The goals must challenge the employee, and give them something to aim for. The goal setting theory argues that the higher the goal, the better the expected performance (Locke, 1968). However, this must be applied with caution, as setting the bar too high might make the employees feel that it is too long of a stretch. Having too challenging and complex tasks may simply be overwhelming. This can create demotivation or frustration which will inhibit employees from successfully accomplishing their goals (Whetten & Cameron, 2002). In order for the goal to be achievable, the employee must therefore be given sufficient time and resources to meet it. Additionally, if an employee does achieve his or her goals one year, organizations need to be cautious of automatically raising the bar and assume that the employee will do even better the following year. This may in fact create what is named the ratcheting effect which makes the employees feel punished for good behavior instead of rewarded.

Committing and relevant: Understanding and agreeing upon goals may lead to greater commitment among the employees (Locke & Latham, 2006). By being a part of the goal setting process, the goals are also likely to feel more relevant to the employees. If the goals are not relevant, they might be perceived as too difficult, as the employees feel that they do not have the required knowledge to achieve it. This also implies that the goals are consistent to the goals of the company. The more relevant and harder a goal is, the more commitment and effort is expected from the employee to reach the target.

Feedback: A good and effective goal also includes the process of feedback. Having measurable goals is likely to help firms to provide better feedback to their employees. Feedback also provides an opportunity to clarify anything that might be unclear about the goals, adjust them, as well as giving the employee recognition and encouragement for his work along the way.

2.4.3 Equity theory and bonuses

According to Adams (1963), the equity theory on motivation relates to an employee's perception of equity, fairness and justice. An employee perceives a bonus system to be fair by comparing own work effort (input) and bonus (outcome) with peers both within and external to the company. There are some moderating factors that are taking into account when employees evaluate fairness however, which often involves moderations based on gender, base salary, education and experience level.

For an organization it may be easier to control what is deemed unfair to the employees by using individual bonuses instead of larger group- or corporation-wide bonuses. Group bonuses may for instance be based on the overall achievement of several smaller departments or divisions. If one department within a company delivers poor results compared to another department within the same bonus scheme, this may decrease motivation among employees in the department that performed well, as they may feel they deserved a higher bonus. Similarly, this reasoning can also be applied to individuals within a group. The more independent the divisions or the employees are in terms of tasks and results, the more likely it is that the collective bonus is perceived unfair. With highly interdependent tasks, collective bonus schemes may also be perceived as fair.

Finally, the bonus system may be perceived as unfair if it is based on criteria that the employee cannot control. This may lead to demotivation and in the extreme case foster improper or dysfunctional focus and behavior among employees (Langeland, 1999). For instance, if the bonus is affected by external factors like input prices or larger economic trends, this can deemed unfair by the employees, as they have little possibility to affect or influence these factors. When basing bonuses on benchmarks, the organization needs to use comparable factors that are perceived fair and just by the employees. External benchmarks where benchmarking towards competitors or internal benchmarks where organizations compare similar processes within their own organization can be perceived as fair (Bogsnes, 2009).

2.4.4 Self-determination theory and bonuses

In line with Herzberg (1966), who defined money as a hygienic, extrinsic motivator, the self-determination theory focuses on intrinsic motivation. According to the self-determination theory an individual's self-determination, and thus also motivation, is

decided by the need for autonomy, competence and relatedness (Deci, 1975). An organization's management control system, including its bonus systems, must therefore support and accommodate these needs. In bonus systems, the use of financial incentives may undermine an employee's self-determination. The design of the bonus scheme is thus important to consider in avoiding any damage from reduced intrinsic motivation.

Autonomy: Autonomy refers to an employee's freedom of choice, and organizations need to promote autonomy through their management control system. By using budgets as measurement criteria in the bonus structure, employees are likely to feel controlled, as the fixed target of staying within budget in order to receive a bonus limits an employee's autonomy (Pink, 2009). By strongly focusing on and communicating bonuses, extrinsic motivators may negatively impact the employee's perceived autonomy. A way for the organization to accommodate for autonomy through bonuses is to adopt corporate wide profit sharing schemes that avoid rewarding individual performance.

Competence: As rewards may be perceived controlling and inhibiting an employee's intrinsic motivation, a strong focus on rewards may discourage the utilization of the workforce's abilities and competence. By providing the employee with constructive feedback, recognition and positive reinforcements, the firm can contribute to the employee feeling valued and believing in their own competence. In turn, this will enhance the employee's intrinsic motivation (Deci, 1975).

Relatedness: In order to get the employees to feel an increased relatedness to the organization, external benchmarking may be an effective tool as basis for evaluating performance in group-bonuses (Bogsnes, 2009). Internal benchmarking, where individuals are compared to each other may also lead to increased relatedness to the firm. Yet, organizations must be aware that a too strong competitive culture might have the opposite effect and reduce an employee's relatedness to the firm (Målsnes, 2011).

Using empowerment in structuring the organization may facilitate increased levels of trust and relatedness. Consequently the reward structure should support empowerment. One way of empowering employees is by letting them take part in the success of the company through profit-sharing schemes or stock ownership (Kinlaw, 1995). Also, the decisions about rewards for either individuals or teams must be made by people that have the competence and the employee's trust to do so (Kinlaw, 1995).

2.5 Beyond Budgeting

The theoretical chapters have so far established an understanding of what motivation is and how management control systems are used to motivate employees. We have also established an understanding that there is a separation in the views of how financial incentives work. The following subchapter explains the Beyond Budgeting framework and explores why it is so critical of individual bonuses and financial incentives.

2.5.1 What is Beyond Budgeting?

The front-runners of the Beyond Budgeting movement, Jeremy Hope and Robin Fraser (2003) define Beyond Budgeting as follows:

> *"Beyond Budgeting is a set of guiding principles that, if followed, will enable an organization to manage its performance and decentralize its decision-making process without the need for traditional budgets."* (2003, p. 212).

As this definition implies, Beyond Budgeting is not just an idea that bashes budgeting for being the work of the devil. It is rather an idea that is built on improving the management control processes, where abandoning the budgeting process is a triggering factor (BBRT, 2013). The Beyond Budgeting theories argue that by abandoning the process of budgeting, an organization will make its first step in changing how it could be managed to the better. Rather than being a set of tools designed as a whole new management control system, Beyond Budgeting is a mind-set of how to manage organizations. Consequently, it is more than just an abandonment of budgets as a formal control mechanism, and touches upon all the three different aspects of the expanded management control model of Samuelson. This becomes evident through the twelve leadership and process principles that Beyond Budgeting is based upon:

The 6 Leadership Principles

Customers.

Focus everyone on improving customer outcomes, *not on hierarchical relationships*.

Organization.

Organize as a network of lean, accountable teams, *not around centralized functions*.

Responsibility.

Enable everyone to act and think like a leader, *not merely follow the plan*.

Autonomy.

Give teams the freedom and capability to act; *do not micromanage them.*

Values.

Govern through a few clear values, goals and boundaries, *not detailed rules and budgets.*

Transparency.

Promote open information for self-management; *do not restrict it hierarchically*.

Figure 3: The leadership principles of Beyond Budgeting (Bogsnes, 2009)

The 6 Process principles

Goals.

Set relative goals for continuous improvement; *not fixed performance contracts.*

Rewards.

Reward shared success based on relative performance, *not on meeting fixed targets.*

Planning.

Make planning a continuous and inclusive progress, *not a top-down annual event*.

Controls.

Base controls on relative indicators and trends, *not on variances against plan*.

Resources.

Make resources available as needed, *not through annual budget allocations.*

Coordination.

Coordinate interactions dynamically, *not through annual planning cycles*.

Figure 4: The process principles of Beyond Budgeting (Bogsnes, 2009)

These twelve principles compose what Hope and Fraser define as «The Twin Peaks of Beyond Budgeting» (Hope & Fraser, 2003). By applying all the process principles, the theory implies that the organization will start climbing the first peak, and ultimately become what Hope and Fraser (2003) describe as an adaptive organization. Reaching this peak has several positive impacts. This includes cost savings, faster response and retrieving more value from finance people, enabling them to support front-line managers with operational decision making instead of just «counting beans». As Bjarte

Bogsnes, chairman of the Beyond Budgeting Round Table, puts it in his book ‹‹Implementing Beyond Budgeting: Unlocking the Performance Potential››:

> *"Abolishing budgets [in Borealis] turned out to be an even more positive experience for the finance function than we had expected. (…) we also enjoyed less number crunching and much more interesting work"* (2009, s. 91).

In order to make the results sustainable, and thus achieve a significant competitive advantage, Hope and Fraser claim the firm must also climb the second peak of Beyond Budgeting, as seen in figure 5 on the next page. This is only possible by applying the six leadership principles. By empowering front-line managers with the possibilities of making swift and effective decisions, a firm will achieve even higher profits, more motivated employees and a higher degree of innovation (Hope & Fraser, 2003).

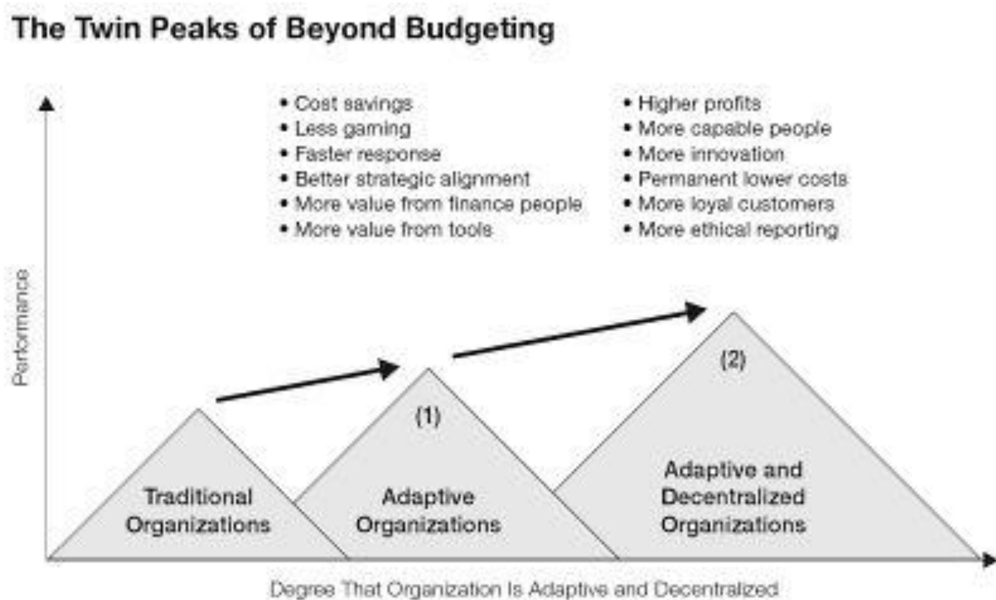


Figure 5: The Twin Peaks of Beyond Budgeting by Hope and Fraser (2003)

2.5.2 The Beyond Budgeting Round Table

With a view of budgeting as a flawed process, and a want for building an alternative management model, the Beyond Budgeting Round Table (BBRT) was set up in the United Kingdom in late 1997 in collaboration with CAM-I (Consortium of Advanced Management, International), an international research consortium (Hope & Fraser, 2003). The BBRT was established as a response to an increased dissatisfaction with the budgets as a traditional management tool, and being perceived as a time consuming and frustrating process.

The BBRT is an independent, international research- and shared learning network of member organizations that all have an interest in transforming their management models to enable sustained and superior performance (BBRT, 2013). The BBRT's mission is seen as "transforming management models to enable sustained high performance in turbulent conditions" (BBRT, 2013). Today, there are more than 100 companies, funding and contributing to the research by sharing their experiences (Bogsnes, 2009). The companies cover a wide variety of industries, large and small, and come from all over the world. The BBRT functions as a meeting place for the member companies, where they meet to share experiences and learn from each other through case studies, presentations, and discussions (Bogsnes, 2009).

2.5.3 Rewards and incentives in Beyond Budgeting

Principle number eight of the 12 principles of Beyond Budgeting states the following:

> *"Reward shared success based on relative performance, not on meeting fixed targets." (Bogsnes, 2009).*

According to two of the leading members of the BBRT, Jeremy Hope and Steve Player (2012), incentive compensation is almost without exception dysfunctional to some degree or another. Based from the views of behavioral scientists like McGregor (1959), Herzberg (1966), and Deci and Ryan (1985) among others, the Beyond Budgeting-framework believes that motivation is something intrinsic to people, and criticizes the use of bonuses and financial incentives as a motivational tool. The criticism mainly relates to basing bonuses on individual performance, but less so of those related to team performance (Hope & Player, 2012). Building from this, this chapter will examine how bonuses are viewed in a Beyond Budgeting context.

The criticism of individual bonuses

The Beyond Budgeting philosophies and those who developed it firmly believe that bonuses are best based on group effort (Hope and Fraser, 2003). Bogsnes (2009) states how he has lost his belief in individual bonus systems, and argues that they do more harm than good. In accordance with Pink (2009), Bogsnes (2009) argue that individual bonuses may have a positive motivational effect on work that is more routine and transaction-oriented, where the work itself is not so motivating and the results are easily measured. But in today's highly complex and interlinked business society where a

lot of jobs involve a high level of creativity, individual bonuses are not a good motivational tool (Bogsnes, 2009). Bogsnes (2009) further argues that since an employees' performance is highly dependent on how his co-workers perform, there are always co-workers that will contribute to another individual's success (Bogsnes, 2009). In line with this Simons (1995) believes it is impossible to separate the marginal contributions of individuals from each other. Also, by offering an individual bonus, the message the employer sends is that they do not believe that the employee is sufficiently motivated from the job itself, and that he or she needs to be motivated by a financial incentive (Bogsnes, 2009). An individual bonus may therefore undermine teamwork and organizational performance, and encourages short-term focus (Pfeffer, 1998).

Reward group performance

A better way of rewarding good performance is therefore to reward group performance. Bogsnes (2009) argues that since the majority of businesses recruiting nowadays already list teamwork as an important skill needed to qualify for a job, group bonuses are a better reward mechanism. Also, with more and more businesses acknowledging teamwork as an important part of their core business, there are few reasons to why organizations should base their bonuses on individual effort (Bogsnes, 2009).

However, by turning the bonus system away from individual performance, the risk of a free-rider problem may increase. According to Bogsnes (2009) and Hope and Fraser (2003), evidence suggests that this problem is highly exaggerated and that it can be easily handled by adding subjective evaluations. One way of doing so is by appointing a team leader who ensures that individual performance appraisals are done within the team, leaving those who have contributed little or nothing very exposed (Hope & Player, 2012). In a team-based organization driven by peer pressure, the free-riders are likely to become obvious to others. If they do not increase their contribution, they are then likely to be replaced by people that are more willing to commit themselves to the organization and its performance challenges (Hope & Fraser, 2003).

Base group bonuses on relative performance and share success collectively

In line with the abandonment of budgeting as a management control tool, Hope and Fraser (2003) argue that rewards should be based on relative performance contracts (Hope & Fraser, 2003). They argue that fixed targets will lead to a mentality of "if you

met your target, you have done your job", which can contribute to promoting lazy thinking. Relative performance contracts will instead lead to a focus on continuous improvement. These can for instance be based on external benchmarking against competitors or internal benchmarks where organizations compare similar processes within their own organization (Bogsnes, 2009). According to Hope and Fraser (2003) there are three developed ways of rewarding based on relative performance contracts:

Base rewards on the relative success of operating teams:

The most common approach is to agree on a relative improvement contract that involves a whole team, and not the individual. This includes meeting a set of pre-set performance benchmarks. The performance is then, in hindsight, evaluated by a peer group. Even though the employees know what key performance indicators (KPIs) they are measured on, they do not know until the end of the year how they have performed. In this setting, it is the uncertainty that drives success, and it will focus business managers on continuously maximizing profits, instead of gaming with numbers, as there are no fixed targets leading to irrational behavior (Hope & Fraser, 2003).

Base rewards on multi-level performance:

Basing rewards on performance in multiple levels in the organization is an option that is used at companies such as Rhodia and Borealis. In this system, an individual's bonus payout is calculated from several levels of performance in the company. The bonus can for instance be calculated by weighting the performance for each manager, for his or her business unit as well as for the company as a whole. This has led to a reduction in gaming behavior at Rhodia and Borealis, and these organizations firmly believe they recognize and reward the best performers (Bogsnes, 2009).

Base rewards on the relative success of the group:

The third option on how to base rewards from Hope and Fraser's (2003) research is much inspired by the reward system used by the Swedish bank Handelsbanken. After abandoning individual bonuses, Handelsbanken adopted a companywide profit-sharing system where they allocate a part of its profits to their employees. In order for the 'bonus' to come into effect, the bank needs to have a higher return on shareholders' equity after taxes than the average of its competitors (Hope & Fraser, 2003). Through

abandoning all individual bonuses, the system is in no way intended to function as an incentive for individual employees to pursue any financial targets. It is rather seen as a reward for the company's overall success, which is shared collectively and equally (Hope & Fraser, 2003). A profit-sharing scheme is about recognizing employees' contributions to the organizations' success, and through sharing the fruits of collective success; the organization can provide their employees with a stake in this success. A profit-sharing scheme will also avoid the problem of the rewards becoming entitlements. The disaffection and demoralization, defined as the entitlement creep by Hope and Player (2012) that may arise if it the bonus is not paid out one year, is therefore minimized.

2.6 Summarizing the theoretical perspectives

The theoretical perspectives presented in this chapter has showed that financial incentive and bonuses have been, and still are, common tools for organizations to try to influence employee behavior and motivation. This prevalence of bonuses is engrained in a belief that extrinsic rewards, like bonuses, may have a positive impact on work motivation. This view has been challenged, mainly through the needs theories of behavioral scientists and psychologists like Maslow, McClelland, Herzberg and McGregor, but also in more recent times through the Beyond Budgeting philosophies. The Beyond Budgeting movement has gathered pace as organizations look to move away from traditional management control to better adapt to a more unpredictable business environment. However, organizations still seem reluctant to let go of the more traditional bonus systems, and this theoretical chapter has presented arguments that there exists a mismatch of what science knows, and what businesses do. According to the Beyond Budgeting philosophies and other critics of financial incentives, individual bonuses are not a good tool to motivate employees, and the negative effects of having them outweigh the potential positive effects. However, the critics acknowledge that individual bonuses may work in a job setting where the tasks are straightforward, with little creativity and the output is easy to measure. The Beyond Budgeting principles (Hope and Player, 2011; Bogsnes, 2009) argue that a better way to design bonuses is to collectively reward employees through team bonuses. Group bonuses have an indirect motivational effect, especially if the reward is given in hindsight and in a fair way (Bogsnes, 2009).

2.7 Analytical framework

Based on the theories presented in this chapter we have developed an analytical framework presented in figure 6. This framework is used as a base for our research and analysis in order to answer the problem statement of the study.

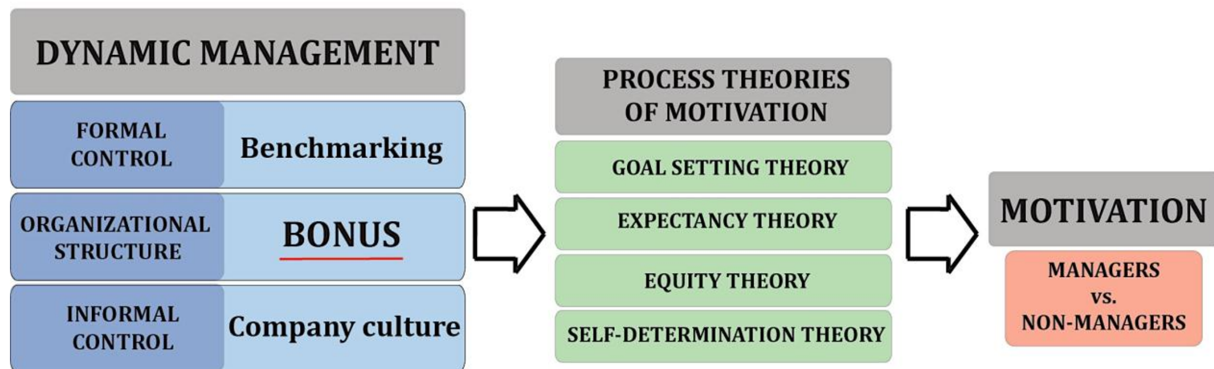


Figure 6: Analytical Framework

Management control systems are highly contextual (Malmi & Brown, 2008). This creates a need to assess bonus systems in relation to other parts of an organization's management control system to get a holistic picture of what influences the employees work motivation in a given context. This includes analyzing the bonus systems' fit with all the three instruments of control. From this understanding we further assess how a bonus system impacts employees' motivation by applying the four process theories. As the last part of our analytical framework, we will test if, and to what extent, there exists differences in how motivation from bonuses affects managers and non-managers.

We note that it should be in an organization's interest to motivate employees through the management control system, as productivity is highly dependent on a motivated and engaged workforce. As the theoretical perspectives state, bonuses are a widely used tool to try to impact employee behavior and motivation. Rooted in Herzberg's two-factor theory and McGregor's Theory Y, the Beyond Budgeting philosophies dismisses the potential positive motivational impact of financial incentives. On that behalf, we seek to understand why an organization adopting a dynamic management model based on the Beyond Budgeting principles has chosen to adopt various bonus schemes to motivate their employees. Can the reason be that bonuses in fact are something that drives behavior, and is an important factor of increased work motivation and high performance?

Chapter 3: Research methodology

This chapter explains the methodology used in this research. This includes explanations of chosen research design, research approach and the techniques for collecting and analyzing data. It also depicts the validity, reliability and ethics of the research.

3.1 Research design

The research design is the general plan of how the report looks to answer the problem statement and the defined research questions (Saunders et al., 2009). It contains the objectives of the study and clarifies the sources used for data collection. As an integral part of the planning process, the design of the research takes place before any actual research is conducted. Deciding on a research design is important ensure that the research questions are answered in a credible and crystal-clear way (Saunders et al., 2009). It is therefore essential to bear in mind the problem statement when deciding on research design. As written in section 1.2, the problem statement of this study is:

‹‹(How) do bonuses impact motivation in a dynamic management model?››

In the following two sections, this report will detail the research design of this thesis. In line with the findings of Saunders et al. (2009), we will also seek to justify all decisions leading to the research design based on the research question, objectives and the general philosophy of the research project.

3.1.1 Purpose of the research

Firstly, this sub-chapter will present the aim of this study. According to Saunders et al. (2009), the research purpose can be split into three different classifications. These are exploratory, descriptive and explanatory studies. Categorizing the purpose of the study is important, as the different classifications may entail different choices of research design (Saunders et al, 2009).

The purpose of an exploratory study is to find out *"what is happening; to seek new insights, ask questions and to assess different phenomena in a new light"* (Robson, 2002:59, as cited in Saunders et al., 2009). An exploratory study is useful to clarify the understanding of a problem. This is achieved through exploratory research such as reviewing literature, interviewing experts in the subject or by conducting focus group

interviews (Saunders et al., 2009). New insights and ideas originating from the research may also require the researcher(s) to change the direction of the project along the way.

In comparison, descriptive research looks *"to portray an accurate profile of persons, events or situations"* (Robson, 2002:59, as cited in Saunders et al., 2009). Descriptive research may be combined with either exploratory or explanatory studies. An explanatory study on the other hand looks to establish casual relationships between variables. The purpose of explanatory research is to study a situation or a problem in order to explain the relationship between the variables (Saunders et al., 2009). However, Ryan et al. (2002) note that the distinction between exploratory and explanatory studies at times can be quite ambiguous.

This research study is explanatory in the way that it seeks to understand the relationships between an implemented bonus system and work motivation. More importantly, it aims to find out if the bonus system at place contributes to increase work motivation. However, the study is also exploratory, as it seeks to explore, assess and seek new insights to how bonus systems impact motivation in a Beyond Budgeting context. In this sense, the bonus system is the phenomena researched. As a result, this study is best described as a combination of explanatory and exploratory research.

Another important distinction for the choice of research design is through the research approach. Based on how explicit the theory is applied in the research stages, the approach can be classified as either inductive, deductive or both (Saunders et al., 2009).

An inductive research approach is defined as *"the development of theory as a result of the observation of empirical data"* (Saunders et al, 2009 p. 593). Inductive research normally utilizes qualitative data to provide a deep understanding of the research context. It also provides the researchers with a flexible structure, as it allows them to adapt the emphasis of the study as the research progresses. In addition, inductive research is usually less concerned with the need to generalize answers (Saunders et al., 2009). In contrast, deductive research notes the *"testing of a theoretical proposition by the employment of a research strategy specifically designed for the purpose of its testing"* (Saunders et al, 2009, p 590). This approach is far more structured and requires the

researchers to carefully select large enough sample sizes in order to answer pre-defined hypotheses and make generalized conclusions. Deductive research is normally based on quantitative data (Saunders et al., 2009).

The research approach for this study can be split into three different stages. These are illustrated in figure 7:

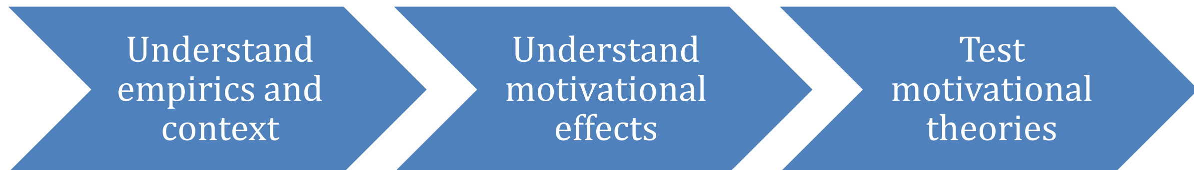


Figure 7: Stages of research

The initial research stage was conducted to get an overview of the empirics of the research object. It also served to gain a better understanding of the management control systems and bonus system in place within the research object. The second research stage served to assess the bonus system and the motivational effects in-depth. This stage sought to address general attitudes, opinions, strengths and potential weaknesses with the assessed bonus system. The third stage sought to test the motivational effects of the bonus system on a larger population in the case object, in order to generalize data. As the information harvested from the first and second research phase served to narrow down the focus for the study and to adjust the theoretical models to better address the issues in place, the research approach can be described as being inductive. However, with the testing of theory in stage three to identify the motivational impact of the bonus system within the research object, the research also applied a deductive approach in order to generalize data. Consequently, we can say that this study makes use of both an inductive and a deductive research approach.

3.1.2 Research strategy

The choice of research strategy is guided by the research questions and objectives, the researchers' existing knowledge, the amount of time and resources available, as well as the philosophical underpinnings (Saunders et al., 2009).

Choosing a case study

There are various possibilities to empirically investigate the motivational effect of a bonus system in a dynamic management model. According to Saunders et al. (2009), these are experiments, surveys, case studies, action research, ethnography and archival research. Each of these strategies is characterized by distinct advantages and disadvantages.

In order to answer how bonus may affect work motivation in a dynamic management model or a Beyond Budgeting setting, this report applied a case study strategy. A case study is described in Robson (2002:78, as cited in Saunders et al., 2009) as *"a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence."* Here, the bonus system serves as the particular contemporary phenomenon with a Beyond Budgeting-influenced management control system, which serves as the real life context. As both management control systems and bonus structures are firm-specific, typically varying to social structures and day-to-day operations, a case study seemed fitting (Robson, 2002). This application is also in line with the findings of Yin (2003), who notes that case studies are especially suited for those research questions that asks how and why, and that are based on existing theories. Case studies are also commonly used in exploratory or explanatory research (Johannesen et al., 2005).

Choosing a single, holistic case

According to Yin (2003), there are four different types of case study strategies applicable through two different dimensions. The first dimension is defined by the number of case studies conducted, being either single or multiple. According to Yin (2003), a single-case study is sensible when the research at hand studies a phenomenon few have considered before. As mentioned in section 1.3, there exists little research on the combination of the motivational effects of bonuses and Beyond Budgeting. As the management control systems and incentive schemes are likely to differ greatly between firms, a single-case study in one social context was deemed as the most appropriate strategy for achieving the research objective of this thesis. Limited time and resources also favored adopting a single case study approach.

The second dimension of the case study strategy according to Yin (2003) differentiates

between being embedded or holistic. Seeking to understand the motivational effect of an implemented bonus system in a Beyond Budgeting setting, which is a management model affecting an entire organization, the study is also necessarily holistic. In order to minimize the risk of presenting inaccurate data, this entailed targeting a large population of employees within the research object, ranging from different levels of the hierarchy and within all involved departments.

"Bank & Financial Corporation" as a case study objective

The purpose of this thesis is to understand the link between bonus systems and work motivation in a Beyond Budgeting setting. Having decided on applying a holistic single case-study as the research strategy, the research required a research object that had: 1) a bonus system 2) a well-developed management control systems largely influenced by the Beyond Budgeting philosophies and 3) a large number of employees.

With numerous regulations, constant changes in company policies and on-going debates on bonuses within the financial industry; it was also desirable to conduct the research within a financial institution, to increase the relevance of the study.

"Bank & Financial Corporation" was an organization that fit well into all the defined criteria. The company adopted a new and more dynamic management control system in 2009, largely based on the principles of Beyond Budgeting. They operate within the financial sector and pay bonuses to their employees through group-wide and company-wide schemes. There are also more than 1000 employees within the company, making it sufficiently large for research purposes ("Bank & Financial Corporation", 2012).

Combining the case study with a survey

As Saunders et al. note (2009), the different research strategies should not be viewed as mutually exclusive. Having decided on a deductive approach for the third research phase and a holistic case-study strategy, this report accompanies the case study with a survey, conducted amongst employees within "Bank & Financial Corporation". The purpose of the survey was to identify general impacts of bonus systems on work motivation within "Bank & Financial Corporation". For that reason, the survey was built from the theory and information gathered from the previous research stages. Surveys are typically used to answer who, what, where, how much and how many-questions. Survey results are often obtained by using standardized questionnaires that are easy to sample, explain

and compare. This approached allowed for collection of large amounts of data in an efficient and economical manner.

3.2 Collecting the data

Saunders et al. (2009) distinguishes between two different types of data collection. If the research generates and makes use of numerical data, it can be described as quantitative. If one is to make use of non-numerical data, such as visuals and narratives, then it is called qualitative research. Bloomberg et al. (2008) note that qualitative research is the most appropriate to promote an advanced understanding of social settings or actions from the viewpoints of the researchers. It emphasizes exploratory and descriptive research, and it is commonly applied with an inductive approach. This responded well with the two first research stages in this study, both being exploratory and inductive.

With a need to understand the management control systems of "Bank & Financial Corporation", their bonus systems, and how this may affect work motivation, we decided to apply a qualitative approach to collecting data. For the final stage, which has been defined as explanatory and deductive, we depended on harvesting data from a large population in order to generalize answers. This required standardization, tending towards the use of quantitative data. Consequently, we utilized what Saunders et al. (2009) refer to as a sequentially mixed method of research. This combination of methods helps in leveling out the strengths and weaknesses of the various methods used (Smith, 2003) and strengthening the confidence in conclusions (Saunders, 2009).

In order to ensure validity and reliability, it is important to make use of multiple sources of evidence (Yin, 2003). An important distinction in source of evidence is made between primary and secondary data. Primary data relates to data gathered by the researcher for that specific purpose, while secondary data are data that already exists (Saunders, 2009). For a case study, the most common sources include interviews, documents, archival records, participant observation, direct observation and physical artifacts (Yin, 2003). This study made use of interviews and surveys as sources of primary data to increase the understanding of how bonuses affect work motivation in "Bank & Financial Corporation". Documentary information, annual reports and archival records were used as secondary data to gain knowledge of the systems and structures at hand and the

empirics of the organization. Most of the documents and annual reports were gathered from the website of "Bank & Financial Corporation", although some information was also gathered from independent sources such as prior research studies and master theses on the company. Some documents on the bonus system and other information about the company or its systems were received through e-mail correspondence with the gatekeeper in "Bank & Financial Corporation".

According to Yin (2003), interviews serve as one of the most important sources of information in case studies. These may be structured, semi-structured or unstructured (Saunders et al., 2009) depending on the extent of guidance implied by the researchers. Structured interviews use predetermined questionnaires and are often referred to as interviewer-administered interviews. This type of interview allows for little social interaction and typically generates pre-coded answers. Semi-structured interviews on the other hand are non-standardized. Here, the interviewer prepares a list of topics he or she wants to cover, setting the tone for a dialogue. These topics may vary from interview to interview (Saunders et al., 2009). Lastly, there are unstructured interviews. These are particularly suited for exploratory studies when wanting to "*find out what is happening and seek new insights*" (Robson, 2002:59, as cited in Saunders et al., 2009). Unstructured or in-depth interviews have no predetermined list of questions, but the interviewer needs to have an idea of what areas to explore. Here it is the interviewee's perceptions that guide the interview.

In order to get an initial feel for the context and the empirics of "Bank & Financial Corporation", including how their management control systems are influenced by Beyond Budgeting-theories and what their bonus structure looks like, an unstructured interview was set up as part of the first research phase. This informal, in-depth interview was conducted with the CFO, by one of the researchers at the company's headquarters. Meeting with the CFO of the company made sure that the respondent had the required knowledge of both the management control systems and bonus structures in place in "Bank & Financial Corporation". Having established contact with the CFO, this also facilitated formal consent and physical access to other divisions of the company. It also helped provide a holistic overview and understanding of the firm, as well as adding credibility during interviews with other employees in "Bank & Financial Corporation".

For the second part of the research stage, with the main purpose of better understanding the underlying motivational effects of the bonus system in a Beyond Budgeting setting, the study uses semi-structured interviews. As Robson (2002) notes, this research stage cannot be clearly defined as either exploratory or explanatory. On one hand, it seeks new insights to the use of bonus in a Beyond Budgeting setting. This way the research phase harvests general attitudes and opinions on the use of bonuses as part of an exploratory study. On the other hand, and perhaps most importantly, it also seeks to relate the implemented bonus systems in "Bank & Financial Corporation" to work motivation as an explanatory study. According to Saunders et al. (2009), semi-structured interviews are used for both these types of research, although it is more frequent in explanatory studies. For selecting respondents for the semi-structured interviews, we employed a non-probability sampling approach. For this research stage, we wanted to contact higher-level managers from various divisions and parts of the organization, as these were likely to be well informed about the bonus system. Interviewing managers from different divisions was also important in order to achieve diversity in personal backgrounds and perspectives.

Six different higher-level managers were interviewed in this research stage. The interviews were conducted one-on-one and face-to-face in "Bank & Financial Corporation's" headquarters and lasted between 40 and 70 minutes. All the qualitative interviews in research stage one and two were conducted in the mother tongue of both the respondents and the researchers. This was done to ensure better understanding and to not limit the respondents with any potential problems or barriers resulting from answering in a foreign language. Appendix II shows an example of the interview guideline provided during the interviews. For this stage, some topics were emphasized differently depending on the personal background and functional area of the respondents. Interviews were documented with the use of notes and an audio recorder, with the consent of the respondents. The audio recorder helped to ensure that data was accurately documented and to facilitate for the use of direct quotations in the thesis. The characteristics of the respondents are summarized in table 1:

Table 1: Interview characteristics

Stage	Date	Type	Aim	Mode	Informant	Position
1	22.01.13	Informal & in-depth	Understand MCS and bonus system	Face-to-face	Gatekeeper	CFO
2	25.02.13 -26.02.13	Semi-structured qualitative interviews	Understand how bonus motivates in the case company.	Face-to-face	1-6	Corporate managers
3	09.05.13	Survey	Test motivational effect of a bonus	Online	Anonymous	All employees

Analysis of research stage 1 and 2

The interviews in research stage 1 and 2 were transcribed immediately after the second phase had ended, in line with standard practices as noted by Yin (2003). Data from the transcripts were later assessed closely by both researchers and mapped into different explanatory patterns and topics. This made the basis for categorization in line with the theoretical framework, as well as constituting a solid foundation for the deductive, survey approach undertaken in research stage 3.

Questionnaire

Although qualitative semi-structured interviews are appropriate in answering complex questions, they are typically not suited for generalizing data (Yin, 2003). In order to identify the motivational effects of the bonus system for the entire organization, we therefore complemented the research by using a questionnaire. Surveys have been deemed as an efficient strategy to understand opinions and attitudes among the respondents and to explain certain phenomena. For that reason, they are commonly used in identifying underlying causal relationships (Ghauri & Grønhaug, 2010)

Before creating a survey, it is vital to know its exact purpose. The questions and alternatives given should be as precise as possible and be grounded in the research questions (Johannesen et al., 2011) As Ghauri and Grønhaug (2010) note, the structure of the questions should be kept simple, consistent and unambiguous. The questionnaire

for this study built on the findings from research stage 1 and 2. It was further structured with pre-set alternatives given in a specific order as recommended by Saunders et al (2009). We used the online survey tool ‹‹Questback›› to design the questionnaire. As part of a holistic case study, the survey was distributed to 1037 employees within all different divisions of the firm. The questionnaires were self-administered and distributed online through work e-mails. This helped facilitate a large sample of respondents in a quick and cost-effective manner (Saunders et al., 2009). It also provided anonymity and flexibility as to when respondents could answer the form, without the need for the researchers to be physically present (Ghauri & Grønhaug, 2010). Self-administered online questionnaires also put little pressure on the respondents to give an immediate response. Another benefit of using these questionnaires is that the risk of human error in registering data is eliminated. Finally, results of closed questions are easy to compare (Gilham, 2000).

One drawback of using self-administered questionnaires is that the completion rate is often low. It may also be hard to motivate respondents to participate in the research. Answers may also be imprecise or largely affected by the design of the questions. It is also impossible to verify the validity of the answers and it is impracticable to amend misunderstandings once the questionnaire has been introduced. It is also necessary to create brief and relatively simple questions (Gilham, 2000). However, the swiftness, cost-effectiveness and possibility of reaching a large sample size when using an online questionnaire was deemed to outweigh the disadvantages for our research purpose.

Developing the questionnaire

Questions in a questionnaire can be either open or closed (Saunders et al. 2009). In open questions respondents have to fill in the responses themselves. For closed questions, they are handed pre-set alternatives. Closed questions are simpler and quicker to answer and require minimal writing effort by the respondent. They also facilitate easy comparison of answers. However, there is a risk that none of the answers suit the respondent's preferences (Saunders et al, 2009). Our questionnaire consisted of three parts, and can be viewed in its whole in Appendix III. The first part was purely descriptive and differentiated the respondents based on gender, division, years employed in the company, salary level, and leadership responsibility. These distinctions

enabled us to compare results between respondents (Ghauri & Grønhaug, 2010). Part one was composed by five list questions, where the gender (male/female) and leadership responsibility (yes/no) questions where dichotomous.

The second part of the questionnaire was set up to explain the potential relationship between the bonus system and work motivation. One common approach to extract this information is by the use of rating questions (Saunders et al., 2009), something we also employed for our research. One key success factor in facilitating a high completion rate for the questionnaire lies in its length (Ghauri & Grønhaug, 2010). In order to keep it short and not ask any redundant questions, we constructed 11 different statements about the bonus system linked with the theoretical framework and findings from the previous research stages. The respondent was here asked to rate each statement on a numeric rating scale from 1 to 7, where 1 meant that they fully disagreed and 7 meant that they fully agreed. 4 referred to neither agreeing nor disagreeing. A shortcoming in using mid-point alternatives is that they give the respondents the possibility to be on the fence about the statement at hand, even if they do have an opinion about it (Saunders et al, 2009). On the other hand, the mid-points also avoid forcing opinions from respondents that are truly indifferent, which may prove just as insightful. We also provided the respondents the option «I do not know» if they lacked the required knowledge to answer a statement. This also aimed to limit the use of the mid-point scale.

The questions were made as simple and clear as possible. The order was also carefully selected to avoid influencing following answers. Saunders et al (2009) note that rating questions should be both positive and negative to ensure that respondents carefully read each statement However, to minimize the time needed to understand and answer each statement and to attain a satisfactory response rate, we decided to make all questions one dimensional and positive. The trade-off resulted in a survey that took between three and four minutes to complete for all compulsory questions. We therefore deem the risk of the respondent to lose concentration throughout the survey to be low.

The third part of the survey was voluntary and provided three open-ended questions. These were designed in order to identify other potential weaknesses about the corporate-wide and company bonus system and to pick up on alternative views of the

complete bonus structure. These questions were analyzed in the same manner as the transcripts from the qualitative interviews. This was done to make a basis for categorization of answers in line with the theoretical framework.

All questions were written in the required working language at "Bank & Financial Corporation". We further assumed that all respondents knew what a bonus is. Since the understanding of the company bonus structure itself and its underlying parameters were identified as vital factors for the behavioral effects of a bonus scheme, we did not explain the company bonus structure in detail in the questionnaire.

Since it is not possible to amend a questionnaire after it has been launched, it can be wise to conduct a trial run (Saunders et al., 2009). The questionnaire was approved internally at "Bank & Financial Corporation". It was also properly tested on two fellow students in order to identify misspellings, see if they properly understood all the questions asked and to check if the order of questions was appropriate. The final version was further tested on one employee in "Bank & Financial Corporation" before it was distributed. The trial runs and the feedback from these were used to enhance the questionnaire and its face validity (Saunders et al., 2009).

3.3 Evaluating the chosen methodology

To establish the credibility of this study, it is necessary to evaluate the chosen research methods. In this regard, there are two dominating factors in evaluating the study: *reliability* and *validity*.

3.3.1 Reliability

Reliability refers to whether the data collection techniques and analysis yield consistent findings, if similar observations could be produced by other researchers, and if there is transparency in interpretations of the raw data (Saunders et al., 2009).

Robson (2002) presents four threats to reliability; 1) subject error, 2) subject bias, 3) observer error, and 4) observer bias. Subject error is apparent if the research is likely to generate different results at different times. The interviews for this study were voluntary for all participants involved. The interviews were further scheduled weeks in advance with a high degree of flexibility to find an appropriate time. Lastly, they were all

conducted within the headquarters of "Bank & Financial Corporation". This limited the interference with normal work duties to an absolute minimum. The subject error for this research should therefore be low. However, as "Bank & Financial Corporation" is a large enterprise constantly adapting to its business environment, there is bound to be a certain turnover of employees. In time, this may alter the values and attitudes within the company. The research gathered in this study will therefore only present a mere snapshot of what the situation is like in "Bank & Financial Corporation" today.

Subject bias refers to the risk that respondents may provide inaccurate responses to distort the results of the research instead of giving their heartfelt opinions (Robson, 2002). The subject bias may be reduced by ensuring anonymity (Saunders et al., 2009). In this study, all subjects were informed that participation was voluntary and answers were treated with full anonymity. The interviews were also conducted face to face in order to build trust and make the participants perfectly aware of their rights. However, since the CFO served as the gatekeeper of "Bank & Financial Corporation" in the initial stages of the research and helped facilitate the semi-structured interviews, the handpicked participants for this phase may have chosen to focus on particular issues and ignored others. We can therefore not exclude the possibility that there might be some subject bias in the interviews. For the online questionnaire, respondents could answer in private without being traced. This ensured a high level of anonymity. The questionnaire was also distributed through personal work e-mails. The subject bias for the questionnaire is therefore deemed as low. However, we cannot exclude the possibility that discussions between employees who had taken the survey and those who had not may have influenced some of the answers given.

Observer error relates to errors made by the researchers in gathering, interpreting or analyzing data (Robson, 2002). Observer error may be reduced by a high degree of structure and recording data (Saunders et al., 2009). To deal with this, all interviews were recorded and transcribed before the analysis. The interviews were also conducted physically face-to-face. This facilitated complementary observations such as facial and other non-verbal expressions to strengthen the interpretations of data. The six semi-structured interviews also followed the same interview structure, although some minor

topics were skipped for certain departments, as the link to these departments was not deemed as clear or relevant.

Finally, there is observer bias, relating to the researchers themselves and if they are accurately analyzing and presenting data (Saunders et al., 2009). To start off, none of the researchers have any affiliations with "Bank & Financial Corporation" outside of this study. This entailed an impartial approach towards the research object. Yet, our interpretations of the qualitative interviews are subjective by nature. This may have had an impact on the reliability of this study.

3.3.2 Validity

Validity refers to the generalizability of findings. It is the extent of which the research process and the results present a precise picture of what they are supposed to describe (Saunders et al., 2009). One typically distinguishes between internal and external validity.

Internal validity

Internal validity represents the applicability of research to the research object. In this study, the internal validity relates to whether the findings in motivational behavior, attitudes and opinions regarding the bonus system in "Bank & Financial Corporation" are applicable to the entity as a whole. As all six qualitative interviews were conducted for higher level-managerial positions, the knowledge of the use and implications of the bonus system within the company should be high. As the second round interviews all followed the same structure, several voices addressing the same issues would also increase the extent of internal validity in their answers. Yet, six interviews for more than 1000 employees cannot be claimed as representable for the organization as a whole. Important opinions from other employees may therefore have provided us with valuable information in respect to motivational effects and general opinions about the bonus system. This makes triangulation of answers perilous (King & Horrocks, 2010). Then again, triangulation does provide the research with extra flexibility and may provide valuable insight not otherwise recognized (Saunders et al., 2009). This approach has therefore been used with caution in order to not amplify opinions.

For the internal validity of the questionnaires, Foddy (1994, as cited by Saunders et al., 2009 p. 372) mentions four necessities: 1) Researchers must be clear about the data and designs of a question, 2) respondents must decode the questions as the researchers intended, 3) respondents must answer the questions, and 4) the researchers must decode the answers as the respondents intended. Consequently, the design and structure of the questionnaire have severe implications for the internal validity.

For our research, all questions were thoroughly assessed with respect to if they contributed to answer the research questions, if they were easy to understand and if they gave new insight. It is also common that questions about attitudes and opinions are less distinct than questions about specific actions (Grønmo, 2004). To compensate for this, we designed all questions as simple statements. This contributed to increasing the precision and the internal validity of the questionnaire. By using rating questions, the interpretation of results should be quite universal. The three open-ended questions on the final page of the questionnaire also gave the respondents the possibility to complement their opinions if important information was left out. The statements were also designed to be as neutral as possible, in order to not skew the answers in a positive or negative direction. Lastly, the validity may deteriorate if respondents do not answer the questionnaire seriously or avoid answering (Grønmo, 2004). As the survey was distributed internally and on behalf of "Bank & Financial Corporation", we assume that the respondents took it seriously. 671 responses of 1037 invited with between 201 and 259 personalized answers to the three voluntary and open-ended questions also indicate that the test was taken seriously. Lastly, the questionnaire was modified, tested and approved through three different trial runs on managers, employees and students. This also served to increase the internal validity.

External validity

External validity relates to whether the research results are generalizable or transferable to other research settings or organizations (Saunders et al., 2009). For this study, the external validity relates to whether the results presented are transferable to other organizations following the principles of Beyond Budgeting.

Qualitative research methods are normally badly suited for generalization of results (Yin, 2003), as they represent a small and unrepresentative number of cases (Saunders et al., 2009). We conducted six interviews among higher-level managers from different departments in "Bank & Financial Corporation" to attain a diverse set of opinions and attitudes about the bonus system applied. This ensured a representative sample for the higher-level managers of "Bank & Financial Corporation", as they were considered to be well educated on the implementation of team bonus in the firm. Yet, we cannot claim that these opinions are transferrable to other firms, as they are subject to both personal and firm values. Quantitative data are better suited for generalization, if the data is collected from a large and representative population (Saunders et al., 2009). The questionnaire was sent out to a total of 1037 employees in "Bank & Financial Corporation", regardless of position and hierarchical level. This was done, as all employees at "Bank & Financial Corporation" are part of the corporate-wide and company bonus schemes. 671 of the invited employees completed the survey. This gave a response rate of 65 percent. Respondents were given ten days to complete the questionnaire, where four of these days were weekends or national holidays. The respondents were also reminded to answer the survey on the two final days before expiration. This increased the response rate from 45 to 65 percent. However, as 366 employees did not answer the questionnaire, we cannot claim that the results of the research are perfectly balanced. This is particular if the employees who did not answer shared similar opinions (Johannesen et al., 2011).

With the purpose of relating team bonus to work motivation within a Beyond Budgeting context, this study has focused on one particular company that practices such a combination, namely "Bank & Financial Corporation". Being a single case study, we can therefore not claim external validity for the data of the research. That is not to say that the findings are irrelevant. The findings may indeed be useful in similar research settings, for instance for other financial firms pursuing the philosophies of Beyond Budgeting and/or practicing team bonuses. We also do not exclude the possibility that the findings may be valid for other firms.

3.4 Statistical tests

The questionnaire was designed and distributed with the online survey-tool Questback. We further used Microsoft Excel, SPSS and Questback to analyze and portray the data. For the 11 statements on the second page of the questionnaire, the resulting data can be defined as ordinal. These values cannot be measured numerically, but they can be placed in a specific order (Saunders et al., 2009). Each value is also mutually exclusive in terms of establishing the quality, extent or position of what is being questioned (Johannesen et al., 2011). For our purposes, these values represent to which extent the respondents agree with each statement on a scale from 1 to 7, were 1 being fully disagree and 7 fully agree. This is not to say that a respondent who answers 6 agrees twice as much as one who replies 3, or three times as much as one who responds 2. Such interpretations require interval data (Johannesen et al., 2011). Yet, one can still analyze ordinal data as if they are numerical interval data if one assumes that the values have similar gaps between them (Bloomberg et al., 2008).

Being interested in the central tendency of the responses, this study has utilized mode, median and mean. These are the three most used ways of measuring central tendencies in business research (Saunders et al., 2009). As each of them has its specific advantages and disadvantages, we decided to make use of all of them.

The mean is commonly known as the average of the population and includes all observations (Saunders et al., 2009). The drawback of using mean is that it is also influenced by extreme observations (Johannesen et al., 2011). *The median* represents the middle value of the population when data is placed in an ascending order. For this reason it is also known as the 50th percentile. The advantage of the median is that it is not as affected by extremes in the distribution as the mean. If data is evenly distributed, the median will be exactly halfway (Saunders et al., 2009). *The mode* represents the value that occurs most frequently. The mode is practical in interpreting descriptive data. It is also possible to have several modes within a population (Saunders et al., 2009). The raw data has further been adjusted for those who answered «I do not know». The calculations are therefore purely based on the values ranging from 1 to 7. The descriptions of central tendencies of data should also be accompanied with the dispersion of results around the central tendency (Saunders et al., 2009). This study

makes use of standard deviation to accomplish this. This is one of the most frequent dispersion measures (Saunders et al., 2009). A low standard deviation implies that there is little dispersion of results around the mean. In contrast, a higher standard deviation would imply that answers are spread out over a larger range (Saunders et al., 2009).

To check if managers and non-managers were motivated differently by bonuses, the results were further analyzed by an independent group's t-test. Here, the null hypothesis stated that the means of two populations were similar while the alternative hypothesis stated dissimilarity. The null hypothesis would be disproved for p-values lower than 0.05. In such cases we can conclude with a statistical significant difference between managers and non-managers (Saunders et al., 2009). Significant differences on a 5 percent level are noted by (*).

Adjusting the raw data

Data checking is necessary to avoid generating wrong results from which false conclusions are drawn (Saunders et al., 2009). This includes checking for illogical relationships. Two respondents had rated all 11 given statements with a 7. This is conflicting, given that one statement suggests moderating the current company bonus structure more towards departmental performance. These respondents had also left comments for the voluntary open-ended questions, which were largely contradictory to the answers they had given in the rating scales. These two responses were therefore removed from the data material. One respondent also left a comment about just having been employed in "Bank & Financial Corporation" and not yet having grasped full insight of the organization. This respondent was also removed from the data material. The analysis was therefore conducted on 668 respondents.

3.5 Research ethics

Research ethics is defined as "*the appropriateness of the researcher's behavior in relation to the rights of those who become the subject of the research or are affected by it*" (Saunders et al., 2009, p. 600).

Easterby-Smith (2008, p. 134) summarize key principles in research ethics:

1. *Ensure that no harm comes to the participants*
2. *Respect the dignity of research participants*
3. *Ensure a fully informed consent of research participants*
4. *Protect the privacy of research subjects*
5. *Ensure confidentiality of research data*
6. *Protect the anonymity of individuals or organizations*
7. *Avoid deception about the nature or aims of the research*
8. *Declare affiliations, funding source and conflicts of interests*
9. *Honesty and transparency in communicating about the research*
10. *Avoid any misleading or false reporting of research findings*

The researchers of this thesis are confident that the research has been produced in accordance with these key ethical principles. Affiliations of the researchers and funding sources have been thoroughly communicated and all data have been treated with the utmost care. There have not been any deceptions about the purpose or nature of the study, and all participation has been completely voluntary.

The findings and conclusions drawn are eventually based on the understandings and interpretations of the researchers. This study does therefore not represent "Bank & Financial Corporation", the respondents of the research, or the institutions of NHH or LSM.

Chapter 4: Empirics

The aim of this chapter is to briefly present and explain the current management control system at "Bank & Financial Corporation" where the bonus system plays an important role. The chapter will be an important step in the understanding of how the bonus system is incorporated into the management control system of "Bank & Financial Corporation", and serve as a background for our analysis and conclusions.

4.1 Company background

After being established in the mid 1990's, "Bank & Financial Corporation" is a large provider of financial products and services in the Scandinavian market ("Bank & Financial Corporation", 2013a). As of January 1 2013, more than 1000 employees were employed by the holding company of "Bank & Financial Corporation" and its subsidiaries ("Bank & Financial Corporation", 2012), and over the last few years the corporation's brand awareness has increased significantly.

4.2 Management control systems at "Bank & Financial Corporation"

In 2008, "Bank & Financial Corporation" had come to the conclusion of changing the management structure of the company. The new management control system was built on and inspired by the Beyond Budgeting principles, and would through its implementation also seek inspiration from the principles of lean management. Prior to the decision to change the management model, "Bank & Financial Corporation" started a project of examining a more dynamic model of corporate governance. An important part of any new management model was to decentralize decisions and ensure that they were made closer to the customers, as well as making the firm more ambitious.

In 2009, "Bank & Financial Corporation" started the process of implementing a new and more dynamic management model through four sub-projects; 1) culture and organization, 2) rolling forecasts, 3) benchmarking and scorecards and 4) bonus and incentives. Through adopting the new model, "Bank & Financial Corporation" were looking to achieve a stronger customer position, achieve better financial results as well as making sure the corporation is an interesting, developing and fun place to work. In the next few paragraphs, the three first projects of the new management model are explained in brief, before we take a closer look at the project of implementing a new

bonus- and incentive system in chapter 4.3.

4.2.1 Culture and organization

Probably the most important piece of the puzzle in implementing a new management control system is the one regarding culture and organization (CFO, 2009). Through the new dynamic management model “Bank & Financial Corporation” has defined a new management policy through three words; responsibility, involvement and business insight (CFO, 2009). This new leadership philosophy is based on asking questions and guiding the employees instead of telling people what to achieve or do (CFO, 2010).

As a foundation for the new leadership philosophy, “Bank & Financial Corporation” wants to foster an improved business insight amongst its employees. This business insight does for instance include understanding business models, competitive conditions and value drivers. Through more transparent strategic information and by discussing strategic questions on lower management levels, “Bank & Financial Corporation” hopes to stimulate increased employee knowledge and business insight. Ultimately this may lead employees to being involved at higher levels in the organization and take an active part in decision-making processes (CFO, 2010). The employees are further given more responsibility through delegation, the new leadership philosophy, and dynamic management in general, which promotes a high level of autonomy, freedom of action and trust for its employees.

4.2.2 Rolling forecasts

As an important part of the dynamic management model, “Bank & Financial Corporation” has implemented quarterly rolling forecasts, forecasting 12 months ahead in time (CFO, 2009). The rolling forecasts are developed bottom-up in the organization and are a one-way process that helps managing the organization in the desired direction. The forecasting promotes a higher level of autonomy and responsibility, as every manager is responsible for the forecast as it is sent up a level in the company. In this new model, forecasts are benchmarked against each other, instead of comparing the forecast against the actual result for that quarter, like it would be done in a budgeting process. Through rolling forecasts, “Bank & Financial Corporation” is able to quickly and effectively respond to any sudden market changes. An example is illustrated in figure 8.

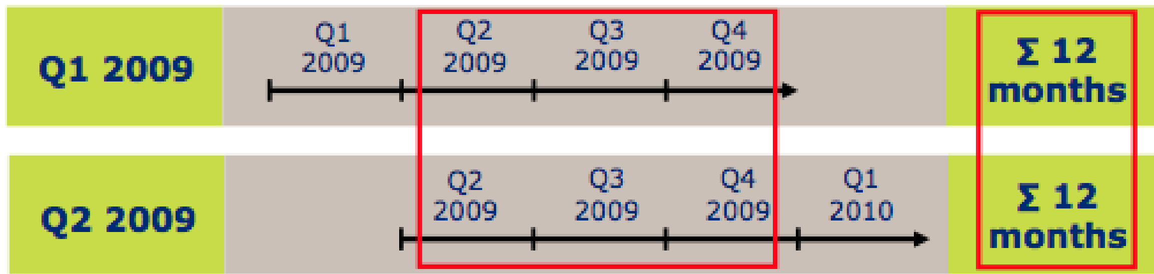


Figure 8: An example of rolling forecasts (CFO, 2010)

4.2.3 Benchmarking and scorecards

Inspired by the Beyond Budgeting principles of measuring performance relatively, “Bank & Financial Corporation” has implemented league tables where they can benchmark their performance on their competitors. By having league tables with comparable competitors, “Bank & Financial Corporation” is able to better assess whether their performance really is good or bad.

The organization has moved from having plenty of goals, targets and activities, to a model that consists of fewer and more ambitious goals (CFO, 2010). “Bank & Financial Corporation” has an overall long-term goal of being ‹‹the most successful bank›› and aim to reach this goal through more defined short-term targets or key performance indicators (KPIs) defined for each subsidiary in the corporation. These targets are benchmarked against where “Bank & Financial Corporation” is situated in the league tables based on objective measurement criteria for each target or KPI. This is illustrated in figure 9 below.

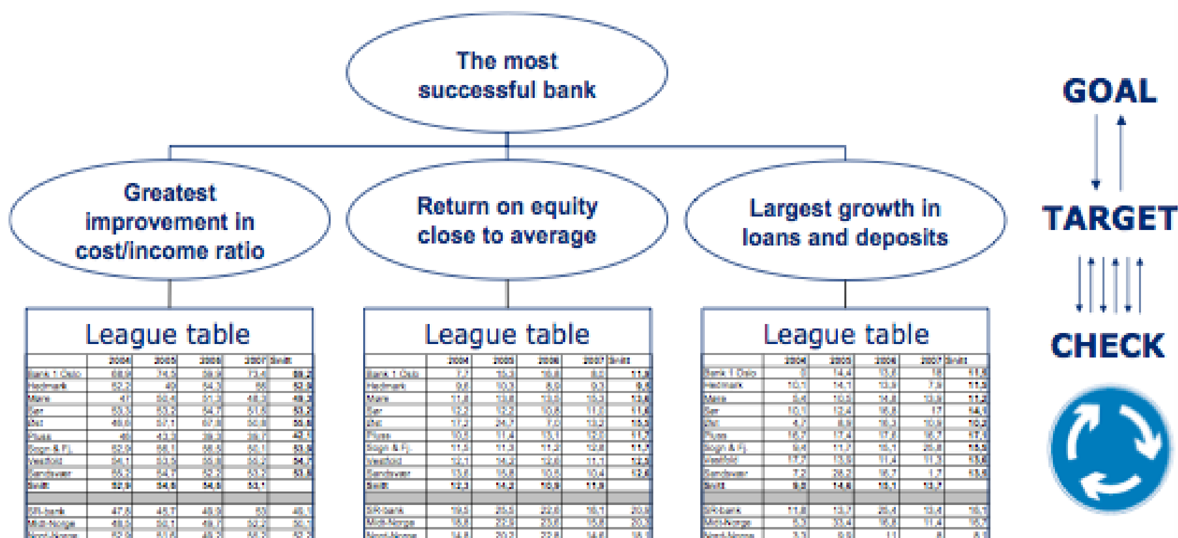


Figure 9: Breaking down a long-term goal (CFO, 2010)

The league tables and the targets attached to them play an important role when we discuss how "Bank & Financial Corporation" has designed and implemented the new bonus- and incentive structure.

4.3 Bonus and incentive systems at "Bank & Financial Corporation"

One of the four projects in the process of introducing and implementing the new management model in "Bank & Financial Corporation", was to develop and implement a whole new bonus- and incentive system.

4.3.1 Purpose of bonuses and incentives at "Bank & Financial Corporation"

Through the human resource (HR) strategy, "Bank & Financial Corporation" wants to support its vision and values. The group's target is to ensure that it is able to 1) attract the right employees through focusing on their company values, 2) retain the best employees through giving them responsibilities, communicating with them and rewarding them for good performance, and 3) develop the employees by involving them, giving them clear objectives and provide feedback ("Bank & Financial Corporation", 2011). "Bank & Financial Corporation" wants its compensation- and reward structure to support this HR strategy, and in addition to a base salary, the group has an incentive scheme to reward relative performance ("Bank & Financial Corporation", 2013). Through the HR-strategy "Bank & Financial Corporation" wants to ensure that the group can offer compensation packages at a competitive market level, without being the wage leader in their industry.

As a part of a larger compensation package, the bonus- and incentive scheme's main purposes are therefore to *attract* and *retain* employees, in addition to *motivating* the employees and being able to *affect behavior*. "Bank & Financial Corporation" reiterates that the motivational aspect is to motivate the employees to deliver better performance through assessing not only what the employees deliver, but also how they deliver it, especially with a view to how they deliver it in line with the company values. Another purpose of the bonus system is to better emphasize the elimination of budgets by incorporating relative targets and league tables into the bonus structure.

4.3.2 Structure of the general bonus system

Prior to 2005, "Bank & Financial Corporation" did not have any general bonus scheme.

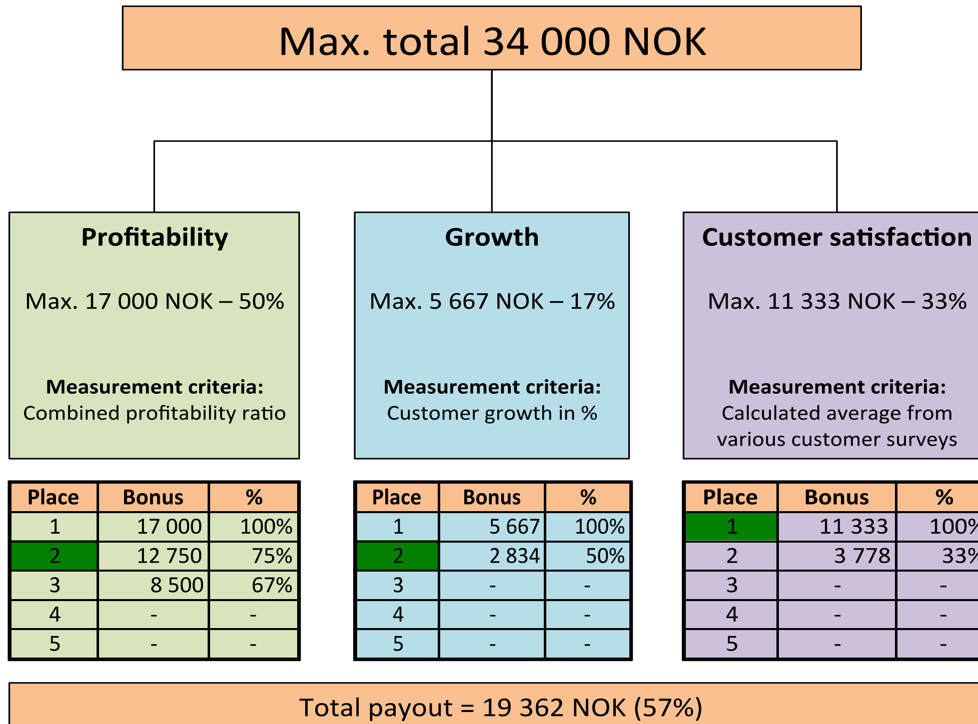
The executive management however wanted that the employees should be able to take part in a good result. This resulted in a bonus structure that combined a corporate wide profit sharing scheme and a team bonus for each subsidiary, and was calculated dependent on how they performed according to budgets. In the period from 2005 to 2007 the company delivered strong results and managed to stay within the budgets, which in turn activated the bonus payments. However, the results did not say much whether “Bank & Financial Corporation’s” result was a good result or not, as the general economic upturn in the market was strong for that particular period. Along with the introduction of the new dynamic management model, a shift in focusing on external benchmarking and scorecards, and evaluating performance through league tables, “Bank & Financial Corporation” wanted the bonus system to follow a similar structure. Consequently, the group implemented a whole new bonus structure in 2008. Today, the general bonus structure for employees in “Bank & Financial Corporation” is a two-faced structure, consisting of a team based company bonus and a corporate wide bonus, or profit sharing scheme, that both are based on relative performance and league tables. The maximum amount each employee can receive each year is 50.000 NOK.

Part 1: Company bonus – maximum payout 34000 NOK:

For any given year, the ‹‹company bonus›› accounts for 2/3 of an employee’s maximum bonus payout of maximum 50.000 NOK. Every year, each of the subsidiaries of “Bank & Financial Corporation” set short-term targets or KPIs that are based on a broader long-term goal. Each employee’s ‹‹company bonus›› is calculated based on how well the company performs in the different league tables for each of the pre-set KPI.

In order to explain how this would work in real life, the structure of a possible company bonus is presented in figure 10 below. The subsidiary the example is taken from, has defined profitability, growth and customer satisfaction as three KPIs from which there are league tables where the company is assessed relatively to other comparable companies. In general, “Bank & Financial Corporation” has a minimum goal of being among the top three companies for each KPI. Yet, dependent on the number of comparable companies, the target can also be set as having to be number two or one. In the example below, the target for each KPI is at being number one, which will result in full bonus payout. Each position in each of the league tables represents a percentage of maximum payout. Each KPI is weighted differently and decided by the board of each

subsidiary. In the example below profitability is weighted 50 percent, growth is weighted 17 percent and customer satisfaction is weighted at 33 percent. With the company placing itself according to the green squares, the total actual payout is given at 19 362 NOK or approximately 57 percent of maximum company bonus.



Place	Bonus	%
1	17 000	100%
2	12 750	75%
3	8 500	67%
4	-	-
5	-	-

Place	Bonus	%
1	5 667	100%
2	2 834	50%
3	-	-
4	-	-
5	-	-

Place	Bonus	%
1	11 333	100%
2	3 778	33%
3	-	-
4	-	-
5	-	-

Figure 10: Example of company bonus (Modified example from CFO, 2013)

Given that there are objective measurement criteria to benchmark on, the subsidiaries will calculate the company bonus from league tables, but for some companies there are no objective measurement criteria available for assessing the company's performance, and the bonus is then calculated from company scorecards (CFO, 2013).

Part 2: Corporate wide bonus – maximum 16000 NOK

In addition to the company bonus, "Bank & Financial Corporation" decided to operate with a corporate wide bonus, much like a profit sharing scheme. Each employee's payout is given by how "Bank & Financial Corporation's" return on equity (ROE) after tax compares in a league table of the best mixed financial groups in the Nordic countries. From the profit sharing schemes' inception in 2008, a payment of 16.000 is granted to each employee if "Bank & Financial Corporation" is among the top three groups in the league table.

In late 2011, individual performance was introduced in the profit sharing scheme, after a proposal was made by the administration. This proposal was made after discussions if the profit sharing scheme had any effect in motivating the employees, and that the company potentially could get more out of what this type of bonus actually cost the group. “Bank & Financial Corporation” therefore decided to change the profit sharing scheme to be tied to individual performances to a larger extent. The new structure was put in to temporary effect in 2012, as “Bank & Financial Corporation” wants to evaluate this new structure before implementing it on a permanent basis. The new scheme works much like the old structure where the bonus payout is activated if “Bank & Financial Corporation” is ranked in the top three of the corporations in the league table on return on equity after tax. But instead of awarding an equal amount to each employee, the 16.000 NOK per employee is put in to a larger pot. It is then up to each manager on every level to allocate the desired amount to each of the employees the manager manages. The allocation is done based on how the manager views the employee’s individual performance in the previous year. The scheme works like a build-up structure, where the manager at the lowest level allocates to his or her team first, and this allocation must be approved by the manager on the next level, before being sent up the hierarchy, all the way up to the CEO.

The modification of the profit sharing scheme was adopted based on a wish to incentivize and motivate the employees further. “Bank & Financial Corporation” also wanted to assess not only what the employees delivered, but also how they delivered it in line with the values and attitude the group wants to promote with the adoption of the new management model. One concern that the employee representatives raised with the new bonus scheme was that they required managers to be properly trained to be able to allocate the bonus fairly and that the managers needed refer to a proper documentation for how the allocation is given. This is one of the reasons why this bonus scheme is not yet permanent, and that “Bank & Financial Corporation” wants to thoroughly test the implications of it before implementation. The scheme could not be tested for the bonus payment for year 2012, as “Bank & Financial Corporation” did not rank among the top three based on the return on equity. A testing of the new scheme will then first be possible for the bonus payment for 2013.

4.3.3 Individual bonus scheme for corporate managers

As an addition to the general bonus structure, "Bank & Financial Corporation" also adopted an own bonus scheme for corporate managers in 2011. By corporate managers, this is defined as managers in the five highest levels of the hierarchy ("Bank & Financial Corporation", 2011). This structure is similar to the general structure for all other employees, but in addition to the company bonus and the corporate wide bonus, the managers' bonuses also include an assessment of how well they do relating to individual scorecards with personal goals. These individual goals are set and agreed upon by the corporate manager and his or her superior (CFO, 2013). Including the individual bonus, corporate managers may receive from one to three months' worth of base salary if the bonus is paid out in full.

In general, "Bank & Financial Corporation" has an open dialogue with the board on the incentive and bonus system, as there are different views on whether bonuses have the desired effect. As a safety precaution, the board must approve all bonus payments and has the right to stop any payments. So far this option has not been used (CFO, 2013).

4.4 Summary

In 2008, "Bank & Financial Corporation" decided to change the management control system to a more dynamic management structure inspired by the likes of Handelsbanken, Statoil and the principles of Beyond Budgeting. As one of four projects in implementing the new management model, "Bank & Financial Corporation" wanted to implement a whole new bonus and incentive structure. As a part of a larger compensation and reward structure following the organization's HR-strategy, the purpose of the bonus structure is to attract and retain talent, and act as an incentive to motivate the employees to align their behavior with the overall strategy of the group. "Bank & Financial Corporation" also wanted the implementation of the bonus structure to reinforce the adoption of a new management structure that was based on rewarding relative performance through benchmarking against competitors. Today, the bonus structure is two-faced, with one part of it being a bonus based on the achievement of the subsidiary each employee is employed in, and the other being a profit sharing scheme, where the employees are paid on individual performance within this structure. In addition, "Bank & Financial Corporation" operates with an individual bonus structure for its corporate managers.

Chapter 5: Analysis

The following chapter contains our analysis on how the bonus system in "Bank & Financial Corporation" impacts work motivation. In order to answer the problem statement and the research questions properly, the analysis is divided into three parts, as presented in our analytical framework.

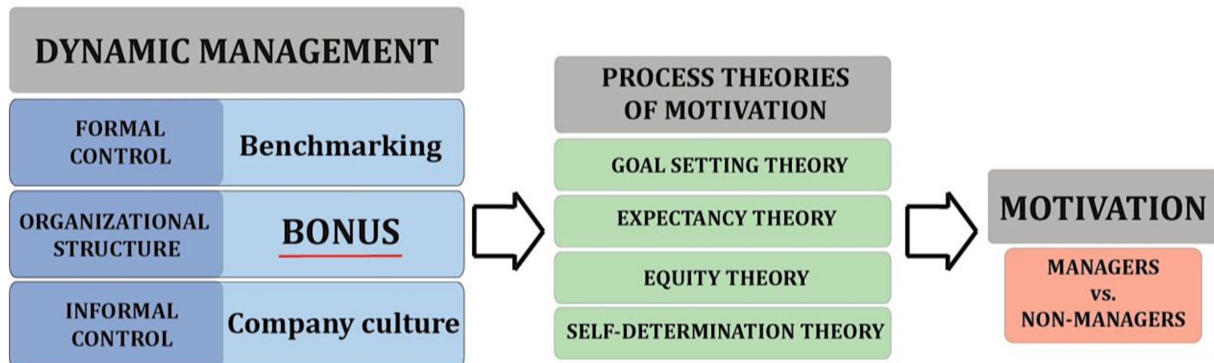


Figure 11: Analytical framework

5.1 Using bonuses in a dynamic management model

To not give a skewed picture of the potential motivational effects, the bonus system must be evaluated as part of a larger management control system (Malmi & Brown, 2008). To be able to analyze the potential motivational effects from the bonus system of "Bank & Financial Corporation", we will initially evaluate it as an integrated part of their management model. This includes explaining 1) the current context, 2) the perceived purpose of the bonus system and 3) its fit with the dynamic management model of "Bank & Financial Corporation".

5.1.1 A top-heavy implementation

This section seeks to explain the context of the bonus system.

By moving from budgets to rolling forecasts and benchmarking in 2009, "Bank & Financial Corporation" has operated with their new management model for more than three years. From the qualitative interviews it became evident that five out of six informants believed that this management control system was better linked with the strategy of the organization.

> *"The goal [of the management model] is to get every employee to understand what the organization wants, where we are going and how everyone can contribute. This definitely gives a better fit with the strategy."* Informant #5

Yet, the perceived extent of influence from the management model varied greatly among the higher-level managers. The three informants who had been contributing to the implementation of the model believed it to have increased their knowledge about competitors and made them more outward-looking. As one of them stated:

> *"The new management gives you a completely different understanding and knowledge of the market you operate in. This makes it easier to look for potential improvements."* Informant #4

For the three informants who had not participated in the design and implementation of the management model, it was harder to pinpoint its impact. They believed the intentions behind the model to be good, but they struggled to see its actual influence, especially on lower levels of the company. The majority of the six informants believed the implementation to still be in an early stage. One of the responsible informants stated that the model had been very well received in 2009, but that both the enthusiasm and implementation had lost some of its momentum.

> *"There are still leaders who challenge the basic philosophies of the management model and Beyond Budgeting. This slows us down. The real test is to not give up and continue to communicate what dynamic management is and what it is not, until that mindset is a natural part of the company culture. Only then can we fully see what the model brings."* Informant #3

This statement witnesses that "Bank & Financial Corporation" still has a long way to go before dynamic management is at the backbone of the organization. Yet the general attitude of the informants seemed to be largely positive toward the new management model.

5.1.2 A bonus system to motivate and direct behavior

This section seeks to explain the perceived purpose of the bonus system.

The current bonus system of “Bank & Financial Corporation” was one of four building blocks that were transformed to make the management control system more seamless and dynamic. As described by one of the implementing managers, its purpose is to “*motivate employees and align their behavior with the overall strategy of the organization*”. This statement seems to go hand in hand with the defined HR-strategy and compensation policy of “Bank & Financial Corporation”, as mentioned in section 4.3.1. The bonus system seeks to both retain talents by rewarding them for great performance, as well as providing direction through clear objectives. The next question in line was to see whether or not this understanding was shared by all informants. When asked what they thought the purpose of the bonus system to be, the responses varied greatly. Two out of six informants had no good answer to its desired purpose. Another informant stated:

> *“I think we [“Bank & Financial Corporation”] justify the bonuses simply because ‘everyone else is doing it’. It might also be important to attract talent. But as a tool to ‘get the job done’ I think bonuses add little value.”* Informant #6

Overall, only three out of six informants recognized that the purpose of the current bonus system is to motivate employees. Of the same three managers, two also believed it to direct behavior as stated in the HR-strategy. Yet these higher level managers were also the ones that had been designing and implementing the dynamic management model at “Bank & Financial Corporation”. For those who had not, the responses were more or less speculative. This seems to back up the notion that the dynamic management model is still very much in an early phase of the implementation process. It may also indicate a lack of communication in terms of explaining why the bonus system exists and what the organization hopes to achieve from it. Another possibility is that higher level managers on a general note put little emphasis on bonuses in their daily life, not making it a topic for debate and reflection.

It is however important to note that the intent of the two general bonus schemes is somewhat different:

> *“With the corporate-wide bonus we wanted to create a culture that permeates all the independent companies by sharing our success. The link between individual effort and the paycheck may therefore be hard to see for each employee. With the*

company bonus, the motivational effect is stronger. Here, they are more able to see their contribution to the results presented in the league tables." Informant #3

By allocating the corporate-wide bonuses based on individual performances, the informant stated that "Bank & Financial Corporation" want to send a "*strong signal to free-riders*".

In addition to the general structure, "Bank & Financial Corporation" also operates with individual bonuses for their corporate managers. According to one of the implementing informants, this bonus scheme is designed for "*individuals who presumably are able to affect the result of the company and the group*". By adding personalized goals, the individual bonus scheme is supposed to further increase motivation and direct behavior among these managers. The justification to why some individuals are treated with an additional bonus scheme is grounded in the wish to differentiate on competence. As one informant said: *"These managers have a higher market value as an employee. It is only reasonable to differentiate on bonus*."

To summarize, the intended purpose of "Bank & Financial Corporation's" overall bonus system is to motivate and align behavior. The corporate-wide bonus seeks to create a collective culture across the different companies. The company-bonus is to serve more as a motivational tool and guide behavior. Finally, the individual bonus seeks to motivate and direct behavior for managers on the top-level to increase their performance. This bonus scheme is also supposed to better reward competence. For the different informants, this knowledge was not clear-cut. Only the informants who had implemented the bonus system seemed to understand their intended purpose.

5.1.3 An unclear fit with the dynamic management model

This section seeks to explain the fit between the bonus system of "Bank & Financial Corporation" and their dynamic management model. The analysis will be conducted by utilizing the instruments of control framework built on the theories of Samuelson (2004, as noted in Ax et al., 2010) presented in 2.2.2. This implies viewing the bonus system's link to the formal, informal and organizational structure controls.

Formal control: Bonus and benchmarking

In the management model of "Bank & Financial Corporation", benchmarking and rolling forecasts constitute a large part of the formal controls. These management tools reflect a natural first step in going *beyond* budgeting, where continuous planning based on relative indicators and trends make up the heart of formal controls (Bogsnes, 2009). To fit with the same mindset, one should also base rewards on relative performance (Bogsnes, 2009). In "Bank & Financial Corporation", this connection is made explicit. Both the corporate-wide and the company bonuses are based on external benchmarking and relative targets through league tables. This was also viewed as a logical connection to most of the informants:

> *"By basing rewards on relative targets, the bonus system fits well with the comparative mindset of dynamic management."* Informant #2

The relationship between the individual bonuses and formal controls is not as straightforward. The individual bonuses are based on the achievement of goals stated in the corporate managers' personalized scorecards. These goals can be made up by both financial and non-financial indicators, which again can be either objective or subjective. The research of Kaplan and Norton finds that combining individual scorecards with benchmarking may encourage employees to increase performance, if they are designed right (2008). When asked about the balance in the personal goals, five out of six informants believed these to be long-term, reasonable and to align with the strategy of "Bank & Financial Corporation". This seems to indicate a perceived fit between the personal goals and formal controls.

As both the formal controls and the bonus system have changed in recent years, we asked how the higher level managers found the current fit in comparison to the old. Prior to adopting the dynamic management model, the bonus structure in "Bank & Financial Corporation" built on fixed targets. The consensus among the informants believed the prior formal controls to be insufficient in reflecting relative performance. Adding bonuses to the mix was not found to make the system any better.

> *"Operating with budgets becomes more of a game where you nearly develop strategies in order to stay within the budget. To base a bonus on that kind of behavior can do more damage than good."* Informant #4

Overall, it was relatively undisputed that the current fit between the bonus system and formal controls was deemed good. It was also perceived far superior to the old.

Informal control: Bonus and company culture

To evaluate the fit of the bonus system in relation to the informal controls, the informants were asked to which extent the thought the current bonus system fits with the company culture of "Bank & Financial Corporation". Here, the opinions among the informants differed. One manager believed the bonus system to have become a natural part of the company culture, rather than it being in line with an already existing one. Another informant reminded that the bonuses only make up a small part of the total compensation package:

> *"[In "Bank & Financial Corporation"], we are fostering a culture based on moderation, not on extravagance. Striving toward equality is at the very core. Yet we realize that we need to differentiate on competence as well. So we do it under controlled circumstances".* Informant #2

Yet, the remaining four informants did not see a clear link between the company culture and the bonus system. Two informants voiced strong opinions for removing the entire bonus system, as they did not believe it to reflect their personal or the firm's values.

> *"I did not join "Bank & Financial Corporation" for the bonuses. It was rather the opposite."* Informant #5

The strongest voices, however, were raised in terms of the link between bonuses and empowerment. When the informants were asked what they thought motivates an employee to work, no one mentioned pay. Instead, the answers largely reflected the views presented by theory Y (McGregor, 1960) or by the motivators in Herzberg's two-factor theory (1966). Among the most frequently mentioned were task complexity, personal development, variation in tasks, recognition, responsibility, trust, professional challenges and a likable culture. These answers also largely reflect the basic philosophies of Beyond Budgeting, on which the dynamic management model is built (Bogsnes, 2009). When asked if they thought other employees were motivated by bonuses, three of the informants replied no. Two informants believed they did while one

thought them only to be a temporary source of motivation. Two of the informants fronted a view that the bonuses may even undermine other sources of motivation:

> *"I believe work is about intrinsic motivation. By having a bonus system, we signal the opposite. Even though we provide the employees with trust and responsibilities, we still communicate that bonuses are necessary to make them work better.* Informant #3

Overall the majority of the informants did not see a link between the bonus system and the company culture of "Bank & Financial Corporation". Most informants also believed that using bonus as a motivator was likely to conflict with other empowerment methods.

Organizational control: Bonus and teams

In terms of fit with organizational controls, the bonus structure mostly follows the physical structure of "Bank & Financial Corporation". The corporate-wide bonus scheme is naturally linked with the relative performance of the group, while the company bonuses are linked with the relative results of each subsidiary. These relations largely also mirror the ideas of Beyond Budgeting, proclaiming that bonuses should be based on team performance rather than the individual (Hope & Fraser, 2003). Yet, "Bank & Financial Corporation" also base bonuses on individual efforts. This is visible through the individual allocations of the corporate-wide bonus and the individual bonus scheme for leaders. This section will see to which extent individual bonuses fit into the dynamic management model of "Bank & Financial Corporation".

Being weighted equally on individual, company and group performance, the bonus structure for corporate managers much resembles that of multi-level performance used in Rhodia and Borealis (Bogsnes, 2009). However, an important distinction is made in the size of compensation. While the general bonus system aggregates a total of 50,000 NOK per employee, the total bonus for leaders may be up to three months base salary. Building on the view of Mintzberg (2009) in scrapping executive bonuses, Hope and Player (2012) assert that dissimilarity in bonus schemes may send out wrong signals to the employees of the firm. When the informants were asked if they thought the individual bonus scheme to be in line with dynamic management, the informants were rather split. Three mentioned it to be important to differentiate corporate managers as the expectations and responsibilities for these are higher than for lower-level

employees. Two of these further iterated that the bonus structure should incorporate personal contributions more strongly. They believed the influence on the company and corporate-wide bonus to be so small that it was more regarded as a "*Christmas bonus*" rather than a reward for good performance. The remaining three informants did not see any good reason to have a separate bonus system for higher level managers. One informant also questioned why the total bonus made up a different percentage of the total compensation package.

By allocating the corporate-wide bonus based on individual performance, this bonus scheme resembles a combination of a corporate-wide profit-sharing plan as used in Handelsbanken (Hope & Fraser, 2003) combined with a relative bonus for operating teams (Bogsnes, 2009). As the corporate-wide bonus is based on the performance of the whole corporation with more than 1000 employees, some of the informants believed the problem of free riding to be "*inevitable*". In the example of operating teams, Hope and Player (2012) mention that managers can reduce free riding by allowing the team members to allocate differently within the team. In such a case, they propose that evaluations must be properly agreed upon and justified before an objection to a bonus is made (Hope & Player, 2011). The main difference with "Bank & Financial Corporation's" corporate-wide bonus is that the allocation is done by the middle managers themselves. Interestingly, only one informant believed this bonus scheme to create value. Another manager mentioned that the success of this bonus scheme very much relied on the middle managers' communication of allocating the bonus pool. Three informants believed it to be neutral at best and more likely to be detrimental.

> *"You can easily imagine that an individual allocation makes employees conspire about the corporate-wide bonus. «If I help him out, he might get a higher reward etc. ». In worst case this reduces the level of team-work in the group"* Informant #1

Although individual allocation of rewards has been mentioned in the Beyond Budgeting literature as a way to limit free riding, it must still be viewed as an exception to the rule. In this exception, fairness in evaluation is alpha and omega (Hope & Player, 2011). Since the employees of "Bank & Financial Corporation" are operating in a corporation requiring a high degree of teamwork, it can be questioned whether a separation (and justification) of results for more than 1000 employees is plausible. As most individual

results are a natural outcome of teamwork or influences by other colleagues, Simons (1995) states it to be impossible to separate the marginal contributions of individuals from another. A separation of results also contradicts the main foundation in the Beyond Budgeting philosophy, where collective success is to be shared (Hope & Player, 2012). One of the designers of the bonus system said "Bank & Financial Corporation" had taken this into account by making the team-based company bonus relatively larger in size than the corporate-wide bonus.

The subjective allocation of the corporate-wide bonus is also in stark contrast to the profit-sharing plan used in Handelsbanken, which serves as the main inspiration for most of the authors within the Beyond Budgeting movement (Bogsnes, 2009). One manager fronted this view as a better fit with dynamic management:

> *"The profit-sharing plan of Handelsbanken is simple and it rewards every employee equally. I believe that allocation is easier to live with. The more you break bonuses down on teams and individual levels, the more challenging it gets."* Informant #3

Overall, there seemed to be a large sense of disagreement among the informants to which extent the bonus should be broken down further to department or personal levels, or aggregated to the corporate level. Two informants also called for a complete removal of bonuses. The perceived fit with the organizational structure was therefore largely divided.

5.1.4 Summary on fit of the bonuses and dynamic management

The higher-level managers of "Bank & Financial Corporation" generally held the new dynamic management model of the firm in high regard. Most of the informants also pointed to a better fit with the overall strategy of "Bank & Financial Corporation" as it was more outward looking than prior systems. Some informants pointed to the implementation still being in an early phase and still very much in the top levels of the organization. Regarding the bonus system, all informants believed it to complement the formal controls of the dynamic management model by being based on relative targets and benchmarking. Yet the managers who did not participate in the implementation process struggled to see what "Bank & Financial Corporation" hoped to achieve from the bonus system, which may indicate a communication problem. For those who had, it was evident that the bonus generally served to align behavior, reward competency and to

motivate employees. The informants also questioned the bonus structure's link with the company culture. Most of the disagreement, however, lied in the balance between individual and team-performance. Some of the higher-level managers believed the bonuses to be too vaguely linked with their performance to be motivating and called for more individual performance appraisals. Other informants believed the bonuses to do more harm than good and called for a complete elimination of the bonus system. The informants were also split in the view of having a separate bonus scheme for corporate managers. Overall, only one manager believed the complete bonus system to fit well into the dynamic management model.

5.2 Bonus as a motivational tool in "Bank & Financial Corporation"

This part of the analysis will seek to explain how the three different bonus schemes at "Bank & Financial Corporation" impact work motivation. The analysis will be conducted sequentially based on the four process theories on motivation shown in the analytical framework in figure 2 in the introduction to this chapter.

All the three bonus schemes will be analyzed based on qualitative research. The analysis for the company bonus scheme will be further strengthened by the results from the questionnaire which is both quantitative and qualitative. The individual bonus for corporate managers will be dealt with separately if appropriate.

5.2.1 Are the bonuses in line with goal setting theory?

This section seeks to explain the motivational effects from the three bonus schemes at "Bank & Financial Corporation" in the light of goal setting theory. As mentioned in section 2.8, there are four principles for a goal to be motivating. They need to be 1) specific and clear, 2) challenging and complex, yet achievable 3) committing and relevant, and 4) assisted by feedback. These four principles will serve as the following subsections.

1) Specific and clear:

As a pre-requisite for evaluating the separate bonus schemes, all informants in the qualitative interviews were asked if they could detail the bonus structure at "Bank & Financial Corporation". This included detailing the corporate-wide, company and the individualized bonus for leaders. As Locke and Latham (2006) propose, understanding

how a bonus works is a key for it to change behavior. This test would also serve as an indication to whether or not the complete bonus structure is perceived clearly by the corporate managers. Five out of six informants could somewhat accurately describe all the bonus schemes during our interviews. Yet one manager claimed:

> *"I think you need to be educated on the bonus system to properly comprehend it, because I have not fully understood it myself".* Informant #6

When the informants were asked whether or not they believed the current bonus structures to be too complicated, the opinions varied greatly. The concern was largely related to the company bonus. Only one manager believed this structure to be obvious to all employees. Two informants believed it could be too complex.

> *"I have often thought the entire bonus structure to be a bit puzzling. The targets are relatively clear per se, and they should be easy to communicate, but the company bonus might be too intricate to understand".* Informant #3

Since the higher-level managers viewed the company bonus structure as the most intricate, we decided to test how the employees of "Bank & Financial Corporation" perceived its complexity in the quantitative survey:

Table 2: Clarity of company bonus structure

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
6	It is easy to understand what is needed to trigger the company bonus	664	50%	32%	5	4	4.37	1.77

From table 1 it is evident that half of the respondents find the company bonus structure easy to understand, while 32 percent does not. A median of 4 and a mean of 4.37 further indicate that the census neither found it easy nor difficult to understand the company bonus scheme. Yet, the standard deviation of 1.77 reflects a relatively large dispersion in answers. These results largely underline the different opinions among the corporate managers.

Another necessity in terms of successful goal setting lies in the interpretation of the different parameters. For the corporate-wide bonus, this relates to understanding what return on equity implies. For the company bonus scheme, this means understanding the

different KPIs used for comparison in the league tables. When asked about the specificity of these parameters, there was a consensus between the informants that they were all tangible, unambiguous and well defined. The employees were tested on the same matter for the company bonus scheme in the questionnaire.

Table 3: Clarity of measurement parameters

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
7	I understand the parameters that constitute the company bonus well	666	54%	29%	5	5	4.51	1.72

In line with the beliefs of the higher-level managers, the majority (54%) of the respondents understood the underlying measurement parameters of the company bonus well. The mean, mode and median are also all above 4. Yet the standard deviation of 1.72 indicates a substantial spread in answers. 29 percent of the respondents also disagreed with the statement. This conflicts with the census from the qualitative interviews that the parameters were clear for all employees.

Two informants believed the perceived complexity of the corporate-wide and the company bonus structures relied heavily on communication. In line with Locke and Latham (2006), clear communication may indeed increase the employees' understanding of what is required of them to perform better. Some informants claimed inadequate communication could have been a source of confusion for the corporate-wide and company bonuses.

> *"The information is not always flowing. Some managers are reluctant to communicate the bonus structures and in some cases I do not think they fully understand them themselves. I think more people would have understood the bonus structures if they were better communicated".* Informant #2

One way of improving the communication is through increased transparency (Locke & Latham, 2006). When asked about how transparent the corporate-wide and company bonus structure is, it became evident that all information on the bonus structure can be found at the company's intranet at any given time.

> *"If there are any unresolved questions, all employees are also welcome to ask their superior about the bonuses".* Informant #2

To see how well the company bonus scheme had been communicated, the clearness in communication was tested through a statement in the questionnaire.

Table 4: Communication of company bonus scheme

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
13	The communication of the company bonus scheme has been clear	660	39%	40%	4	4	3.97	1.79

As some of the informants anticipated, the respondents were quite fragmented in the opinions on the communication of the company bonus being clear. This manifests through two relatively equal proportions of respondents who agreed and disagreed to the statement. In total, 39 percent found the communication clear, while 40 percent did not. This may serve as an explanation to why almost one third of the respondents did not find the company bonus structure easy to understand.

At the end of the questionnaire, the respondents were asked what they found to be the main weaknesses with the current with the general bonus schemes. Out of 671 respondents, 259 replied to the voluntary open ended question on the company bonus scheme and 201 replied to that of the corporate-wide bonus. Communication and feedback were the second most frequently mentioned elements. 47 respondents voiced out that they believed communication and general feedback to be an issue for the company bonus scheme. Some respondents claimed that they did not even know the difference between the company and the corporate-wide bonus, let alone the difference to the parameters they were built on. One informant argued:

> *"There is a need to communicate more clearly before, during and after the targets are met. The way the system works today, the employees do not know what they need to do to reach a target, or even what the target is."* Respondent # 7 (Survey)

For the corporate-wide bonus, the amount that mentioned communication was somewhat less. This could indicate that there are some company-specific issues related to the clearness of communication.

Individual bonus and goal specificity

The informants from the interviews were all entitled to the individual bonus scheme for leaders. All of them believed the personalized goals in the individual scorecards to be specific, clear and very difficult to manipulate. However, the extent of subjective goals varied between the managers. For some corporate managers, this could cause trouble in terms of measuring the goals objectively:

> *"Some of the goals are absolute and easy to measure. Others are subjective, which may make it more difficult. My superior and I usually evaluate these subjective goals in collaboration by discussing to what extent I have achieved them".* Informant #3

The personalized goals are communicated through evaluations and individual scorecards. The scorecards are easily accessible for the different managers at any time. The new Remuneration Directive by the Norwegian Ministry of Finance also imposes strict regulations in terms of transparency of executive bonuses (see Appendix I).

Are the goals specific and clear?

Based on the qualitative interviews, it seems like the individual bonuses for leaders satisfy most of the requirements for the specificity and clearness of the personal goals. It is however important to note that the measurability of subjective goals may be a source of conflict, although no informants mentioned any problems related to this.

Both the interviews and the questionnaire suggest that a substantial part of the group deem the company bonus structure too complex. A somewhat smaller amount of the respondents of the questionnaire also found the underlying parameters difficult to understand. As understanding the bonus structure is a key principle for it to work as a motivational tool, this may prove that a large part of "Bank & Financial Corporation's" employees are likely to find little motivation from the company bonus scheme. Both types of research also indicate a great divide in how clearly the communication is perceived. This may serve as a possible explanation to why close to 1 out of 3 respondents did not find the company bonus structure easy to understand. However, it may also indicate a lack of interest in the bonus system among these respondents.

Overall, it seems likely that the company bonus structure is not understood by a large share of the employees.

All informants easily understood the corporate-wide bonus scheme. Yet they noted that communication might have been unclear, which the questionnaire somewhat confirmed through the open-ended questions. As mentioned in section 5.1.3 there is also a potential risk of conflict in the subjective measurability of individual efforts when allocating the bonus pool individually.

2) Challenging and complex, yet achievable:

In order for a goal to be motivating, it needs to be challenging, yet realistic (Locke & Latham, 2006). All informants believed the targets of the corporate-wide and the company bonuses to be realistic. However, designing achievable stretch targets was not regarded as an easy exercise. As one informant said: *"It is difficult to design a bonus structure that is fair, motivating, gives direction and is understood by all employees".*

As Locke and Latham (2006) state, raising the bar too high may decrease motivation. According to the informants, this has traditionally not been an issue in "Bank & Financial Corporation". One manager stated that they usually reach the targets set for the corporate-wide and company bonuses, although there was no corporate-wide bonus for 2012.

> *"At one point we always seemed to pay out maximum corporate-wide and company bonus. We always achieved the corporate-wide targets and the barrier to achieve the company bonus has traditionally been low. However, this has changed somewhat in recent years".* Informant #2

From the written responses in the survey, 28 out of 251 mentioned the targets of their company bonus to be unrealistic. For the corporate-wide bonus, 16 out of 201 mentioned unrealistic target setting as an issue. This made it the fourth most mentioned factor of complaint. As Whetten and Cameron (2002) states, an unachievable goal may be demotivating for the employee. One respondent mentioned this being a factor:

> *"The weakness lies in the targets being unrealistic, and that this inhibits the desire to stretch for greater achievement. Instead of triggering behavior and greater*

> *effort, today's structure has the opposite effect. Ambitions are good, but the goals need to be realistic."* Respondent # 8

As explained in section 5.4.2, all the corporate-wide and the company goals are based on relative KPIs, which are benchmarked against competitors league tables. These are annual goals, which limits the incentive period of the company bonus to one year. One manager thought this to only have a temporary effect:

> *"The motivational effect of the bonus is probably visible in December [if the goal is still achievable]. But if we are falling too far behind say already in September, the motivational effect of the bonus is likely to be very small"*. Informant #6

Individual bonus and goal achievability

For the individual goals, the informants mostly perceived them to be challenging.

> *"I find the goals very realistic and there is always something to strive for"*. Informant #5

When asked how often the six corporate managers reached their targets, it became evident that they largely achieved their personal goals every year.

Just like the targets for the corporate-wide and company bonuses, the individual bonus schemes are based on annual goals. Yet none of the managers believed this to create a short-term focus for the firm. One manager estimated that 50 to 80 percent of the personal goals typically continue for more than one year. Another manager stated:

> *"The personal goals harmonize with the strategy of the firm. Most of them are kept for several years, with different targets attached to them"*. Informant #6

Are the goals challenging and complex, yet achievable?

The individual bonus schemes seem to satisfy most of the requirements for the goals being challenging and complex, yet achievable. However, with a seemingly high success rate in the past, one can question if the goals can be made even more challenging without experiencing a ratcheting effect.

The company bonus scheme and the corporate wide bonus schemes were also deemed as fairly realistic, long term and challenging by the informants, although some written responses questioned the level of achievability. This can be a result of a lacking understanding of how the bonus system works.

3) Committing and relevant

Establishing links between work effort and the goals are important to facilitate commitment among employees. One way of doing so is through collectively discussing and agreeing on the goals that are set (Locke & Latham, 2006). For the corporate-wide and company bonus, the goal setting process has typically been initiated by each company's Board of Directors. Consequently, it is regarded as very top down.

> *"There has not been much room for discussing changes to the general bonus structure. The parameters are more or less set in stone and they seem hard to change. Some departments struggle to see the relevance of the company measures, as they are too broad for them to influence. It would be better to identify KPIs within each department to make the targets more relevant".* Informant #5

As mentioned in section 6.1.3, there was a general disagreement between the informants in balancing individual and group performance in the bonus system. Three of the higher level managers believed the relevance of the corporate-wide and the company goals to be too small in relation to each individual's work tasks. As relevance is deemed as a key principle for the goal setting theory, the employees were asked if they would prefer the company bonus to be more closely linked to department performance.

Table 5: Preference for more influence

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
10	The company bonus should be linked closer to the performance of my department, rather than to individual or company performance	623	57%	24%	6	5	4.69	2.10

The results illustrates that 57 percent of the respondents would like the company bonus scheme to be linked closer to department performance instead of individual or company performance, while 24 percent disagree. A mode of 6 and a median of 5 further underline how responses tend to agree with the given statement. The mean is somewhat lower, being 4.69. This may have been negatively influenced by extremes, as the

standard deviation shows a relatively large spreading of results. The responses indicate that the employees want the bonus to be based on targets that they have more control in influencing. It is important to note that some of those who disagreed might have been in favor of more individual performance appraisal as well.
As two of the informants mentioned, tying bonuses more closely to the departments may generate additional risks for "Bank & Financial Corporation". It requires a greater extent of horizontal coordination to avoid sub optimization and conflicting interests. However, the goals attached to a bonus should also reflect the very nature of work needed to achieve it. If the relevance of a goal is deemed too low, the commitment to the goal is likely to be low as well (Locke & Latham, 2006).

When asked if the corporate managers had received any complaints or dissatisfaction towards the corporate-wide or the company bonus schemes from lower level employees, the consensus was mainly negative. Most of the informants claimed the enthusiasm for the two common bonus schemes at "Bank & Financial Corporation" to be marginal at best. From the written responses in the questionnaire however, there were 259, 201 and 242 unique replies for the voluntary open ended questions. This seems to indicate that the bonus system is likely to be a concern for a large number of the employees at "Bank & Financial Corporation". Of these, nearly half of the respondents mentioned personal influence to be an issue. This was either because they did not see the link between their efforts and the bonus or because they thought it to be based on too many factors beyond their control. One of the respondents mentions:

> *"The company bonus, which is the largest part of our total bonus, consists of goals we have no chance in influencing. Our work has no longer any effect on the bonus, and the motivation is therefore almost non-existent."* Respondent #9 (Survey)

Individual bonus and relevance

For the individual scorecards, the extent of personal influence on the goal setting was regarded as far more satisfactory. All the corporate managers claimed to have relevant and reasonable personal goals. The consensus also believed to have a certain degree of freedom with respect to the goal setting process, as this typically is done in collaboration with their superiors. As one informant said:

"I can largely influence the goal setting with my superior by sharing my personal opinions. Through discussions we may also decide to lower or increase the goals to make them more realistic". Informant #3

Are the goals committing and relevant?

As an active part of the goal setting, the goals that make up the individual bonuses seem to be both relevant and committing to the corporate managers.

The inclusivity of employees in the goal setting for the corporate-wide and company bonus schemes is deemed low, as the target and goal setting is regarded as a very top-down process by the informants. As for the relevance, this seems to be the major concern for "Bank & Financial Corporation" for both the corporate-wide and company bonuses. This was apparent in the interviews, the written responses and in the statement about more appraisals based on department performance. In line with goal setting theory this is likely to reduce commitment to the goals, being counterproductive for motivation.

4) Feedback

The final factor for successful goal setting theory is related to the provision of feedback (Locke & Latham, 2006). As the different corporate-wide and company bonuses are largely based on relative performance, the feedback of the company's current position is naturally limited to the publishing of quarterly results. According to the informants, there are presentations on the corporate-wide and the different company's relative performances every three months.

"We get quarterly feedback on how we are performing in relation to the league tables, but it is not linked to how we are doing in terms of triggering the bonus". Informant #5

As this statement implies, there is an uncertainty among the employees to how they are performing in relation to the corporate-wide and company bonus throughout the year. This creates an uncertainty to what size the bonus is at for any time during the year, and also how large it eventually will be. Instead, the information about the size of the bonus is typically given in hindsight, after the year has passed. According to Hope and Fraser (2003), this reward uncertainty is exactly what drives performance in large operating

teams when the bonus is based on relative performance. Yet, the feedback of how the company is performing may still serve as an important reminder of the potential bonus being there, as well as communicating how it is structured. Tracking progress is also important to encourage workers throughout the year and to recognize good efforts (Locke & Latham, 2006). As continuous feedback is considered a key motivator in the goal setting theory, the employees were tested on this in relation to the company bonus.

Table 6: Feedback of the company bonus scheme

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
16	The feedback on how we are performing with respect to the targets of the company bonus is good	664	41%	41%	4	4	4.01	1.77

41 percent of the respondents found the feedback of the KPIs that make up the company bonus satisfactory, while 41 percent did not. With a mode and median of 4 and a mean of 4.01 the census neither agreed nor disagreed to the statement. Yet a standard deviation of 1.77 implies that the opinions were fairly dispersed around the mean. An interpretation of these results is that even though a large share found the feedback to be good, an equal share believed the opposite. As mentioned earlier, communication and feedback were mentioned second most frequently as the largest weakness with the current bonus structure.

Individual bonus and feedback

The opinions about the current level of feedback of the individual scorecards were split among the corporate managers. Four of them received personal feedback every quarter. One manager received it every month while one received feedback once a year. Most of the informants believed this to be unsatisfactory:

> *"The feedback is too infrequent. This makes it difficult to know how we are performing. Even though we work hard to improve, the feedback is not sufficient enough to ensure the bonus to continuously stimulate performance"*. Informant #5

However, the extent of feedback needed for each individual must be viewed as highly subjective. For instance, the manager who was evaluated once a year did not find this to be too seldom.

The feedback can also be used to adjust goals that are set too high or too low. Similarly, it can be used to add or eliminate goals as the needs of the company changes. Two corporate managers noted how the individual goals at times are too static.

> *"The year does not always turn out as we have planned. Sometimes we have to prioritize differently as we go along or even abandon certain targets. Yet the individual scorecards do not always adapt to these changes. In such cases a pursuit of personal goals becomes counterproductive for the firm".* Informant #1

This experience clearly conflicts with both the planning and goal setting principles of Beyond Budgeting, where the goals should be set for continuous improvement and planning a continuous event (Bogsnes, 2009). Yet lowering and eliminating set goals to increase motivation do also come with a risk of lowered future commitment to the goals that are set. Such changes should therefore not be done too often (Bragelien, 2003).

Is the level of feedback perceived satisfactory?

Regarding the level of feedback on individual goals, a majority of the informants argue that the feedback is too infrequent. Yet this is highly subjective and may not be true for all corporate managers. The extent of how dynamic these goals are was also questioned.

The employees were also largely split in how well they deemed the feedback for the corporate-wide and the company bonuses. This also manifested in the written responses from the questionnaire and the opinions of the different informants. As mentioned under relevance, these goals also seem static.

Conclusion on goal setting theory

Table 7: Conclusion goal setting

Goal setting	Corporate-wide	Company	Individual
Clear and simple	☺	😐	☺
Realistic stretch	😐	😐	☺
Committing	☹	☹	☺
Feedback	☹	☹	😐

Generally it seems as the corporate managers find a great source of motivation in setting clear, realistic and achievable goals. By being an active part in the goal setting process, the corporate managers are more likely to commit to the goals they set, much as Locke and Latham propose (2006). In this setting, continuous feedback is believed to of great importance to complement the motivation stemming from the goals. For the corporate-wide and company bonuses, the relevance to the targets was mostly viewed as too vague for the goals to be committing. Combined with a seemingly complex company bonus structure and possibly unclear communication, the targets of these two bonus schemes seem to have little motivational effect on the employees.

5.2.2 Are the bonuses in line with the expectancy theory?

This section seeks to explain the motivational effects of the different parts of the bonus system at "Bank & Financial Corporation" in the light of the expectancy theory. This theory consists of the three motivational criteria; 1) valence, 2) instrumentality and 3) expectancy. All three criteria need to be present in order for a reward to be perceived motivating.

1) Level of valence

While the expectancy and instrumentality together are based on subjective, cognitive reflections on the logical relationships between effort, performance and reward, the valence is founded from personal values (Vroom, 1964). The valence explains to which extent the outcome is desirable. In the bonus schemes of "Bank & Financial Corporation", this reflects whether or not the monetary rewards attached to the corporate-wide (max. 16000 NOK) and company bonuses (max. 34 000 NOK) are desirable or not.

During the qualitative interviews it became evident that the large majority of the corporate managers viewed the different bonuses as a part of their total salary, and not as independent monetary elements. The interviewees further stated that a potentially higher salary did not motivate them to increase performance.

> *"Total salary is more a hygienic factor than anything else. As long as it is on a reasonable level, there are other things that are far more motivating than money".*
> Informant #4

As mentioned in section 6.1.3, most of the informants found their work motivation similar to that predicted by Herzberg's two-factor theory (1966). When asked if they would have performed worse without the bonus, five said bluntly no. According to these statements, it may therefore seem as the informants are rather indifferent to attaining the corporate-wide and company bonuses, as long as their salary is on a competitive level. However, as long as bonuses make up a part of the remuneration scheme at "Bank & Financial Corporation", all the higher level managers appreciated getting them.

> *"I do not find the total bonus to be decisive for my performance, but it is a welcomed salary component when it arrives at the beginning of the year"*. Informant #5

The extent of how desirable the corporate-wide and the company bonuses were also varied among the informants. Three corporate managers did not find the size of the company or the corporate-wide bonus to be large enough to have a significant impact:

> *"I think we would have demanded far more from the different bonuses if they made up a larger share of the total salary. As they are now, they are too small to make a difference in motivation."* Informant #6

In the questionnaire, nine and seven employees mentioned the size of the company and the corporate-wide bonuses respectively to be the main problems of the bonus schemes.

Valence of individual bonuses

The size of the individual bonus scheme is not as absolute as the corporate-wide and company bonuses. As mentioned in section 6.1.3, the total bonus for leaders may constitute a payout up to three months of base salary. As with the two other bonuses, it was a welcomed salary component by the corporate managers, but the census also stated that the monetary value of the individual bonus scheme is still fairly small.

> *"When you combine all the bonuses together, they still make up a relatively small part of total salary"*. Informant #2

Conclusion for the valence of bonuses

All informants believed the different bonuses to have a positive value. The extent of desire for the bonuses, however, varied. The sizes of the different bonuses were further believed to be somewhat low in relation to total salary.

2) Level of instrumentality

Instrumentality refers to the belief that a met expectation will be rewarded. It is the link between performance and outcome. The instrumentality is affected by the extent of trust, reward control and reward policies (Vroom, 1964).

One manager noted that the different bonus schemes in "Bank & Financial Corporation" are all formalized through openly available bonus policies on the company's intranet. The new remuneration directive by the Ministry of Finance further imposes restrictions to which extent bonus schemes can be altered and how executive bonuses are to be paid out (see Appendix I). In "Bank & Financial Corporation", the general bonus structure needs to be agreed upon by the Board of Directors if any changes are to be made. Thus, there is little individual control over the design of the general bonus schemes. However, it is important to note that the Board of Directors is allowed to withhold payouts of both the corporate-wide and the company bonuses, although this has never occurred. If such an action is ever made, this can lower the level of trust to the bonus system.

The greatest risk in instrumentality is likely to rest in the subjective allocations of the corporate-wide bonuses. Here, unequal distributions may create a potential danger of perceived favoritism or unfairness among employees. If these allocations are not thoroughly clarified beforehand and justified after, this can break down the trust to the bonus system. As this allocation not yet has been tested, the level of trust to the corporate-wide bonus system is very unclear. One informant reflects on this:

> *"With the adoption of the new corporate-wide bonus scheme, the employee representatives fronted a demand: The managers responsible for allocating the bonus needed to be properly trained before we adopted the new practice. This was not in place at the time of approval. The fact that the corporate-wide bonus was not triggered for 2012 meant that we were kind of saved by the bell."* Informant #3

A lifelong employee mentioned the same problem in the questionnaire:

> *"The change in the corporate-wide bonus scheme was very poorly communicated, and we were lucky that there was no bonus in 2012. If it were, it would have been total chaos as to how that bonus should have been allocated."* Respondent #10 (Survey)

However, one informant says that "Bank & Financial Corporation" is confident that the required training for leaders, together with an improved communication of the system will be in place by 2013, in order for the scheme to be tested and evaluated properly.

Instrumentality of individual bonuses

Since the evaluation of individual bonuses is partly based on subjective goals, the level of trust to the superior may have an influence on the instrumentality. For instance could favoritism be a potential factor of influence. Yet none of the informants believed this to be the case. The extent of perceived control over the reward also relate to the subjectivity of goals. Since the extent of achievability is discussed with the supervisor for these goals, there may be unequal perceptions to the level of actual accomplishment. This can create a feeling that a lower level of performance for these goals not necessarily will impact the bonus payout. Obviously, the harder the goal is to measure, the more likely this situation is. Lastly we note that the Remuneration Directive of the Norwegian Ministry of Finance requires transparency in executive reward policies.

Conclusion for the instrumentality

The individual bonus for corporate managers seems to satisfy all the requirements for instrumentality. Yet the subjective evaluations can create concern in terms of trust to whether or not a met expectation will be paid. When the evaluations of subjective goals are conducted in discussion, it may also impact the perceived control the individual has over his own payment. Yet we cannot infer anything from the interviews to state that this is the case for any of the corporate managers.

For the company bonus, the individual control over the reward is limited. The policies are also transparent by being available for all employees on the Intranet. The trust to the bonus payout should also be high for the company bonus, considering that the Board of Directors has yet to withhold a bonus that has been achieved. However, we cannot claim this to be true for all employees.

For the corporate-wide bonus, there are far more uncertainties. Based on information from the interviews and the questionnaire, we cannot infer whether or not the outcome is perceived to depend on performance or not.

3) Level of expectancy

Expectancy relates to which extent the employees believe they are able to affect the goals that make up the bonus (Vroom, 1964). The ability to affect the goal is largely influenced by the amount of controllable factors (Lazear & Gibbs, 2009), past experiences, self-efficacy and task difficulty. Some parts of the following analysis are therefore highly complementary to *challenging and complex, yet achievable* and *committing and relevant* in the goal setting theory.

The corporate-wide bonus is based on the total return on equity for all companies involved in "Bank & Financial Corporation". This comprises all of the employees in the firm, which currently surpasses 1000. For each individual, this results in a large extent of uncontrollable factors in terms of achieving the corporate-wide goal. As the company bonus is based on the relative results of smaller groups, the extent of uncontrollable factors is naturally lower. This should entail a higher degree of expectancy for the goals of the company bonus. This was also reflected throughout the qualitative interviews:

> *"[With the company bonus] it is easier for the employees to see how their contributions affect the results in the league tables. The link between personal contribution and the company's end result is therefore stronger than it is for the group".* Informant #3

However, the relative difference does not mean that the level of expectancy for the company bonus is high. The employees must still believe that the effort they put in is worthwhile to achieve the company's targets. From the qualitative interviews, only one manager thought this to be the case. Three corporate managers considered the link between personal efforts and the goals of both the company and corporate-wide bonus to be too vague to make an impact on work motivation. Two of the informants found it hard to see their actual impact on company performance themselves. The lacking ability to affect the goals was a reoccurring topic throughout the qualitative research. One informant stated:

> *"I do not think the employees see the link between their tasks, the end result and the bonus".* Informant #4

To see whether or not these beliefs were right, we decided to test this in the questionnaire. The respondents were asked to which extent they agreed with understanding the relationship between individual effort and outcome of the company bonus (E→P→O). According to the VIE-formula, the same statement can be used to extract the level of expectancy (E→P) if the instrumentality (P→O) is 1. In this case, this means that all employees must believe that the outcome depends on performance.

Table 8: Perceived relevance of work in bonus

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
8	I see how my work contributes to the company bonus	658	44%	37%	4	4	4.09	1.89

The statement explains that 44 percent of the respondents claim to see the link between work tasks and the company bonus, while 39 percent do not. With a standard deviation of 1.89 from a mean of 4.09, this indicates a rather fragmented range of opinions, where the census neither agrees nor disagrees to the statement. This can indicate that a large part of the employees in "Bank & Financial Corporation" do not see their contribution in relation to the company bonus they receive, even though this is designed to be the most motivating bonus scheme for lower level employees.

One way of increasing the understanding of this relationship is through improved communication (Vroom, 1964, 1967). One manager fronted a complimentary view:

> *"There is nothing wrong with the goals per se. The problem is to make the employees understand their significance in the value chain. This mind-set is not thoroughly imbued in the company today".* Informant #5

Expectancy of individual bonuses

For the individual bonuses, most of the factors of expectancy have already been mentioned under *challenging and complex, yet achievable* and *committing and relevant* in the goal setting theory in section 6.2.1. Although some of the personal goals are made up of team variables, all informants believed them to be realistic and possible to influence. However, the extent of controllable factors must be viewed as a subjective matter of opinion and may vary from manager to manager.

Conclusion expectancy

As expectancy relates to the perception of linking one's own effort to the desired performance, this section is highly complementary to *challenging and complex, yet achievable* and *committing and relevant* as mentioned in section 6.2.3. This includes perceived achievability, relevance and if the goal is believed to be challenging. We will thus only elaborate on the extent of controllable factors in this section.

The interviews and the qualitative answers from the questionnaire indicate that the perception of control over the corporate-wide performance is likely to be low. For the company-bonus, these results seem to be somewhat better. This is also to be expected given the larger number of employees comprising the corporate-wide bonus. Overall, the expectancy seems uncertain for both the corporate-wide and the company bonus. Yet it is likely to be relatively higher for the company bonus scheme.

For the personal goals, the extent of controllable factors seems to be high among the informants. Together with challenging and achievable goals, this may indicate a relatively high level of expectancy for this part of the individual bonus.

Conclusion expectancy theory

Table 9: Conclusion on expectancy theory

Expectancy theory	Corporate-wide	Company	Individual
Expectancy	☹	☹	☺
Instrumentality	?	☺	☺
Valence	☺	☺	☺

The employees do not seem to see the link between personal effort and team performance when it comes to the corporate-wide or the company bonus. Although welcomed, and consequently positive in the eyes of Vroom (1967), the valence can be also questioned for being too small to make an impact for all three bonus schemes. This is especially the case for the corporate managers. For the corporate-wide bonus scheme, there is also a question mark next to the trust to the bonus system as a consequence of the new and subjective allocation system.

5.2.3 Are the bonuses in line with equity theory?

According to the equity theory of motivation a bonus scheme needs to be perceived fairly by the employees in order to be motivating. In this setting, both over- and under-rewarding employees may have negative effects on motivation (Adams, 1963). During the qualitative interviews, it became evident that five out of six corporate managers believed they were entitled to the annual bonus received.

> *"I believe I deserve all the annual bonuses I receive. As long as I perform well and reach the targets and goals set, I have no reason not to. Generally I think most of my co-workers believe they contribute to the success of "Bank & Financial Corporation" and feel they deserve the bonuses they get"*. Informant #2

In line with the theories of Adams (1963), this observation may indicate that the managerial notion of being over-rewarded is likely to be ruled out. Yet we cannot infer that this is the case for all corporate managers in "Bank & Financial Corporation". As a potential source of demotivation, it was important to establish if the company bonus was regarded in the same manner among the employees of "Bank & Financial Corporation":

Table 10: Justification of company bonus grants

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
14	I feel I deserve the company bonus I am granted	636	87%	5%	7	6	5.93	1.76

As the informant expected, 87 percent of the respondents agreed to the statement that they feel they deserved the company bonus when it is granted, while only 5 percent disagreed. With a mode of 7 and median of 6 this clearly indicates that most of the respondents feel they deserve the company bonus when they receive it.

Adams (1963) explains that the perception of fairness is also a subjective matter of comparison between fellow peers. This can be fairness either in inputs (i.e. if it is fair with an equal reward based on the inputs) or in outputs (i.e. if the output is fair given equal inputs). In "Bank & Financial Corporation", all employees within the same company receive the same company bonus. This makes it relatively easier for the employees to support, as fairness in output is removed from the equation. Yet if

individual efforts are perceived differently, then a similar bonus may seem just as unfair. For the company bonus, this may be the case with free-riding. Yet only a few employees mentioned free-riding to be the biggest weakness of the company bonus scheme. One informant said the following:

> *"We need to realize that there is a certain share of free-riders at "Bank & Financial Corporation", as with any other organization. This is more of a problem that can be dealt with through culture and leadership."* Informant #6

The measurability of inputs and outputs is also an important factor for the perception of fairness. In "Bank & Financial Corporation", the measures that trigger the company bonuses are objective. This makes it relatively easier for employees to justify. That being said, even objective measures may be perceived unfairly if they are based on too many factors the employees cannot control (Langeland, 1999). In the questionnaire, perceived unfairness from uncontrollable factors was the third most mentioned complaint from the open ended questions. Most of these complaints were aimed towards the corporate-wide bonus. As an unexpected tax expense prevented the group from achieving top three on return on equity in 2012, the bonus was directly affected by factors none of the employees could influence. Similar events have also been the case for the company bonus. One informant gave the following example:

> *"When we merged two debt collection firms some years ago, one of the companies had produced very good results while the other had not. With the merger all employees received the same company bonus. The employees from the company which performed well found this very unfair"* Informant #6

To assess if employees perceive the measures of the company bonus as fair, they were asked to which extent they agreed with getting a cut or lose this bonus if the company did not reach set targets.

Table 11: Fairness in company bonus removal

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
15	It is fair that the company bonus is reduced or left out if the company as a whole do not reach set targets	647	58%	24%	6	5	4.84	1.95

58 percent of the respondents agreed with the statement, while 24 percent disagreed. A median of 5, a mode of 6 and a mean of 4.84 give an indication that the respondents generally find the objective measures of the company bonus fair.

The probability of unfairness is also likely to increase when individuals are treated unequally (Adams, 1963). Differentiating between corporate managers and other employees in the bonus systems may contribute to such a feeling if it is not properly justified. As mentioned in section 6.1.3, the informants were split in the view when it came to having separate bonus schemes for certain managers. Three informants claimed the system was properly justified by having stated several key factors that moderates this bonus scheme. Among the mentioned inputs were education, the employees' role in the organization and extent of responsibility. In line with the equity theory, different inputs could justify a different output if communicated well (Adams, 1963). The other three informants had opinions in line with that of Hope and Player (2011) who believes dissimilarity in bonus schemes possibly sends out wrong signals to the employees of the firm. One of these informants also disregarded any justifications to have been made.

Similarly, one could question the perception of fairness stemming from having separate company bonus schemes. One respondent in the questionnaire did for instance believe that it is relatively easier for some of the companies in "Bank & Financial Corporation" to achieve a company bonus than it is for others. Yet this did not seem to cause a major source of concern among the respondents. However, it may be that this sense of unfairness may amplify with clearer communication of the different bonus schemes. Consequently, it should not be neglected.

As mentioned under instrumentality in section 6.2.2, individual allocations of the corporate-wide bonuses based on subjective evaluations may also create a feeling of unfairness among the employees and break down trust to the bonus system.

In line with the research of Porter and Lawler (1968), rewarding employees year after year might also create an anticipation of being continuously rewarded. If the reward should at some point stop, this may also create a feeling of unfairness. Hope and Player (2011) refer to this resentful feeling as an entitlement creep. From the qualitative interviews it became apparent that "Bank & Financial Corporation" had a tradition of paying out large bonuses to its employees some years ago, but that the payments have decreased in recent years. On average, total corporate-wide and company bonuses for the group comprised approximately 46.000, 45.000, 26.000 and 18.800 per employee from 2009 to 2012 (see Appendix V). In line with Hope and Player (2009), this may have contributed to an entitlement creep among some of the employees in "Bank & Financial Corporation". When the informants were asked, five out of six anticipated to be paid a form of bonus every year. The majority of the informants also believed the lower level employees to share the same view. To see if this was actually true, the employees were asked to which extent they anticipated an annual company bonus.

Table 12: Company bonus expectation

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
12	I anticipate getting paid the company bonus every year	653	39%	38%	4	4	3.98	1.94

The results were rather split. 39 percent of the respondents agreed to anticipate getting the company bonus every year, while 38 percent disagreed. This may indicate that the employees of "Bank & Financial Corporation" are fairly fragmented when it comes to anticipation of the company bonuses.

A high anticipation of rewards may indicate that the employees view the company bonus as a part of base salary. In such a case, the effect of the bonus is likely to hygienic rather than motivational. By stopping or reducing the bonus, one is more likely to create a negative effect, and it is likely to outweigh the positive effect of getting a reward. A few responses from the questionnaire indicated that this might have been the case, where the respondents at the time of recruitment had been told that they could practically consider the total bonuses of potentially 50.000 as part of base salary. This would indeed lower trust and motivation from the bonus system given that the total bonuses per employee have dropped in recent years. A high anticipation of rewards may also

indicate that the link between effort, performance and outcome is broken. If people believe they will receive a reward no matter the efforts they put in, then the motivational effects of the bonus is also likely to be marginal. Likewise, a low anticipation of bonus will also undermine the motivational effects the bonus is designed to create. If the employees do not believe they will receive anything in the end, they are also unlikely to increase performance based on the reward.

Conclusion equity theory

Table 13: Conclusion equity theory

Equity theory	Corporate-wide	Company	Individual
Fairness	☹	😐	😐

The individual bonus scheme was not believed to over-compensate any of the informants. The anticipation of this bonus was also rather high, given past experiences and the subjective perceptions of the informants. When it came to the fairness of the individual bonus system, half of the informants questioned whether it could be justified. This makes the perception of equity from this bonus scheme somewhat unclear. With individually tailored scorecards, the comparison of inputs and outputs is also highly subjective. However, none of the informants showed any dissatisfaction in this.

From the questionnaire, it became evident that almost all the respondents felt entitled to receiving the company bonus. The anticipation of it was however rather fragmented, yet almost half of the respondents anticipated receiving an annual company bonus. The fairness in having different bonus schemes for different companies was also questioned. These two factors make the perceived equity of the company bonus scheme uncertain. As for the free-rider effect, this was not regarded as a big problem in neither the questionnaire or through the interviews.

The qualitative interviews replicated much of the same answers for the corporate-wide bonus scheme as for the company bonus. With the intention of reducing free-riding, some of the informants believed the inputs from each worker to better correlate with the bonus they receive. Yet the allocation was questioned by three of the corporate managers as possibly unfair. This makes the equity of the corporate-wide bonus scheme uncertain.

5.2.4 Are the bonuses in line with self-determination theory?

The self-determination theory originates from a viewpoint that a person's self-determination, and thus motivation, is decided by the need for 1) autonomy, 2) competence and 3) relatedness (Deci, 1975). The following analysis is done for the bonus system as a whole.

1) Autonomy

The dynamic management model of "Bank & Financial Corporation" builds on giving employees a high degree of autonomy in which employees enjoy freedom of choice. By moving away from a bonus system that was based on budgets and fixed targets, "Bank & Financial Corporation's" bonus system may feel less controlling than it used to. The question in line is whether or not the current bonus system limits perceived autonomy at all.

The view that bonus is very little discussed and that it has a small focus in the organization was shared by all the corporate managers in the qualitative interviews. This goes to indicate that the leaders do not feel dictated by the bonus system in any way, and that it supports the autonomy promoted through the dynamic management-model. When the informants were asked if they would have achieved the same level of performance without any bonus, five out of six informants responded positively, and further claimed that the bonus did not have any effect on their behavior. The sixth manager believed the potential bonus might have had a small impact on his performance, yet not a dominating one. Generally there was a consensus that the importance lied in realizing the goals set with their supervisor, not in the attaining the bonuses themselves.

When asking about the weaknesses and potential improvements to the current bonus system, approximately one in three respondents left comments for the different questions. This seems to disprove the statements from the informants that there is a lacking enthusiasm around the bonus system. It might also indicate differences in what focus the bonus system has among employees on different levels in the organization. For instance could it mean that the bonuses have a relatively larger impact on autonomy in lower levels of the organization than they do higher up in the hierarchy. Even though the

respondents were asked to address the biggest weaknesses, a handful also left answers that they were generally content and motivated by the company bonus system. As one respondent stated:

> *"Everyone I work with are very excited to know if we get a bonus or not. It is a great source of inspiration."* Respondent #11 (Survey)

The fact that two out of three respondents did not leave any message can indicate that several employees share the same view. However, it can also indicate that the bonus system is not of significance to these employees. This makes it difficult to conclude whether or not the autonomy of these employees is limited by the bonus schemes. But considering the width of the goals for the company and corporate-wide bonuses are fairly broad and that the size of the bonuses have been deemed as relatively low by several informants as well as a few respondents in the questionnaire, it seems as neither of the bonuses limit autonomy.

2) Competence:

According to Deci (1975) it is important that the use of extrinsic motivation does not undermine intrinsic motivation. As mentioned in section 6.1.3, the corporate managers were split in the view of using bonuses as a motivational tool. Two informants believed bonuses to undermine other forms of recognition, while three informants thought bonuses to have no impact on work motivation:

> *"Instead of a giving them a bonus, give them more autonomy, and interesting work tasks. It is the job itself that motivates."* Informant #1

At the same time, there were three informants who believed bonuses to motivate. One informant also believed to possibly strengthen the effects of other extrinsic motivators.

> *"By tying money to it, the bonus amplifies the feedback. That way it works well as a motivational tool."* Informant #1

To assess whether the employees actually perceived the current company bonus scheme as a proper reward for their efforts, they were given the following statement.

Table 14: Reward applicability of company bonus

Q	Statement	#	Agree	Disagree	Mode	Median	Mean	Std.Dev
9	The company bonus works well to reward my efforts	659	36%	48%	2	4	3.72	1.92

Only 36 percent of the respondents believed the company bonus worked well to reward their efforts, while 48 percent disagreed. With a mode of 2 and a mean of 3.72, this underlines that the respondents feel that the current structure of the company bonus to not reward their efforts well. This can be interpreted in two ways. One possibility is that the employees believe the reward is based on targets that are only vaguely linked with their own work tasks or efforts. Therefore it is not perceived as a constructive reward. Another possibility is that the employees feel the size of the reward to be either too small or too high, given their efforts. Rooted in earlier analysis, a large number of the respondents felt that they both had limited ability to influence the company bonus, as well as they felt they deserved the bonus they received. This may imply that the general disagreement with the statement above could be rooted in a combination of the reward being too small and the link between work and reward to be too vague for the reward to work as constructive feedback. From the view of self-determination theory, the company bonus is thus unlikely to support competence. This was further mentioned by some of the informants who claimed both the corporate-wide and the company bonuses to be viewed as "*Christmas gifts*". Achieving the personal goals did however leave most of the informants with a sense of mastery. Yet as none of the informants claimed to view the neither individual bonus to be important, it may seem as they neither enforce nor diminish the need for competence.

Finally, it must be emphasized that none of the informants believed bonuses to be a supplement for traditional recognition and feedback. As one stated:

> *"We [humans] are good at taking thing for granted. I am sure we can raise the bar and become better at recognition. This can be done independently from bonuses. Praising someone in plenum can have a strong motivational effect".* Informant #2

3) Relatedness:

Relatedness from the bonus system refers to how a potential reward facilitates ownership and connection to others (Deci, 1975). By adopting a general bonus system based on relative targets from external benchmarking, "Bank & Financial Corporation" is hoping that the bonus system in turn increases the employees' relatedness to the company.

One way of increasing relatedness is through the facilitation of teamwork (Bogsnes, 2009). When asked if the bonus system ensures this, one informant believed that the bonus system at least helped the employees to increase their business understanding and cooperation on a company level. Another informant argued that the effect of the bonus system was at best neutral. Two other informants however argued that it was not the bonus itself that increased cooperation among the employees:

> *"It is the targets that give a stronger cohesion and cooperation within the departments, not the bonus tied to them."* Informant #4

When it came to the new allocation of the corporate-wide bonus, most of the corporate managers believed this to have counterproductive effects for relatedness. As mentioned in section 6.1.3, the higher level managers believed the corporate-wide bonus scheme to possibly detriment team-work rather than facilitate in building a group culture.

Another source of relatedness stems from ownership (Deci, 1975). This makes it important to understand whether or not the bonus system contributes in giving the informants any sense of ownership to the company. Of the six corporate managers interviewed, four informants believed that the general bonus structure did not facilitate any sense of ownership to "Bank & Financial Corporation" as an organization. The two remaining informants however argued that the bonus was built from a strategic point of view. They believed this would increase the awareness of what "Bank & Financial Corporation" is and what the group does on an operative level. The sense of ownership to the company stemming from the bonus system was therefore relatively unclear.

Conclusion self-determination theory

Table 15: Conclusion on self determination

Self-determination	Corporate-wide	Company	Individual
Autonomy	☺	☺	☺
Competence	?	☹	😐
Relatedness	☹	☺	😐

None of the bonus schemes were believed to limit autonomy. In terms of competence, the company bonus seemed to be poorly viewed as a proper reward. As the new allocation still has to be made for the corporate-wide scheme, it is also questionable if this is able to reward better than the company bonus. The corporate managers seemed to be rather indifferent to the money aspect, making the bonus in itself a poor indicator of performance. The corporate-wide bonus was further questioned to be detrimental to team-behavior by the majority of the corporate-wide managers. For the company-bonus, this was not believed to reduce relatedness to the firm.

5.3 Are there motivational differences based on the role of the employees?

In this section we seek to analyze whether the company bonus has a different impact on the motivation for managers compared to non-managers.

In order to test if the motivation differs between the two groups, we ran 11 independent t-tests on each of the statements from the survey. The null- and alternative hypothesis for all the tests were defined as following:

H0: There are no differences in the responses between managers and non-managers.
HA: There are differences in the responses between managers and non-managers.

A summary of the test results are shown in table 16 below, while the full test transcriptions are provided in Appendix IV.

***Table 16: Summary of results from t-tests (*indicates significant differences in responses*)**

Statement	N managers	N non-managers	Mean managers	Mean non-managers	P-value (* of p<0.01)
1. *It is easy to understand what is needed to trigger the company bonus payout*	123	541	4.821	4.272	0.0015*
2. *I understand the parameters that constitute the company bonus well*	123	543	5.268	4.333	< 0.0001*
3. I see how my work affects the company bonus	122	536	4.648	3.966	0.0002*
4. The company bonus works well to reward my work effort	121	538	3.645	3.732	0.6434
5. The company bonus should be closer linked to the performance of my department, instead of individual or company performance.	118	505	4.500	4.735	0.2026
6. The company bonus motivates me to increase my work effort	123	540	3.919	4.420	0.0084*
7. I anticipate to get paid the company bonus every year	120	533	3.283	4.135	< 0.0001*
8 .The communication of the company bonus scheme has been clear	121	539	4.165	3.929	0.1797
9. I feel I deserve the company bonus I get paid	118	518	5.890	5.944	0.6711
10. It is fair that the company bonus is reduced or left out if the company as a whole does not reach set targets.	119	528	5.630	4.657	<0.0001*
11. The feedback on how we are performing with respect to the targets of the company bonus is good.	122	542	4.418	3.913	0.0038*

From the p-values we see that seven of the tests proved a significant difference in the mean responses between managers and non-managers, while four of the tests did not prove any difference between the two groups. However, we can use the 95% confidence intervals for each group to explore the sentiment expressed by the population mean for each group, to each of these four statements. And interestingly, it differs for the different statements.

For statement 4, *"The company bonus works well to reward my work effort"*, although there is not much evidence of a difference between the two groups, there is evidence that each group's population mean is less than 4. This means that on average, both groups disagree with the company bonus working well to reward their efforts. This is in line with what we saw in chapter 5.2, and is an indication that there is a weak link

between effort and reward even on managerial level. Similarly, for both groups, the 95% confidence interval for the mean response to the statement *"The communication of the company bonus scheme has been clear"* includes the 'neutral' response of 4.0. This suggests that opinions are fairly evenly split in each group on this statement, and the two groups on average do neither agree nor disagree that the communication of the company bonus scheme has been clear. This can be interpreted that the communication neither has been very good, nor very bad.

The 95% confidence interval for the statement *"The company bonus should be closer linked to the performance of my department, instead of individual or company performance"* has a lower limit that is substantially above 4, indicating that both groups quite strongly agree with this statement on average. From the written responses in the survey, we saw that the most common criticism towards the company bonus scheme was that it was difficult for the employees to influence, and that they wanted a closer link to the department they worked in, or on individual performance. The fact that both groups agreed to this statement is therefore somewhat expected. With a vague link between reward and effort, this may make the employee feel less committed to the goal in line with Locke's (1968) goal setting theory. These results also tie in well with the discussed statement above that both managers and non-mangers struggle to see the link between effort and the reward. This could lead the bonus system in to being perceived as unfair and frustrating, as the employees need to have self-efficacy that they are able to reach a target. According to the self-determination theory of Deci and Ryan (1985), this may reduce an employee's perceived competence and thus intrinsic motivation.

Both groups also strongly agree to the statement, **"***I feel I deserve the company bonus I get paid",* with neither group agreeing significantly more nor less than the other. Given the results from the survey of the whole population, this was somewhat expected. These results can be interpreted that it indicates a feeling of the bonus being an entitlement, and that therefore everyone strongly agreeing that they deserve their bonus, since they see it as a natural component of their salary. This interpretation is in line with what we saw from the qualitative interviews, where the managers agreed that it was highly probable that there existed expectancies in the organization to get paid the company

bonus every year. The notion of expectancy is further strengthened when we interpret the seven tests that had a significant different response.

For the statement "*I anticipate to get paid the company bonus every year*" the two groups disagree in their responses. The non-managers have a mean that is statistically significantly greater than 4, suggesting on average they agree with the statement, whereas the managers have a mean that is statistically significantly less than 4, suggesting that on average they disagree on expecting the company bonus every year. That the non-managers anticipate a company bonus confirms the notion that there indeed exists a feeling of anticipation and expectancy on the lower levels in the organization towards getting paid a company bonus every year. Even though the level of agreement is not very high, it might indicate that the employees see the company bonus as an entitlement, and a natural part of their salary.

We also note that the managers disagree to the statement that they anticipate a company bonus. This might also be expected, and the explanation can be found by interpreting the test results for the three statements *"It is easy to understand what is needed to trigger the company bonus payout", "I understand the parameters that constitute the company bonus well"* and *" It is fair that the company bonus is reduced or left out if the company as a whole does not reach set targets."* Here, both managers and non-managers have means that have 95% confidence intervals that are greater than 4. We therefore have strong evidence that both groups agree with these statements. However, for each of these statements, the managers have a statistically significantly larger mean than the non-managers and we can therefore conclude that although both groups agree with the statements on average, the managers believe more passionately in these statements. This can indicate that the managers have a better understanding of what constitutes the company bonus, as well as a better understanding of what it takes to trigger the bonus than the non-managers. According to the goal setting theory, the clarity of the goal is vital for it to be motivating (Whetten & Cameron, 2002). With a better insight into how the bonus scheme works, this could mean that the managers therefore have a better opportunity to evaluate what performances are deserving of different levels of bonus payouts, which in turn could lower their expectancy. A better overall understanding could also explain why the managers agree significantly more to

the statement regarding the fairness of the company bonus compared to the non-managers.

For the statements, "*The feedback on how we are performing with respect to the targets of the company bonus is good*" and *"I see how my work affects the company bonus",* people who have a managerial role have means statistically significantly greater than 4, implying that on average they agree with the statement. The employees in a non-managerial role do not have a mean statistically significantly different than 4, suggesting that on average they may be neutral on this statement. This indicates that the managers better see how their efforts contribute to the company bonus than the non-managers, which could be explained by their better understanding of the bonus system in general, and that they also agree to the statement that the feedback has been good. Good feedback is important to the understanding of the bonus structure in general, and is also important in communicating that the goals are achievable (Locke & Latham, 2006). As the non-managers responded neutrally to the statement regarding the feedback being good, this could be a contributing reason to their lesser understanding of the bonus system and what targets the company bonus consists of. All these aforementioned differences indicate that the managers should be more likely to be more motivated from the company bonus.

However, when we test the overall statement "*The company bonus motivates me to increase my work effort",* we see some interesting results. The non-managers have a mean suggesting that on average they agree with the statement, whereas the managers may feel neutral. The following paragraphs present possible arguments that can explain these results.

By examining the results we first of all see that the average mean for the non-managers is only 4.420, meaning that they only somewhat agree with the statement of the company bonus. This can be interpreted that they see the bonus as a fairly weak motivational factor, and that there are other factors that motivates them more. From the managers, the average mean is 3.919, meaning that on average they slightly disagree with the statement. We have however no statistical evidence to say that the mean significantly differs from a neutral statement, and they therefore neither agree nor

disagree with the statement. This can be interpreted that managers do not see the bonus as a strong motivational factor, which is in accordance with the two-factor theory of Herzberg (1966) and what the managers from the qualitative interviews also said. Money is rather a hygienic factor, and not a motivational factor in itself. Stimulating a hygienic factor in itself will not lead to greater motivation, but the hygienic factors are rather supportive of staff motivation (Nelson and Quick, 2003). This is in line with the arguments of Pink (2009) where he urges organizations to pay their employees a base salary that is at a satisfactory and competitive market level, before disregarding money as a motivational tool by including it in any form of bonuses.

Another reason for the difference could be explained from the difference in task complexity between the two groups. A fair assumption could be that the managers have more complex work than the lower-level employees, which involves more creativity and non-routine tasks. Accordingly, one can assume that the non-managers have a lower task complexity than the managers, working at lower levels in the organization. With more routine tasks, involving less creativity, this this could explain why the non-managers were more motivated than the managers. This explanation is in accordance with the views of Pink (2009) and Bogsnes (2009), among others, that for more routine tasks, money could well work as a motivating factor.

But there is one interesting factor not yet discussed. From the tests, we experience that the non-managers also have a significantly higher expectation of receiving the bonus every year than the managers, who in fact disagreed to the same statement of *"I anticipate to get paid the company bonus every year".* With the non-managers having a higher expectancy of receiving a bonus every year, there is reason to believe that the company bonus therefore might be perceived as an entitlement, and seen as a natural component of their salary.

And by taking a viewpoint from traditional management control theories where financial incentives are believed to have a motivational effect, one explanation to the difference in motivation can be that the company bonus makes up a larger percentage of the non-managers' total salary, compared to the managers. With the same reasoning as for the non-managers, the company bonus make up a smaller amount of the manager's

total salary, so that the carrot of receiving some extra money is therefore relatively smaller for the managers than the non-managers.

If indeed the bonus is being seen as an entitlement, there is also a possibility that the employees have over-reported the motivational factor of the company bonus when answering the survey. This may have been done to persuade the company into believing that the bonus indeed is motivating to ensure that the privilege is not taken away from them. If the employees view the bonus as an entitlement, and the bonus payment stops or is significantly lowered, this may have a large demotivating effect on the employees (Hope & Player, 2012), making an entitlement creep likely to be present in “Bank & Financial Corporation”.

Chapter 6: Conclusions

This chapter will conclude this thesis by applying the analysis from the previous chapter to answer the four research questions and the problem statement.

In this report we have learnt that motivation is an essential factor for an organization to perform in a competitive industry (Huczynski & Buchanan, 2010). If an organization understands what motivates the employees, then it will be able to affect their behavior and motivate them. In this research report we analyze if bonus is a factor that motivates employees, and how organizations can affect the employees' behavior and motivation through structuring bonus and incentive schemes.

We have learnt that bonuses and financial incentives got a firm foothold in the business society in the first half of the nineteenth century, and despite vast criticism from behavioral scientists that argued that money was not a motivating factor for people, bonuses are still very much alive and kicking in today's business society (Bogsnes, 2009). The Beyond Budgeting philosophy has further challenged the use of traditional management control mechanisms and calls for an abandonment of budgets. Within this criticism of traditional management tools, the Beyond Budgeting philosophies have criticized the use of financial incentives, and argue they do more harm than good.

The purpose of this research report has to provide insights into if bonuses do motivate employees, and how bonuses motivate. This has been done through assessing employees in a Beyond Budgeting inspired management model at "Bank & Financial Corporation" through the use of various process theories on motivation.

This chapter will look to answer this study's four defined research questions. Answering these four questions will in turn provide us with the insights and understanding to answer the overall problem statement:

‹‹(How) do bonuses impact motivation in a dynamic management model?››

6.1 Answering the research questions

6.1.1 What is Beyond Budgeting and why is it so critical of individual bonuses?

As explained in the theoretical section; Beyond Budgeting is more than just about removing budgets. It is a mind-set rooted in the need for more innovative and adaptive management models, as organizations need to be agile and adaptive to respond to sudden changes in a highly complex business society. The philosophy revolves around 12 guiding principles. These principles consist of six process and six leadership principles. Together, the principles create a holistic philosophy of how organizations can become more adaptive and decentralize decision-making processes without the use of traditional budgets (Hope and Fraser, 2003). The term budgets does not in the Beyond Budgeting philosophy just refer to the budget in itself, but more so the budgeting process, and how this process functions as a generic term for traditional management control systems built around command and control (BBRT, 2013).

In a view to free oneself from these suffocating management control systems of the past, the Beyond Budgeting philosophy urges organizations to turn away from using financial incentives as motivators. Bogsnes (2009) questions organizations' extensive use of individual bonuses as a motivational tool, and argue that they do more harm than good. The Beyond Budgeting philosophy's criticism of using money as a motivator originates from Douglas McGregor's (1959) theory Y, where McGregor argues that motivation is something intrinsic to people. By using extrinsic motivators like bonuses, Bogsnes argues that this will only reduce the intrinsic motivation that one gets from work, and bonuses will undermine some of the interest in the job itself (Bogsnes, 2009).

According to Bogsnes (2009), in today's highly complex and interlinked business society, where work largely is a team-based effort, it is nearly impossible to separate individuals' performances from each other. Co-workers will always contribute to another individual's success, and individual bonuses may therefore undermine teamwork and organizational performance. Through criticizing the use of individual bonuses, the Beyond Budgeting philosophy rather encourages organizations to base rewards on group performance, as it functions better as a reward mechanism. The best tools however, is to motivate through using intrinsic motivators like recognition and

positive feedback. Bogsnes (2009) argues that businesses today need to use such intrinsic motivators through leadership, instead of turning too quickly to money as the main motivational tool.

6.1.2 What contextual factors within a dynamic management model influence motivation from a bonus system?

Companies rely on management control systems to make sure that employees are doing entrusted tasks and strive towards overall targets (Bergstrand, 2009). Primarily implemented for the same reasons (Treanor et al., 2013), bonus systems make up one of many pieces in the puzzle of aligning behavior and motivating employees. To be able to study the motivational impact from bonus systems, they must consequently be seen in relation to other parts of the management control system (Malmi and Brown, 2008). These are categorized by Ax et al (2010) into three main instruments of control: Formal, organizational and informal.

Being inspired by the philosophies of Beyond Budgeting, "Bank & Financial Corporation" has adopted a dynamic management model as their basis for management control. Within this model, they have implemented a bonus system comprising three different bonus schemes: One profit-sharing-, one group- and one individual scheme for corporate managers. As the motivational effects from these bonuses are likely to be highly contextual, it was necessary to investigate how other parts of the dynamic management model may influence the end result.

Formal controls: "Bank & Financial Corporation" has a formal control system based on lean management, external benchmarking and rolling forecasts. By moving away from budgets, "Bank & Financial Corporation" wants to promote a comparative mindset that permeates the group and facilitates for continuous planning in line with the principles of Beyond Budgeting (Bogsnes, 2009). By basing the bonus system on relative targets, the managers at "Bank & Financial Corporation" believe the formal controls to complement the motivational effects from the bonuses.

Organizational controls: Following the physical structure of the firm, the bonus systems at “Bank & Financial Corporation” mostly support motivation and cohesiveness coming from working in large teams (Gomez-Mejia et al., 2011). The new adoption of subjective allocation of the corporate-wide bonus is further supposed to balance out any differences in work input, to avoid free-riding. Yet half of the managers voiced out a concern that such an allocation might also create a competitive culture that undermines the team-work they are trying to support. This possible behavioral conflict was believed to be part of the reason why the average size of the corporate-wide bonus is relatively smaller than the pure group bonus from the company bonus scheme.

Informal controls: Building a great company culture is considered to be the most important factor in motivating employees (Ax et al, 2002). By fostering a culture based on moderation, “Bank & Financial Corporation” wants to provide employees with equality while also rewarding competence. In order to avoid extravagance, the bonus system is designed to make up a relatively small part of total salary. Yet most of the managers questioned whether the company culture truly complemented the motivational effects from the bonus system, which in their minds promotes inequality through individual allocations of corporate-wide bonuses and tailored bonuses for corporate managers. As another soft control, “Bank & Financial Corporation” wants to provide workers with more autonomy and interesting tasks to increase their empowerment (Huczynski & Buchanan, 2010). Yet some managers questioned if the bonuses could contradict the motivational effects from having more interesting tasks.

6.1.3 What factors within a bonus system motivate employees?

Personal goal setting is believed to largely motivate the managers of “Bank & Financial Corporation”. This includes discussing reasonable parameters, setting clear and measurable stretch-targets and receiving constructive feedback along the way. This correlates well with the theories of Locke and Latham (2006). By being an active part in the design of the goals, the managers also perceive the goals as relevant for their work tasks and for the firm. This makes them commit more strongly to the set goals.

Achievability was also found to be a key factor for goals to motivate. By setting realistic goals, the corporate managers were more determined to reach them and felt a sense of mastery at the point of achievement, as well as being recognized by their superior. For

the corporate-wide and company bonuses, some employees believed the bar to be too high to reach. By not receiving a higher bonus after performing well, these employees felt punished. This caused frustration and demotivation much like the research of Whetten and Cameron (2002) suggests. Yet, setting realistic stretch-targets was not viewed as an easy exercise by the managers. The research of Locke and Latham (2006) also proves that higher realistic targets facilitate better performances and motivation. This creates a difficult challenge for "Bank & Financial Corporation".

Clear communication was perceived to be essential in making the employees understand the bonus system (Locke & Latham, 2006). With three different bonus schemes, where the company bonus is based on several differently weighted parameters, a large part of the employees felt rather confused as to how the bonus system worked. Especially the company bonus scheme was not understood well. By not knowing how a bonus system works, it is unlikely that it directs behavior or stimulates the desired performance from the employees (Locke and Latham, 2006). Communication was also mentioned to help clarify the principles for allocating corporate-wide bonuses and ensure trust to the bonus system.

Influence on goals was the most mentioned factor of motivation. According to Vroom (1964) the perceived ability to influence a performance is one of three necessary requirements for the facilitation of motivation. By having individual scorecards with personalized goals the corporate managers felt far more in control over the outcome than for the company and corporate-wide bonuses. This increased influence made the personal goals more motivating to achieve. For the company bonus, less than half of the employees saw the link between efforts, performance and outcome. This further manifested through a desire to turn the company bonus more toward department performance. A large number of the employees thought this would be more motivating. Yet breaking down the bonus to lower levels does present "Bank & Financial Corporation" with even further challenges in harmonizing departments horizontally.

Uncontrollable factors were found to demotivate the employees of "Bank & Financial Corporation". Langeland (1999) mentions that even objective measures may be perceived unfairly if they are impacted by factors beyond personal control. When large

strategic decisions, such as mergers and acquisitions, affect the shared performances of the employees in a negative direction, this reduces the trust to the bonus system. Unexpected tax expenses seem to have had the same effect. This is perceived highly unfair by those who contributed to reach a certain level of team performance.

Entitlement over bonuses is likely to be a factor of demotivation. “Bank & Financial Corporation” paid out relatively high total bonuses on average per employee in 2009 and 2010. In combination with an unclear understanding of how the bonus system works, this seems to have caused an anticipation of receiving a certain amount of bonuses annually. With significantly lower average payouts per employee in recent years, this seems to have caused frustration for many employees who nearly thought of the bonuses as base salary. Hope and Player (2012) refer to this effect as an entitlement creep. When the rewards suddenly stop, they are believed to cause a negative feeling which likely is stronger than the positive effect by receiving it. Surprisingly, a large share of the employees still seems to anticipate annual bonuses. At the same time, the justification for receiving corporate-wide and company bonuses are quite high. This seems to increase the sense of entitlement from these rewards.

The size of the bonuses was also mentioned as an important factor of motivation. Constituting a relatively small part of total salary, the bonuses were not regarded as large enough to significantly impact behavior.

6.1.4 Do team bonuses impact motivation differently between managers and employees in non-managerial roles?

Our quantitative research shows that non-managers at “Bank & Financial Corporation” are significantly more motivated than managers in a team bonus setting. However, even though there exists a significant difference, the non-managers were on average not highly motivated from this team bonus.

Our research shows that the managers had a significant better understanding of the bonus system, a better understanding of what parameters the bonus was calculated from, as well as agreeing that the received feedback on goal achievement was better than the non-managers. According to a theoretical perspective, these results indicate

that the managers should be more likely to be motivated from the goals the bonus is tied to than the non-managers (Locke & Latham, 2006). In addition, the managers better saw how their work influenced their bonus payout than the non-managers. In line with the expectancy theory, this should make the managers more motivated, as a larger degree of control of what level of effort will result in a reward, will increase employees' self-efficacy that they are able to reach the goal (Vroom, 1964). But instead of seeing the managers being more motivated from this bonus, we see the opposite occur. Whereas this research report has largely answered *if* bonuses impact motivation differently between managers and non-managers, we can also speculate as to *why* this happens.

The difference in motivation between non-managers and managers may be explained from a task complexity perspective. This perspective argues that non-managers feel a stronger motivational factor from the bonus due to their work being less creative as it involves more routine tasks. This may well be a contributing factor here, as a large share of the respondents in the survey were employees in one of the subsidiaries where much of the day-to-day business involves sales and more routine tasks. We cannot say this for certain, as we do not have any details about each respondent's responsibilities and work tasks, but it is nevertheless a fair assumption.

We have discovered that there exists an expectancy how being rewarded, which is significantly stronger for non-managers. According to Vroom (1964) the expectancy must be rooted in a good understanding of what level of effort triggers a bonus, as well as understanding the targets that a bonus is tied to well. We see that the managers understand the bonus structure better, and the expectancy from the non-managers may therefore be because they view the bonus as salary, and an entitlement, rather than a bonus dependent on effort. Another factor that may explain the difference in motivation is that for the non-managers the company bonus makes up a larger share of their base salary, and thus the bonus is more motivating. This assumption does however imply that money might be a motivator at lower levels in the organization.

But to better explain why there is a difference in motivation between managers and non-managers in a team bonus setting at "Bank & Financial Corporation", further studies that look to explore the processes that drive motivation for lower level employees should be done through a more qualitative research approach.

6.2 Answering the problem statement

The purpose of this study has been to answer the following problem statement:
‹‹(How) do bonuses impact motivation in a dynamic management model?››

This research report has discovered that bonuses do impact motivation in a dynamic management level, albeit not very much.

From our research we saw that corporate managers found *very little motivation* from the individual bonus scheme, and that it did little to affect behavior as the managers argued that money for them was purely a hygienic factor. It was rather the high task complexity and a creative and challenging work environment that motivated them. These answers are in line with Deci and Ryan's self-determination theory (1985), McGregor's theory Y (1960) and Herzberg's two-factor theory (1966), that financial incentives have no motivational effect. What the corporate manager's however found motivating, were the goals that the bonuses was tied to. Taking part in setting challenging goals themselves was specifically motivating, which saw the corporate managers personally committing to the goals to a large extent. Overall, the corporate managers however did not perceive the bonus as motivating, as they all agreed that they would have performed the same way, had the goals not been tied to a financial reward.

The company bonus at "Bank & Financial Corporation" is perceived as a bonus system that does not work well to reward effort. The employees struggle to see the link between their work effort and the goals the bonus is tied too. This may seem to stem from a lack of clear communication throughout the organization, and a general lack of feedback on how performance is progressing throughout the year. This has resulted in a large share of the employees fail to understand the bonus system well, and be able to influence their own bonus. The employees also viewed uncontrollable factors as demotivating.

This report also shows that the company bonus had motivational differences between non-managers and managers at "Bank & Financial Corporation", as non-managers were significantly more motivated than managers. This result may occur as a result of the lower level employees having more routine tasks than managers, which may increase motivation from a financial incentive. The difference might also be explained as the

bonus being a larger part of the total compensation package for the lower-level employees than for the managers. The company bonus is also seen as an entitlement among non-managers, which may be a large demotivating factor.

All in all, our study found that "Bank & Financial Corporation's" bonus system was viewed as a bonus structure that had a bad fit with the dynamic management model, as well as being very little motivating. There were also views at both top- and lower levels of the hierarchy of the bonus system being unfair, as corporate managers receiving large bonuses based on personal goals, while lower level employees have little to no perceived influence on their relative small bonus. Therefore, looking at the purpose of bonuses as a motivational tool alone, this research may indicate, in line with Bogsnes (2009) and Pink (2009), that organizations need to move beyond bonuses and rather focus on motivating employees through intrinsic motivators, where recognition and feedback is two keywords. Even though we see that the parts of the bonus scheme might have a small, but positive impact on some of the employees, the discontent that a large part of the employees show towards the system is likely to have a large demotivating effect, which may cause demotivated and disengaged workers which will have a negative result on productivity and organizational performance.

6.3 Shortcomings and limitations

As a case study, this research reports main shortcoming is the limited generalizability and applicability it has to other organizations. Even within an industry, organizations' management control systems and bonus systems are highly contextual and situational dependent, which underlines the study's limitation of generalizability and external validity. However, the research may still be found relevant for organizations that operate within a similar context as "Bank & Financial Corporation".

To ensure that the conclusions we draw from our analysis have internal validity, the respondents must be selected from a random population. Through the qualitative interviews we interviewed six managers. Three of these had participated in the implementation of the management model, as well as two of the informants had participated in the development and design of the bonus system. These informants may have provided biased responses which reduce the internal validity of the report. As we interviewed only six managers from a population of over 1000 employees, this also

limits the possibility to generalize the answers to the organization. This study also used a survey to increase the internal validity. With a response rate of 65%, the internal validity is strengthened. However, we cannot exclude the possibility of the respondents discussing the survey between themselves prior to completing it, which may have influenced the responses in either direction.

6.4 Suggestions for further research

Several interesting topics for further research surfaced in the making of this paper. For instance did this study find significant differences in how managers and employees in non-managerial roles are motivated by team bonuses. These differences need to be further analyzed. One possibility is to conduct an in-depth study on the motivational effects from team bonuses on lower level employees. These results could either be studied independently or made use of in a comparative study. Another possible study could check for company specific differences in motivation within “Bank & Financial Corporation”. Gender differences or various levels of base salary could also be studied as potential sources for motivational dissimilarities in a group bonus setting. Another study could focus more on the motivational effects from the corporate-wide bonus scheme. As “Bank & Financial Corporation” has not yet tested the new allocation process, it could be interesting to research the motivational impact from this bonus scheme after it has been practiced. Another approach could be to study the implementation of the dynamic management Model in “Bank & Financial Corporation” in some years to see if it will align more or less with the leadership principles of Beyond Budgeting.

As this study only involved one company in a very special context, it could also be interesting to see how bonuses motivate in other financial entities. If other firms make use of pure company bonuses, it could be possible to conduct a comparative study on the motivational impact from similar bonus schemes. Such research may also help to further indicate how similar bonus schemes may motivate differently based on contextual factors in the management control system. Another interesting study could investigate what the most commonly types of remuneration schemes are in the largest financial entities in Scandinavia.

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Appendix

Appendix I: Legal framework for bonuses and incentives

In the wake of the economic recession of 2008, bonuses and remuneration policies within financial entities became highly debated in the Western world. This led several national authorities to introduce new regulations and guidelines to further restrict and control financial entities' fixed and variable remuneration schemes (PwC, 2012). In the EU, this manifested through a third European Capital Requirements directive from 24 November 2010 (Directive 2010/76/EU), also known as the CRD III directive or the Basel III directive, followed by specific guidelines provided by the Committee of European Banking Sectors' (CEBS, 2010). Largely based on these two EU documents, the Norwegian Ministry of Finance launched its own directive for financial remunerations on 1 December 2010 named ‹‹Forskrift om godtgjørelse i finansinstitusjoner›› (2010).

As stated in §1 (ibid.), the purpose of this new directive is to:

> *«Establish remuneration policies and practices for the entirety of the company in order to promote and give incentives to well-behaved risk management and risk control, prevent excessive risk taking and to contribute to avoiding conflicts of interests.»*

The new remuneration directive took effect January 1, 2011. These regulations comprise all holding companies of financial corporations, banks, finance companies, insurance companies, pension funds, investment firms and holding companies of investment funds. All foreign branches of Norwegian based firms that may be classified in any of the earlier mentioned categories are also covered by this new directive (ibid.).

As to the different types of salaries, the directive applies to all different forms of remunerations within financial firms as mentioned. It is also explicitly mentioned that

no variable pay is to be given *«in a way that circumvents the firm's policies for remuneration»*. It is in other words important that the practices of remunerations by the firm and not just its formal policies are aligned with the new directive. Each firm is independently responsible to comply with these rules (ibid.).

Companies having more than 50 employees or more than 5 billion NOK in assets under management are further required to establish an independent unit in charge of firm remunerations, elected by the Board of Directors. For internal control purposes, it is mandatory to annually report on the remuneration practices within the firm. This process is to be assessed by an objective third-party at least once a year. If requested, the annual remuneration practices reports are to be immediately handed to the Ministry of Finance or made public (ibid).

One clear distinction from previous remuneration rules lies within the definition of risk-takers. In §2 (ibid.) it is specified that all employees and officials with the equivalent remuneration as the top managers and other «risk-takers» are *also* subject to the new rules. Other «risk-takers» here includes employees and officials with responsibilities that are of great significance to the company's exposure to risks, as well as for employees and officials with tasks related to risk control.

Highlighted in §4 (ibid.) under remunerations for top executives, these are the main considerations:

- Total remuneration must be balanced. The salary (fixed remuneration) must be significantly large so bonuses (variable remuneration) can be discarded.
- A top executive of a bank, including the CEO, cannot receive bonuses that surpass 50 percent of his or her salary.
- Guaranteed bonuses can only be given to new recruits and only for their first year of employment.
- Bonuses are to be determined based on a complete evaluation of results and performance. Firm risks and costs associated to the need for certain results and liquid assets must be considered in this evaluation. The time horizon evaluated on can be no less than two years. The performance and results of an employee is to be evaluated by:

  - The employee's individual performance and results
  - The business unit's result
  - The firm's result
- Not more than half of the bonus payment can be given in cash. The other half must be paid either 1) in shares or other instruments related to the firm's equity (such as equity certificates) in the company itself or in another company in the group or 2) as conditional capital (for instance cash) reflecting the change in the firm's market value. Neither of the two alternatives is to be "exercised freely" by the receiving employee at once. Instead, the bonus is to be evenly spread out over a period totaling at least three years, where the binding period must consider the "underlying business cycles and risks" of the firm. The bonus is to be reduced if "the result's development or the following results entail so".
- Top executives cannot have any forms of insurance agreements that protect them from reduced or discarded bonuses.
- Total variable remuneration cannot limit the institution's ability to strengthen the bank's or insurance company's reserve.
- For severance pay, there are other specific rules that apply.

For employees and officials with responsibilities that are of great significance to the company's exposure to risks and employees and officials with tasks related to risk control, all of the abovementioned regulations apply, with the exception of the second constraint. As a final note, officials and those in charge of risk control are not be evaluated based on their business unit's results (ibid.).

In the corresponding press release following the launch of the new directive, Sigbjørn Johnsen, the Norwegian Minister of Finance gave his remarks:

> "Facilitating financial stability is a task of great importance to national authorities. Excessive risk taking is assumed to largely contribute to financial uncertainty. (…) Traditionally, remuneration policies in the financial sector have been structured in a way that generates too strong incentives for risk taking on behalf of the firm and its clients' resources. Therefore I believe it is essential to formulate rules that promote well-behaved risk management and financial stability, which deters excessive risk taking and does not give incentives to short term profits" (Ministry of Finance, 2010)

Appendix II: Interview guide – Qualitative interviews with managers

Interview guide – Managers at "Bank & Financial Corporation":

This interview guide was used as a guideline during the interviews, but the interviews also included follow up questions and other areas of discussion as the interviews progressed.

Introduction:

1. Presentation of the interviewer and the intent and purpose of the case study
2. Information regarding anonymity and other formalities.
3. Presentation of interviewee. Role in the organization, number of years working for the organization.

I. DYNAMIC MANAGEMENT:

a. Have you personally participated in structuring and implementing the new and dynamic management model?

In what way?

Have you participated in the development of the new bonus system?

b. What do you know about dynamic management and Beyond Budgeting?

What is your level of insight?

c. How has the new dynamic management model affected your daily work?

What are your thoughts on the implementation process?

Has it been done well?

d. Does the dynamic management model provide a better fit with the organization's strategy than the previous model?

II. BONUS SYSTEMS

e. Why does "Bank & Financial Corporation" operate with a bonus system?

What do you think is the purpose behind it?

f. How does the system fit with dynamic management and Beyond Budgeting?

g. Is the bonus system in line with the corporate culture?

III. BONUS SYSTEMS AND PROCESS THEORIES:

GOAL SETTING THEORY

h. Can you detail the bonus structure you have today?

What parameters is it built on?

What is your individual bonus tied to?

i. Do you normally reach the goals that your individual bonus is tied to?

Are the goals realistic?

Are the goals specific/tangible?

Are they typically short-term or long-term?

Are they easy to manipulate?

j. How often do you get feedback on how you perform in the league tables?

Do you work actively towards those goals in the league tables?

k. To what extent do you perceive the bonus parameters as reasonable?

Company/corporate wide/individual?

EQUITY THEORY

l. Do you find the differentiation in bonuses between leaders and staff fair?

Why do you think it is that way?

Is it a paradox that leaders need a higher bonus?

m. To what extent do you feel you deserve the bonus you receive?

Company/corporate wide/individual?

More or less?

n. How do you feel about the profit-sharing scheme now being allocated based on individual behavior?

Is it fair?

o. Do you think the new allocation system may lead to a more competitive work culture?

EXPECTANCY THEORY

p. How would you react if there were no bonuses for a year?

q. Do you expect to get paid a bonus every year?

Company/corporate wide/individual?

r. Do you feel your sub-ordinates expect to get paid a bonus every year?

Company/corporate wide?

s. How do you value the bonus?

Is it desirable?

t. Are the bonuses at "Bank & Financial Corporation" a good reward for you work effort?

SELF-DETERMINATION THEORY

u. Does the bonus give you a notion of working towards a mutual goal?

How?

v. Does it facilitate teamwork?

In what way?

w. Does the bonus system contribute to a sense of ownership to the organization?

x. What is the largest motivational factor for your employees?

Why?

y. In what way does your leader motivate you?

IV: BONUS SYSTEMS AND CONTENT THEORIES:

z. What motivates you to come to work every day?

aa. To what extent does money or a higher salary motivate you?

ab. Is bonus a good motivational tool to motivate your sub-ordinates?

Do they need to be motivated with money?

What other tools do you use to motivate them?

V: GENERAL EVALUATION OF THE BONUS STRUCTURE:

ac. Are you satisfied with the current bonus system??

Why/why not?

ad. Do you find the system complicated?

Why/why not?

How would you design the system?

What criteria do you feel one should be evaluated on?

ae. Are you more motivated by group or individual rewards?

af. Have you or anyone in your team shown any dissatisfaction towards the system?

ag. Does the current bonus structure motivate you to increase your effort?

If so, in what way?

Do you need the bonus to do your work?

Would you have performed as good without a bonus?

ah. Does “Bank & Financial Corporation” need a bonus system?

Appendix III: Quantitative survey

Introduction:

This questionnaire is part of the research for a joint master thesis at the Norwegian School of Economics (NHH) and Louvain School of Management (LSM). The results from the questionnaire will also constitute part of the annual evaluation of the company bonus scheme in “Bank & Financial Corporation”. To make the evaluation as good as possible, we ask you to take your time to answer all the questions in an honest manner. All answers will be treated anonymously. The survey takes 4-5 minutes to complete.

Page 1: Introductory questions

1. Which company are you a part of?
   - “Bank & Financial Corporation” Finance
   - “Bank & Financial Corporation” Holding Company
   - “Bank & Financial Corporation” Debt Collection
   - “Bank & Financial Corporation” Insurance
   - “Bank & Financial Corporation” Card Services

2. What is your gender?
   - Male
   - Female

3. Do you have a managerial responsibility?
   - Yes
   - No

4. How many years have you been employed in “Bank & Financial Corporation”?
   - 0-5 years
   - 6-10 years
   - 11-20 years
   - 20 years or more

5. What is the level of your base salary?
   - 300-400,000
   - 401-500,000
   - 501-600,000
   - 601,000 or more

Page 2: Statements

Please rate to which extent you agree with the following statement from 1 (fully disagree) to 7 (fully agree), where 4 refers to neither agreeing nor disagreeing with the given statement. If you do not know the answer, you can always check for I do not know.

6. It is easy to understand what is needed to trigger the company bonus
   - 1-7 or I do not know

7. I understand the measures that constitute the company bonus well
   - 1-7 or I do not know

8. I see how my work contributes to the company bonus
   - 1-7 or I do not know

9. The company bonus works well to reward my efforts
   - 1-7 or I do not know

10. The company bonus should be linked closer to the performance of my department, rather than individual or company performance.
    - 1-7 or I do not know

11. The company bonus motivates me to increase performance
    - 1-7 or I do not know

12. I anticipate to get paid the company bonus every year
    - 1-7 or I do not know

13. The communication of the company bonus scheme has been clear
    - 1-7 or I do not know

14. I feel I deserve the company bonus I am granted
    - 1-7 or I do not know

15. It is fair that the company bonus is reduced or left out for a year if the company as a whole does not reach set targets.
    - 1-7 or I do not know

16. The feedback on how we are performing with respect to the targets of the company bonus is good.
    - 1-7 or I do not know

Page 3: Voluntary, open-ended questions

17. What do you see as the biggest weakness with the current company bonus scheme?

18. What do you see as the biggest weakness with the current corporate-wide bonus scheme?

19. If you could have improved anything with the current bonus system, what would you have changed?

Appendix IV: Test results from survey

Table A provides summaries of the test demographics. By subsidiary, 58 percent of the respondents were from "Bank & Financial Corporation" Insurance. Nearly 25 percent were from the holding company of "Bank & Financial Corporation". Nearly 12 percent were from Debt Collection and about 4 percent were from Finance. Less than 1 percent was from "Bank & Financial Corporation" Card Services. The gender of respondents was fairly evenly split, with 48.95 percent females and 51.05 percent males. As one might expect, only 18 percent of the sample were managers, with the balance of 82 percent reporting no managerial responsibility. The mode for years employed is the 0-5 year category (43.41 percent), with the balance roughly equally split between 11-20 years and more than 20 years. The mode for the distribution of wage levels is the highest category, greater than 600,000, with 38 percent of the respondents, second highest was the 401-500,000 category with about 31 percent. In total, response rate was 65 percent, as 671 responded from a population of 1037. From a total of 145 managers, 123 responded to the survey, giving a response rate for the managers at 85 percent.

Table A. Frequency counts, percentages, and cumulative percentages for demographic var.

Variables	Values	Frequency	Percent	Cumulative percentage
Subsidiary				
	Card Services	6	0.9	0.9
	Debt Collection	80	11.98	12.87
	Holding company	166	24.85	37.72
	Finance	28	4.19	41.92
	Insurance	388	58.08	100
	Total	668	100	
Gender				
	Female	327	48.95	48.95
	Male	341	51.05	100
	Total	668	100	
Are you a manager?				
	No	545	81.59	81.59
	Yes	123	18.41	100
	Total	668	100	
Years employed				
	0-5 years	290	43.41	43.41
	11-20 years	101	15.12	58.53
	6-10 years	160	23.95	82.49
	More than 20years	117	17.51	100
	Total	668	100	
Wage level (NOK)				
	300-400,000	75	11.23	11.23
	401-500,000	207	30.99	42.22
	501-600,000	127	19.01	61.23
	Above 600,000	259	38.77	100
	Total	668	100	

Table B summarizes the results of the t tests for all eleven statements on the survey, statement by statement. The contents of the table are explained line by line for statement 1 of the questionnaire.

For statement 1, "*It is easy to understand what is needed to trigger the company bonus",* the first line under the header contains statistics for the group of non-managers. The first numerical column contains the number of non-zero responses, 541, followed by the average of these responses, 4.272. This is followed by the standard error of the average, 0.074, which is just the standard deviation of the sample.[1] "Standard deviation" is the estimated population standard deviation. The last two columns have the 95% Lower Confidence Limit (LCL) and 95% Upper Confidence Limit (UCL) that are the endpoints of a 95% confidence interval for the population mean. The second line of the table provides the same information for the group of respondents that were managers. The third line of the table provides statistics for the difference between the means for the two groups, including the mean, standard error, and the Lower and Upper Confidence Limits for a 95% confidence interval. The fourth line of the table provides the t statistic, given by the mean of Difference divided by standard error of Difference (i.e., 0.549/0.173), its degrees of freedom (d.f.), which assuming the population variances are the same for each group, is just the total sample size minus two, and the p-value for that t-statistic for a two-tailed alternative hypothesis. For the two-tailed alternative hypothesis, the p-value is interpreted as the probability of observing a t-statistic as large or larger in absolute value as the one observed, *if the null hypothesis that the population means are the same is true*. Thus small values of the p-value, for instance p<0.01, represent evidence against the null hypothesis because one would be unlikely to obtain a p-value this small (i.e., a 1 in 100 chance) if the null hypothesis were true. Table B can be seen on the next page.

[1] That is, the sample variance is the estimated population variance divided by the sample size which is 541 here. The standard deviation of the sample, alternatively referred to as the standard error of the sample, is the square root of the sample variance, or equivalently, it is the estimated population standard deviation divided by the square root of the sample size, 1.726 divided by the square root of 541.

Table B. ***t tests by statement (* if p value is less than 0.01)***

Statement 1: It is easy to understand what is needed to trigger the company bonus

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	541	4.272	0.074	1.726	4.126	4.417
Manager	123	4.821	0.157	1.742	4.510	5.132
Difference, Manager-Non-manager		0.549	0.173		0.210	0.889
t = 3.181, d.f. = 662, p-value = 0.0015*						

Statement 2: I understand the measures that constitute the company bonus well

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	543	4.333	0.072	1.687	4.191	4.476
Manager	123	5.268	0.141	1.563	4.989	5.547
Difference, Manager-Non-manager		0.935	0.166		0.608	1.261
t = 5.623, d.f. = 664, p-value < 0.0001*						

Statement 3: I see how my work contributes to the company bonus

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	536	3.966	0.079	1.838	3.810	4.122
Manager	122	4.648	0.157	1.739	4.336	4.959
Difference, Manager-Non-manager		0.681	0.183		0.323	1.040
t = 3.731, d.f. = 656, p-value = 0.0002*						

Statement 4: The company bonus works well to reward my efforts

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	538	3.732	0.082	1.894	3.572	3.893
Manager	121	3.645	0.166	1.830	3.315	3.974
Difference, Manager-Non-manager		-0.088	0.189		-0.460	0.284
t = -0.463, d.f. = 657, p-value = 0.6434						

Statement 5: The company bonus should be linked closer to the performance of my department, rather than individual or company performance.

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	505	4.735	0.078	1.761	4.581	4.889
Manager	118	4.500	0.180	1.956	4.143	4.857
Difference, Manager-Non-manager		-0.235	0.184		-0.596	0.127
t = -1.276, d.f. = 621, p-value = 0. 2026						

Statement 6: The company bonus motivates me to increase performance

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	540	4.420	0.081	1.879	4.262	4.579
Manager	123	3.919	0.179	1.986	3.564	4.273
Difference, Manager-Non-manager		-0.501	0.190		-0.874	-0.129
t = -2.644 d.f. = 661, p-value = 0.0084*						

Statement 7: I anticipate to get paid the company bonus every year

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	533	4.135	0.080	1.851	3.978	4.293
Manager	120	3.283	0.162	1.778	2.962	3.605
Difference, Manager-Non-manager		-0.852	0.186		-1.216	-0.487
t = -4.587, d.f. = 651, p-value < 0.0001*						

Statement 8: The communication of the company bonus scheme has been clear

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	539	3.929	0.074	1.719	3.784	4.075
Manager	121	4.165	0.169	1.859	3.831	4.500
Difference, Manager-Non-manager		0.236	0.176		0.109	0.581
t = 1.343, d.f. = 658, p-value = 0.1797						

Statement 9: I feel I deserve the company bonus I am granted

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	518	5.944	0.055	1.259	5.835	6.053
Manager	118	5.890	0.111	1.211	5.669	6.111
Difference, Manager-Non-manager		-0.054	0.128		-0.305	0.196
t = -0.4249, d.f. = 634, p-value = 0.6711						

Statement 10: It is fair that the company bonus is reduced or left out for a year if the company as a whole does not reach set targets.

Group	N	Mean	Std. Err.	Std. Dev.	95% LCL	95% UCL
Non-manager	528	4.657	0.077	1.770	4.506	4.809
Manager	119	5.630	0.153	1.667	5.328	5.933
Difference, Manager-Non-manager		0.973	0.178		0.624	1.322
t = 5.4748, d.f. = 645, p-value < 0.0001*						

Statement 11: The feedback on how we are performing with respect to the targets of the company bonus is good.

Group	**N**	**Mean**	**Std. Err.**	**Std. Dev.**	**95% LCL**	**95% UCL**
Non-manager	542	3.913	0.074	1.723	3.768	4.059
Manager	122	4.418	0.160	1.771	4.101	4.736
Difference, Manager-Non-manager		0.505	0.174		0.164	0.846
t = 2.9047, d.f. = 662, p-value = 0.0038*						

Finally, one should be careful not to confuse "average sentiment" as expressed by the average response with what one would obtain as a response by randomly sampling. For example, from a "population" of three people who respond 3, 4, and 7, the average is quite strong agreement, 4.66, but a random sample of one person from this population is equally likely to be someone who agrees, someone who disagrees or someone who is neutral. Table 3 provides the quartiles of the distribution for each question broken out by whether the respondent is a manager or not.

Table C and D. *Quartiles of response to survey question, by type of respondent, managerial role or non-managerial role. Q2 responds to the median.*

i) Non-managerial role

Statement:	Number of non-zero responses	Q1	Q2	Q3
It is easy to understand what is needed to trigger the company bonus.	541	3	4	6
I understand the measures that constitute the company bonus.	543	3	4	6
I see how my work contributes to the company bonus.	536	2	4	5
The company bonus works well to reward my efforts.	538	2	4	5
The company bonus should be linked closer to the performance of my department, rather than individual or company performance.	505	4	5	6
The company bonus motivates me to increase performance.	540	3	5	6
I expect to get paid the company bonus every year.	533	3	4	6
The communication of the company bonus scheme has been clear.	539	3	4	5
I feel I deserve the company bonus I am granted	518	5	6	7
It is fair that the company bonus is reduced or left out for a year if the company as a whole does not reach set targets.	528	3	5	6
The feedback on how we are performing with respect to the targets of the company bonus is good.	542	3	4	5

Table C: *Quartiles of response to survey question, non-managerial role*

ii) Managerial role

Statement:	Non-zero responses	Q1	Q2	Q3
It is easy to understand what is needed to trigger the company bonus.	123	3	5	6
I understand the measures that constitute the company bonus.	123	5	6	6
I see how my work contributes to the company bonus.	122	3	5	6
The company bonus works well to reward my efforts.	121	2	3	5
The company bonus should be linked closer to the performance of my department, rather than individual or company performance.	118	3	5	6
The company bonus motivates me to increase performance.	123	2	4	6
I expect to get paid the company bonus every year.	120	2	3	4.5
The communication of the company bonus scheme has been clear.	121	3	4	6
I feel I deserve the company bonus I am granted	118	5	6	7
It is fair that the company bonus is reduced or left out for a year if the company as a whole does not reach set targets.	119	5	6	7
The feedback on how we are performing with respect to the targets of the company bonus is good.	122	3	5	6

Table D: *Quartiles of response to survey question, managerial role*

Appendix V: Historical average payments general bonuses by subsidiary*.

Subsidiary	Per employee (NOK)				Total bonus payout (NOK)			
	2009	2010	2011	2012	2009	2010	2011	2012
Insurance A	46,000	46,000	21,000	25,500	11.6M	11.3M	7.4M	6.8M
Insurance B	50,000	50,000	28,000	14,200	19.6M	19.6M	12.2M	5.9M
Finance	32,000	32,000	24,000	12,000	3.3M	6.3M	4.6M	2.3M
Holding Company	48,000	48,000	27,000	24,400	10.8M	11.0M	6.2M	6.9M
Total average	46,000	45,000	26,000	18,800	45M	48.2M	30.4M	21.9M

*By general bonuses it is implied both corporate-wide and company bonuses. There are no historical data for Debt Collection and Card Services. Insurance A and Insurance B were merged to form Insurance in 2013.

The purpose of this research report is to explore the link between bonuses and motivation in a Beyond Budgeting setting. This has been done through conducting a case study of one of the leading finance corporations in the Nordic countries through defining the following problem statement:

(How) do bonuses impact motivation in a dynamic management model?

Through the use of qualitative interviews as well as a quantitative survey, the research report takes a holistic view of analyzing the motivational impact of three different bonus schemes on employees across the whole organization, as well exploring if a team-based bonus scheme has a different motivational impact on managers compared to non-managers in the organization.

Et selskap i NHH-miljøet

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