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Formal incentive systems in organization with a Swedish management style: conflict or interaction?

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Extended abstract

During the last ten years, prevalence of formal incentive systems have increased strongly in Sweden (Öhrlings PWC, 2008). The explanation seems to be a world-wide development towards higher reliance on financial incentives in the process of managing employees (WatsonWyattWorldwide, 2005, 2007). The increased presence of incentive systems in Sweden can be traced to enter Sweden through the presence of foreign ownership of former Swedish companies and multinational consultancy firms offering their services to Swedish companies.

However, this development is unexpected, considering a Swedish management tradition. The Swedish management tradition is usually connected to trust, intrinsic motivation and high reliance on social interaction between managers and their subordinates (Jönsson & Strannegård, 2009; Tengblad, 2003). This appears to be in contrast with a high reliance on formal incentive systems that implies importance attached to extrinsic motivation based on communication in the form of formal, system based evaluation of performance. Jansen, Merchant and Van der Stede (2009) have highlighted the need to relate incentive system to national differences. The aim of our study is to explore how organizations that are typically characterized as under a Swedish management style relate to the trend of increased use of formal incentive systems.

As theoretical input to our study, we rely on two disparate streams in the literature. Formal incentive systems have theoretical support from principal-agency theory. This theory assumes that employees have interests that are divergent from what organizations strive for, and therefore employees try to avoid work and cooperation, as long as there is nothing to gain for them (Kunz & Pfaff, 2002). Incentive systems may then be one way of inducing extrinsic motivation (Bonner & Sprinkle, 2002), without negatively influencing the general responsibility that employees take (Kunz & Pfaff, 2002). The basic view of incentive systems are positive, and any negative effects are explained by inaccurate development of the incentive system (Wilson, 2003) rather than questioning the idea behind incentive systems.

Our second theoretical input comes from a combination of research based in Sweden on management and research with a critical view of incentive systems. Swedish management is characterized by strong relationship between managers and subordinates, fostering cooperation based on trust and direct communication (Andersson & Tengblad, 2009). From this, it is expected that subordinates are encouraged to take responsibility for both their own tasks and their interaction with others (Jönsson, 1995; Tengblad, 2003). With multiple actors taking responsibility for development,

strategic alignment may be at risk but should be counteracted by a high identification with the organization and thereby an interest in its success. This has theoretical support from stewardship theory (Davis, Schoorman, & Donaldson, 1997), which claims that one way to understand why employees act as they do is to search for stewardship, i.e., a tendency for employees to identify themselves with the organization and its success. This is one form of intrinsic motivation (Ryan & Deci, 2000). Research on intrinsic motivation has shown the risk for crowding-out effects. This means that when attempts to influence motivation through external initiatives, i.e. formal incentive systems, this may disturb or replace intrinsic motivation. The logic is that when a formal system is set in place to reward employees for certain activities, employees may start considering aspects that are not appreciated within the formal incentive system as devalued. This might start a process of employees questioning their intrinsic motivation (Frey & Osterloh, 2000; Frey & Osterloh, 2005; Prendergast, 1999; Ryan & Deci, 2000).

We study how travelling ideas of formal incentive systems meet Swedish management through two qualitative case studies. Merchant, van der Stede and Zheng (2003) argues that research on incentive systems lack input from qualitative studies that bring together influences from various theoretical expectations. The first case study is a large industrial company in a technically advanced industry that manufacture mostly for the consumer market. It's presence on a global market makes incentive system something that they consider impossible to avoid. However, the company has an outspoken strategy of viewing incentive system, and compensation & benefits issue overall, as a hygiene factor. This implies that they try to develop solutions for their managers that at a reasonable level matches what their managers can get from equal positions in other companies. The solution should be good enough to avoid making managers dissatisfied, but it should not have a prime role in motivating performance. Instead, the organization pays much attention to supporting their employees in their career advancement and especially seeing to that they get both positions and projects that are seen as 'technically' challenging and developing. Motivation should be found in the work people do, not in what they get paid afterwards.

Our second case study is done in a large organization within the financial sector. Their strategy is to resist individual performance evaluation connected to pay as far as possible. For some parts of the organization, that are in highly competitive segments on the market for labor within the financial sector, they have a strategy similar to the one described for the industrial company above. However, for more than 95% of the workforce, there are no individual pay-for-performance solutions. Instead, they also work with career planning and development. In addition, they have an incentive system based on organizational performance that builds on comparison with competitors within their sector. When the organization outperforms their competitors, payments are made to a pension fund that mostly invests in the organization and is currently a substantial owner of the organization.

Our results point at companies under a Swedish management systems recognizes the intrusion of incentive systems, but try to align with their own ideas about management as far as possible. A broad perspective on employee motivation, with a focus on career planning and development take a central role. On a strategic level, these organization tries avoid conflicts between the ideas of incentive systems and their existing management ideas in everyday management activity, by taking an explicit stand on a high organizational level.

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