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BEYOND THE BONUS CHECK

A qualitative study unraveling the complexities of employee motivation in a PFP environment.

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Abstract

This thesis is a qualitative single-case study of employee motivation in a PFP environment within a Swedish business unit of one of the world's largest project development- and construction companies. The aim is to investigate how employees perceive and experience the impact of a PFP bonus system on their motivation. The study embraces employees currently covered by the bonus system as well as employees no longer covered by the bonus system. The study applies Chiang and Jang's modified version of Victor Vroom's expectancy theory and suggests that the extrinsic factors in instrumentality and valence, in this case, should be divided into monetary and non-monetary in order to encapsulate all aspects of the motivation question. Results indicate that the bonus alone does not impact perceived motivation to put in additional effort, mainly due to a weak link between individual effort and bonus outcomes, and strong employee preferences for intrinsic and non-monetary rewards. The findings contribute to the field of performance management, incentives and pay-for-performance, by complementing and supporting, but also to some extent questioning existing literature regarding the potential impact of pay-for-performance systems on employee motivation.

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Key words: Performance management, PFP, Bonus systems, Motivation, Expectancy Theory

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1. Introduction

The use of financial incentives by companies to enhance employee motivation and performance is a widely known concept which has been around and implemented for decades. Recently however, PWC (2022) conducted a study which is based on the notion that the labor market, and employees' perceptions and needs, are changing. PWC (2022) argues that historically, financial performance management practices have been useful in order to make people satisfied with their work, but for the last couple of years employees have gradually changed this perception. Today employees view it more important to feel meaning and fulfillment at work, than to get financial compensation (PWC, 2022). Understanding how employees perceive the impact of financial incentives on their motivation is thus a timely and relevant issue in the context of changing employee expectations.

Previous literature in the field of performance management, incentives and Pay-For-Performance (PFP) is largely focused on how incentives affect performance, both employee and organizational (Condly et al., 2008; Garbers & Konradt, 2014; Wang et al., 2018). Even though there are studies on incentives and PFP, and their links to motivation (Deci, 1971; Kuvaas et al., 2020; Novianty & Evita, 2018; Thibault Landry et al., 2017), they tend to either (a) study motivation only as a mediating effect or (b) have a theoretical lens of Deci & Ryan's (1985) self-determination theory or, through other theories, focus on intrinsic and extrinsic motivation. While there are studies using the expectancy theory of Victor Vroom (1964) to investigate employee motivation, these are mostly quantitative (Abadi et al., 2011; Chiang & Jang, 2008; Nimri et al., 2015).

Furthermore, existing research of PFP is predominately looking at a current and static PFP system. This entails that the data gathered is based on how people are currently feeling, trying to convey the different complexities of motivation as they are experiencing them in that moment. This may yield hypothetical answers and uncertain thoughts. Looking at a dynamic PFP system, as in this thesis, where there has been a change in the system's structure, may yield more concrete evidence of the experiences and effects of a system, as the subjects of the study can compare their actual behavior and feelings pre and post change. While there is some prior research where changes in PFP systems are taken into consideration, the number of studies is small, and they are predominantly quantitative and focused on performance (Benzer et al., 2014; Ghosh et al., 2022). However, the findings of these studies are surprising and show how there is an emerging field of research within PFP including dynamic systems.

Taking all of this into account, we find a gap in the current literature of performance management, incentives and PFP. First of all, most of the existing studies do not have motivation as the main focus, drawing upon performance measures instead of employee perceptions, experiences and insights. Second of all, many of the few existing studies with motivation as main focus, have adopted self-determination theory, leaving other relevant theories and perspectives less explored. Lastly, the majority of the studies in the fields mentioned are predominantly quantitative, meaning that they look at if incentives have a significant, and more specifically positive or negative, relationship with performance and/or motivation. Motivation is a complex subject, as proven by the contradicting theories and studies further discussed in 2. Theory, and we therefore believe motivation cannot be quantified in a way that encapsulates all nuances of the subject.

1.1 Purpose and Research Question

The purpose of this thesis is to fill all three aspects of the defined gap by qualitatively analyzing employee perceptions of how a PFP system impacts their motivation, defined as *the willingness to put in additional effort*, using Chiang & Jang's (2008) modified version of Vroom's (1964) expectancy theory. To do this, we conduct a single-case study on the Swedish business unit of an anonymized large Project Development- and Construction Company (hereafter called PDCC; or when referring to the Swedish business unit, PDCC Sweden). The company has recently gone through a change where the bonus was decreased for some employees and completely removed for another group of employees. This allows the gathering of insights form three different perspectives; (1) impact of having a bonus, (2) impact of a bonus being removed, and (3) impact of a bonus being decreased. Additionally, this yields an opportunity to not only compare the perceptions before and after a change, but also see if there is a difference between the two employee groups. All of these aspects add validity and depth to the findings and bring various insights and nuances to the following research question:

"How do employees perceive and experience the impact of a pay-for-performance bonus system on their motivation?"

1.2 Study Contributions

We believe answering the research question will contribute to existing research in multiple ways. Firstly, we contribute with individual employees' perceptions and experiences on how a

PFP system impacts their motivation, providing comprehensive and nuanced findings on employee motivation. Using a less prominent method theory for PFP and motivation studies, namely the expectancy theory, contributes to previous research of said theory. Furthermore, we contribute with a qualitative study in a field of predominantly quantitative research on the complex subject of employee motivation. Lastly, the research field within PFP systems, where the feature of a change is present, is currently under-researched. The few studies that exist are studying widely different cases, but with performance as main focus. Our study complements this existing literature by adding the individual perspective of motivation.

2. Theory

In this section we provide a review of previous research relevant to our study. We start with a brief explanation of management control systems and performance management before narrowing down to incentives and subsequently PFP systems. The theoretical lens will then be presented by explaining Vroom's expectancy theory (1964) as well as a modified version by Chiang & Jang (2008).

2.1 Performance Management

Hartmann et al. (2021) define management control systems as a "combination of practices designed and implemented by top managers to increase the probability that lower-level managers and employees will behave in ways consistent with the organization's mission, goals and strategies" (Hartmann et al., 2021, p. 4). In their quantitative study, Bedford et al. (2016) discover that despite a management control practice having a direct relationship with a specific desired outcome, this does not mean that particular practice is required to reach said outcome when it is combined with other practices within a system, due to interrelations. Thus, they argue that one must not stop at only looking at individual practices but at the management control system as a whole, investigating how the practices work in relation to each other in different combinations and in different strategic contexts. However, in order to investigate and understand the entire system, one must also zoom in and determine the management control practices' isolated effects on performance and/or motivation.

Performance management are the management control practices concerned with aligning employee performance with the goals of the organization and includes four core activities; planning, execution, evaluation and learning (Hartmann et al., 2021). Furthermore, performance measurement systems are the practices within performance management, concerned with setting appropriate goals in the planning phase and evaluating real outcomes to quantify performance in the evaluation phase (Hartmann et al., 2021). Often times, organizations use incentives, further explored below, to ensure the set goals are reached. Hartmann et al. (2021) emphasizes that the performance measurement system must align with the organizational strategy and the measures used should therefore be appropriate and focus on what the organization wants to develop. The measures can be financial, such as profit, margins and turnovers, and/or non-financial, such as customer satisfaction, quality and employee turnover. Traditional performance measurement systems such as profitability analysis, cost variance analysis, and budget variance analysis take only financial measures into account while more contemporary ones have been developed with a multidimensional focus, arguing that organizations must take more measures, beyond financials, into account (Upadhaya et al., 2014). Examples of such multidimensional performance measurement systems are the performance pyramid (Lynch & Cross, 1990) and the balanced scorecard (Kaplan & Norton, 1992).

2.1.1 Incentives

In the evaluation phase, the performance and outcomes are evaluated against the set goals in the performance measurement systems. In order to incentivize employees to work towards and reach these goals, good performance and the achievement of the goals are often linked to some kind of reward. Examples of commonly used financial incentives are bonuses, profit sharing or stock options. (Hartmann et al., 2021)

In the below sections we start off by discussing previous studies of the relationship between incentives and employee performance, and then move on to incentives’ effect on employee motivation.

2.1.1.1 Incentives and Employee Performance

There are a multitude of studies regarding rewards and incentive systems and how these impact employee performance (Condly et al., 2003; Garbers & Konradt, 2014). The studies show us that different types of incentives and rewards can have various impacts on employee performance and at different magnitudes.

To provide a comprehensive view of how incentives affect employee performance, Condly et al. (2003) conducted a meta-analysis of existing studies on this topic. Condly et al.

(2003) studied the role different factors, such as incentive type, incentive competition and incentive term, had on how incentives affect employee performance. Taking all factors into account it was found that employees who were given incentives increased their performance with 22%. It was also found that different factors had various effects on employee performance, for instance that monetary incentives had a greater increase on performance than non-monetary incentives. However, this result should be viewed with caution as the number studies looking at non-monetary incentives were far less than the number looking at monetary incentives, resulting in a skewed sample size. Furthermore, the analysis showed that team-based incentives had more than double employee performance gain compared to individually based incentives. However, this also consisted of a skewed sample size, as there were only 9 studies on team-based incentives, compared to 55 individually based ones.

Expanding on the results of Condly et al. (2003) and other studies on team-based incentives, Garbers & Konradt (2014) also conducted a meta-analysis on this subject. Their study, just as Condly et al. (2003), concluded that both individual and team-based financial incentives increase employee performance, and that team-based incentives have a stronger impact than individual ones. Furthermore, the analysis found that an equitable distribution of rewards has a stronger impact on employee performance than equally distributed rewards. This implies that the effect of an incentive is stronger when the reward is connected to the individual's or team's own contribution, as compared to if every employee gets the same reward regardless of the performance or contribution. This suggests support for the effectiveness of PFP systems as these include rewards based on one's own and/or team performance.

Both Garbers & Konradt (2014) and Condly et al. (2003) discussed what might be the reason for the difference between the impacts of individual and team-based incentives. Condly et al. (2003) argues that team-based incentives increase the "...team member['s] values for their work, their appreciation of the skills of their teammates and their willingness to collaborate." (Condly et al., 2003, p. 55). Garbers & Konradt (2014) reinforced the sentiment of team-based incentives promoting cooperation, while adding the assumption that these incentives signal that the company values team performance, in turn enhancing employee motivation and performance.

Another aspect Condly et al. (2003) looked at in their study was motivation outcomes. They argue that the reason why firms use rewards is to incentivize employees to achieve higher performance but the first step in doing so is to create motivation amongst employees. The authors explain that there are currently three different motivation outcomes in the research area, described as "(1) actively choosing to do work rather than "intending" to do it (…) ; (2)

persistence at a task in the face of distractions and competing work priorities (…) ; and (3) working smarter by investing more 'mental effort' to create new approaches and tune old strategies so that they are more effective and efficient." (Condly et al., 2003, p. 50). The results showed that incentives tend to have almost double the effect on making employees persist at their previous task or working more effectively and efficiently, as compared to making employees actively choosing to do a new task. This indicates that incentives effect on employee performance differs depending on the purpose of the incentives, that is, as defined in Condly et al.'s (2003) study, if the purpose is to motivate employees to do something new or additional, or if the purpose is to persist or add mental effort to their current work. However, the sample sizes of the different motivation outcomes in Condly et al.'s (2003) study, were significantly different, with 7, 42 and 15 studies respectively, bringing some uncertainty into the validity of the results. Furthermore, to perform a new task, Condly et al. (2003) argue, is not as "cost beneficial" as persisting or working more effectively, since it requires different skills and knowledge, learning something new, and trial and errors, which can explain why incentives have less effect on this type of motivation outcome. However, the authors suggest further research on this issue. What can be learnt from this study though, is that it is important to define motivation and the desired motivation outcome, in order to understand how incentives will affect employee motivation and performance. This opens for an interesting and deeper discussion on how different incentives impact employee motivation.

2.1.1.2 Incentives and Employee Motivation

In their quantitative study Novianty & Evita (2018) found that financial incentives have a positive influence on employee motivation. However, there are conflicting views about this, and many studies are taking the perspective of self-determination theory arguing that motivation and its relationship with incentives is far more complex (Deci, 1971; Kuvaas et al., 2020; Thibault Landry et al., 2017). In the self-determination theory, motivation is divided into two parts: extrinsic motivation and intrinsic motivation (Deci & Ryan, 1985). Extrinsic motivation comes from the consequences (rewards) of doing a task rather than the activity itself while intrinsic motivation, on the other hand, is derived from within an individual when they find the task interesting and enjoyable (Deci & Ryan, 1985). This theory is partly based on experiments conducted in the study by Deci (1971) where he intended to see the effect of extrinsic rewards on intrinsic motivation. His results showed that financial rewards, if used in a controlling and manipulative manner, decrease intrinsic motivation, while non-financial rewards, such as positive feedback and verbal encouragement, increase it.

Thibault Landry et al. (2017) contributes to the debate regarding the impact financial incentives have on motivation, by investigating, with a self-determination theory perspective, how the impact varies depending on the distribution of the financial rewards. Through three field studies, Thibault Landry et al. (2017) found that when financial rewards are fairly distributed, they satisfy employees' needs of autonomy and competence, which in turn, according to the results, increase employee motivation and performance. Though, the authors also discuss how this is contextual and may differ in another context. Thibault Landry et al. (2017) thereby provide the argument that financial incentives are not inherently detrimental to employee motivation and performance, rather its success is highly dependent on the conditions under which the incentives are implemented.

As mentioned, many studies are investigating motivation through the lens of the self-determination theory, categorizing motivation into extrinsic and intrinsic and how these are influenced by different factors. While this perspective is interesting, it confines the findings and analyses. Studies applying other perspectives would thus yield nuances to the field of incentives and employee motivation.

2.1.2 Pay-for-performance

There are many different types of reward systems, one of those systems being pay-for-performance. PFP systems, as the name suggests, entail that an employee's monetary compensation is not solely fixed, but dependent on performance. Which performance the compensation is based on can vary between different PFP systems, examples being individual-based, team-based, company-based, or a combination of them. Furthermore, the PFP can also differ in being an add-on to a base salary or a stand-alone payment. (Council, 1991)

Looking at previous research on PFP and its effect on employee motivation, for example, Wang et al. (2018) conducted a study but only looked at motivation as a mediating effect for performance and, for example, Kuvaas et al. (2020) focused solely on intrinsic motivation in their study. These studies conclude that PFP positively affects employee motivation, but a common denominator is that the studies are quantitative and only investigate whether motivation exists or not. This opens for delving into employee perceptions and intricacies, exploring the same question, but also the underlying reasons behind motivation existing or not.

As briefly mentioned, Wang et al. (2018) conducted a study on a number of firms to investigate the effects of PFP systems on organizational performance. The study filled previous gaps in the research field by providing a method for explaining differences in PFP systems and their effects, as well as looking at the motivational effects of PFP systems. In order to measure employee motivation in their quantitative study, the authors use employee participation and measured how this impacted organizational performance. To differentiate between PFP systems, the authors decomposed PFP systems into two dimensions, scope and depth. They used scope as an indicator of the variety of PFP systems in the firm, and depth as an indicator of the ratio of performance-based pay over total pay. The study found that PFP systems increase employee participation which in turn increases organizational performance. More specifically, the findings showed that too low or too high ratio between performance-based pay and fixed pay decreases employee participation.

Kuvaas et al. (2020) also fill the gap of motivational effects by specifically looking at Individual Variable Pay-For-Performance (IVPFP) and its effect on the intrinsic motivation of employees in an international retail organization. The IVPFP made the employees feel controlled, which in turn decreased intrinsic motivation. This is in line with the self-determination theory previously mentioned, that extrinsic rewards decrease intrinsic motivation. The findings of Kuvaas et al. (2020) also align with the results of Thibault Landry et al. (2017). In the latter study it was found that an increased feeling of autonomy increased intrinsic motivation and combining this with the findings of Kuvaas et al. (2020) concludes that if employees feel controlled and perceive less autonomy, their motivation will decrease.

As our thesis investigates the aspect of a change in a PFP system, previous research with this specific feature become of interest. This field is under-researched, and of the few existing studies, the majority is focused on organizational performance rather than motivation (Benzer et al., 2014; Ghosh et al., 2022). However, the two studies mentioned made interesting and surprising findings, suggesting that this research field should be complemented with more studies.

Ghosh et al. (2022) performed a study on a bakery chain in Japan which switched from basing their bonus on mostly non-financial measures to basing it on mostly financial measures. The bakery chain was customer-focused, and the change to financial measures entailed a decrease in organizational performance as the new metrics did not reflect the bakery’s customer-focused strategy. This finding thus support Hartmann et al.’s (2021) argument regarding the need of alignment between an organization’s performance measures and their strategy.

Benzer et al. (2014) performed a cohort study on the Veteran Health Administration to examine the effectiveness of PFP systems within the US health care system. The study included the implementation and later the removal of a PFP system and the main objective was to see whether increased standard performance and quality levels were sustained when the PFP system was removed. The study found that performance was significantly improved in six out of seven quality measures after implementing a PFP system with the focus of improving those measures. Surprisingly, the higher performance levels were sustained after the removal of the PFP system. The authors explain that this indicates that after a hospital reaches a certain performance level, that level can be sustained after removing the incentives that brought it there. However, one may question the results since the study did not include a control group, a limitation the authors also point out, which could mean the performance level would have increased due to things besides the PFP system, and that is why it was sustained after the removal of the system. Furthermore, the study only observed the performance levels 1-3 years after the removal, which raises the question if the sustention can be considered long-term.

2.2 Expectancy Theory of Motivation

From a theoretical lens, this thesis draws upon Victor Vroom's expectancy theory of motivation, outlined in "Work and Motivation" (Vroom, 1964). His theory implies that employee motivation is driven by the employees perceiving that their efforts lead to good performance and that good performance leads to desirable rewards. Organizations should thus make sure that the link between effort, performance and rewards is clear and understood by its employees and that the rewards used are valued by the employees. Vroom (1964) suggests that an individual's motivation is a product of three factors:

$$\textit{Motivational Force} = \textit{Expectancy} * \textit{Instrumentality} * \textit{Valence}$$

Expectancy is the employee's perceived probability that their effort will lead to a desired performance level, that is, their perception of how big of a role their own effort plays in improving their performance. This perception is affected by factors such as self-efficacy, goal difficulty and perceived control. Self-efficacy is the employee's own belief of their capability to perform the task. Goal difficulty refers to the employee's perception of how difficult the goal is to reach with their own skills and resources. The perceived control is the perception of how much control the individual has over their actions leading to desired outcomes.

Instrumentality is the perceived probability that, if the employee reaches the desired performance level, they will receive a desired outcome or reward. It is important that managers fulfill their promises of rewards and outcomes, and that the employee is certain these promises will be fulfilled. Trust in the reward-giver, control over the rewards, and policies stating how performance transfers to a reward, are all factors affecting the perceived instrumentality.

Valence is the perceived value or attractiveness an individual places on a particular outcome or reward. It is driven by the employee's individual needs, goals, preferences and values. The rewards can be monetary or non-monetary and the managers need to know what the employees appreciate to make sure that the outcome or reward promised and given is valued enough to drive performance.

Vroom (1964) argues the higher each of these perceptions, the higher the motivational force will be, and explains that individuals will choose the behavior option that has the greatest motivational force. He also argues that individual factors play a role in the perception levels of expectancy, instrumentality, and valance, which results in different motivational forces among employees. Since the theory illustrates how expectations make an individual choose one behavior over another based on their own perceptions, it can be classified as a process theory, explaining how motivation is developed and not simply if it exists or not.

While the theory as Vroom (1964) suggests is popular and generally accepted, there seems to be some criticism regarding weak points in the theory, which has made researchers suggest various modified theories in order to make up for these weak points. We have chosen one such modified model for our study, which will be presented below.

2.2.1 Chiang & Jang's Modified Expectancy Theory of Motivation

In their quantitative study of employee motivation in a hotel setting, Chiang & Jang (2008) suggests a modified expectancy theory consisting of five components: expectancy, extrinsic instrumentality, intrinsic instrumentality, extrinsic valence, and intrinsic valence. Their modified expectancy theory is based on the notion that rewards can be either extrinsic or intrinsic. Extrinsic rewards are those given to an individual by an external agent, such as financial compensation from their employer or feedback from colleagues, while intrinsic rewards are personal, such as the feeling of accomplishment, development of self-fulfillment and self-esteem. Chiang & Jang (2008) mean that of the three factors in Vroom's (1964) expectancy theory, instrumentality and valence are directly related with rewards, meaning that they have both an extrinsic part and an intrinsic part. Extrinsic instrumentality is thus the employee's belief that if they reach the performance expectation, they will receive a greater extrinsic reward, while intrinsic instrumentality is the equivalent with intrinsic rewards. The division of valence is the value the employee places on extrinsic rewards versus the value they place on intrinsic rewards. Figure 1 shows the modified expectancy theory with its five parts.

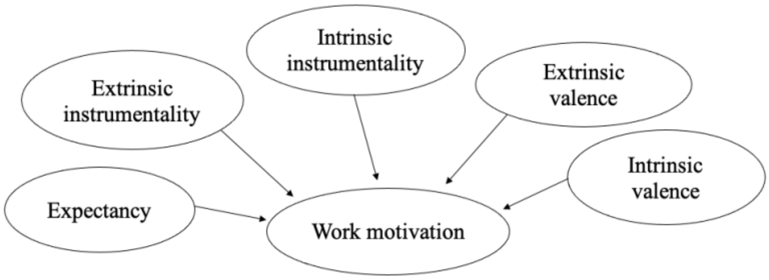

Figure 1: Modified Expectancy Theory of Chiang & Jang (2008)

In their study, Chiang & Jang (2008) have looked at monetary extrinsic rewards while the non-monetary extrinsic rewards have not been examined. The results of Chiang & Jang's (2008) study indicated that expectancy, intrinsic instrumentality, extrinsic valence, and intrinsic valence have a positive relationship with employee motivation in the hotel setting. It was also found that when intrinsic outcomes are kept constant, and employees expect a certain level of financial compensation, their motivation will decrease if they do not receive that level of compensation. Additionally, the authors found that the intrinsic motivation factors affected the employee motivation to a greater extent than the extrinsic ones.

Other studies have also used this modified expectancy theory of Chiang & Jang (2008). Nimri et al. (2015) and Abadi et al. (2011) both quantitively investigated motivation of employees, in different sectors, and found that intrinsic instrumentality and intrinsic valence have an impact on employee motivation, consistent with Chiang & Jang (2008). Regarding extrinsic instrumentality and extrinsic valence, the findings are more uncertain as Abadi et al. (2011) found these factors to impact employee motivation while Nimri et al. (2015) did not find such an impact. An interesting finding of Nimri et al. (2015), however, was that if these extrinsic factors were significant, they would have a negative relationship with motivation, which aligns with the findings of Abadi et al. (2011). The results of these two studies thus differ slightly from the results of Chiang & Jang (2008), which implies that the impacts of the modified expectancy theory factors on motivation are not certain and can be further explored. Our thesis will therefore try to add nuance and qualitative depth to the existing research by answering the research question of how employees perceive that their motivation is impacted by a monetary bonus, through the modified expectancy theory.

3. Method

In this section we describe our choice of research design and provide a description and explanation of the data collection process. We end the section by explaining the data analysis process.

3.1 Research Design

As the aim of this thesis is to explore the perceptions of employees, and perceptions as well as the subject of motivation is complex and multifaceted, a qualitative research approach is used. This further allows for the flexibility to gather information about different contextual factors that may impact those perceptions (Bell et al., 2019). The choice of a qualitative research is also due to the aforementioned lack of qualitative studies in the research field of pay-for-performance systems and motivation.

The thesis is a single-case study of a bonus system at PDCC Sweden. The study is performed by conducting interviews and by using documentation provided by the company. It is performed at PDCC Sweden due to the unique situation where it not only has a bonus system implemented for certain employees but has also gone through a recent change where the bonus level was decreased, which resulted in a complete removal for some employees and a lower bonus for others. This change occurred just a few years back, meaning that there are many employees still working at the company who can provide their perceptions of the bonus system both before and after the change.

3.2 Data Collection

The data collection process started with collecting information about the structure of the bonus system before and after the change. This information was gathered from documents and other communication, such as email conversations, with employees knowledgeable about the system. This information was crucial for preparing and executing the interviews, as well as analyzing the data gathered at the interviews, since it familiarized us with the system and the context, in turn helping us to better understand the opinions and perceptions of the interviewees (Bryman, 2012). A documents-based approach for this data was appropriate since it provided us with objective and unbiased information and, since we did not require extensive information, the documents provided and the small amount of further communication, was enough.

The second, and main, data collection was interviews with employees to gather insights about their perceptions on how their motivation is impacted by the bonus system. Considering the scope of this thesis, together with PDCC Sweden we used purposive sampling (Cassell, 2015) to choose 10 interviewees (see Appendix 1) since we wanted to interview both employees for which the bonus decreased and for which it was removed. We ended up interviewing 5 employees from each group. Purposive sampling thus made sure that our interviewees were both willing and able to provide insights into the specific experiences and perceptions we intended to investigate and analyze. The sample of interviewees was furthermore delimited to one particular section of PDCC Sweden, due to ease of access. This of course brings a risk of bias, as the section may have a certain culture and collective thinking. However, we mitigated this risk by the interviewees coming from different geographical and organizational regions within the section.

When contacting the interviewees, we made sure to refer to the internal source from whom we received their name and contact information, which we believe encouraged participation, as well as validated our legitimacy.

The ideal would have been to conduct all interviews face-to-face as this can offer more information beyond the spoken word, for example, through gestures and facial cues (Cassell, 2015). However, this was not possible for 6 out of 10 interviews due to scheduling- or geographical issues. In these cases, the interviews were conducted on video-calls to still maximize the information gathering and give an opportunity to, for example, see gestures and facial expressions. Furthermore, all interviews were conducted in Swedish as that is the first language of the authors and all interviewees and we wanted the interviewees to feel comfortable and able to provide their opinions and experiences in a sufficient and efficient manner without language being a potential obstacle.

The interviews were semi-structured as we wanted the interviewees to state their opinions and feelings somewhat freely regarding the subject (Miller & Brewer, 2003) and it also allowed for points and perspectives to surface that we, as researchers, had not thought of beforehand, which provided a possibility of expanding the findings (Bell et al., 2019). To achieve the semi-structured interviews, we created an interview guide (see Appendix 2) with a list of topics and questions we wanted the interviewees to reflect upon (Bryman, 2012). The interview guide consisted of broad topics and open-ended questions where possible, as Bryman (2012) suggests, to avoid premature closure, and allow the interview to shift focus if relevant and needed. During the data collection process and between interviews, the interview guide was refined and restructured where we felt it was necessary, to optimize our findings. For example, some questions we had included at the beginning of the process, turned out to not be as relevant when starting to analyze the findings of the first few interviews, and it was then removed or reformulated to better suit the needs of the analysis. Appendix 2 shows the latest version of the interview guide.

Lastly, all interviews were, with the consent of the interviewees, recorded and transcribed to enable and ensure a thorough and unbiased examination and analysis of what the interviewees said (Bell et al., 2019).

3.3 Data Analysis

The interviews were either transcribed in real time by the Microsoft Teams software, or if conducted face-to-face, Microsoft Word's transcribing service was used. However, the transcriptions were gone through by one of the authors while listening to the recording in order to adjust for any mistakes and clarify tone and other cues if necessary. Spoken language expressions, such as repetition of words while thinking, were all included in the transcription, however these are excluded from the quotes used in the thesis to enhance readability and comprehension.

To analyze the transcriptions a thematic approach was used to discover patterns of feelings and opinions of different interviewees (Bryman, 2012). Looking at the transcripts, we marked and commented answers and concepts that surfaced in multiple interviews, as well as marking individual expressions that were especially relevant for the analysis and chosen method theory. When main themes were established, these were gone through multiple times in order to spot any differences of opinions regarding similar topics.

Since all interviews were conducted in Swedish, any empirical quotes used in the thesis have been translated into English by both of the authors as well as a translation software, then these translations were compared and combined to get a translation as unbiased and objective as possible.

4. Empirical Findings

The empirics start by providing some context and background about PDCC as well as the structure of their bonus system. We then move on to the findings of employee perceptions from the interviews conducted.

4.1 Company Background

PDCC is one of the world's largest project development- and construction companies. It was founded over 100 years ago and is operative in 10 countries in Europe as well as in the US with, in total, around 30 000 employees. PDCC Sweden has around 8 000 employees and, in 2022, a revenue over 35 billion SEK.

PDCC has arranged their employees into two categories: "leaders" and "all". Subsequently, the "leaders" are arranged into seven levels, ranging from level 1 with, for example, project engineers and HR administrators, to level 7 with the company's executive team. In between, there is for instance level 3 with, for example, regional managers and project directors, and level 5 with for example PDCC Sweden's executive team (excluding the CEO who is at level 6).

There are a multitude of benefits, both monetary and non-monetary, granted to employees at PDCC. For example, employees can have access to a health benefits, an employee ownership program, and insurance. Additionally, PDCC Sweden has a PFP system called "bonus according to contract", consisting of an annual variable bonus.

4.1.1 The Bonus System

The bonus system is constructed as such that an employee's possible bonus is expressed as a percentage of their yearly salary and cannot exceed 100%. The bonus is calculated based on financial parameters and non-financial reduction parameters, all being set year by year. Examples of non-financials are goals related to diversity and inclusion, or health and safety, such as number of accidents in a project. An employee's results are measured as a percentage of the financial parameters and the non-financial parameters then reduce that percentage. In the case of the financial parameters reaching 100%, the non-financials can only reduce up to 50%, and in other cases the reduction is proportionate to the financial parameter result.

Whether the variable bonus is included in an employee's contract is dependent upon the work position they have, as well which of the 7 levels that position is in. Furthermore, the level also determines the maximum percentage of a yearly salary that their bonus can reach. For example, a line function employee in level 4 can maximum receive 50% of their yearly salary as a bonus.

It is currently deemed that *certain* positions in levels 3-5 should be included in the bonus system due to those positions having a fundamental responsibility of results, for example, on regional- or project level. It is therefore not certain that each position in level 3 has a bonus since their specific position may not have said responsibility. Other than result responsibility, the decision is also based on what similar work positions are offered compensation wise at other companies within the industry.

As previously indicated, there was a change in the system a few years ago, starting in 2018 and finishing in 2020. Before the change, positions in levels 1 and 2 were also included in the bonus system. The change entailed a decrease in the bonus for all levels, for example, from a possible 70% of yearly salary to 50%. However, the possible percentages for level 1 and 2 before the change were low enough that the decrease led to a complete removal. To compensate for the decreases and removals, employees received a proportionate increase in their fixed salary. This raise was calculated based on the average bonus outcome of the previous few years. For example, if an employee had the maximum bonus of 50% of their yearly salary, and the average outcome of the previous few years was 45%, the employee would get a 45% increase on their fixed yearly salary.

The bonus of an employee is, as mentioned, included in the employee's contract and the goals the bonus is based upon therefore differ between employees. For example, a project manager has goals set on the results of them individually, the results of the project they are a manager of, the results of the region that project is a part of, and so forth up until the results of PDCC Sweden. While some individual goals exist, a majority of the goals are non-individual. Additionally, the individual goals are absolute and not relative, that is, certain tasks to perform and not how well they are performed. For example, one of these tasks is to visit different construction sites to discuss safety, and the employee thus only have to make sure they have done these visits at the end of the year when their bonus is to be calculated, but there is no evaluation of the quality of the visit.

4.2 Employee Perceptions

In this part, we will unravel the employee perceptions regarding the bonus system and its impact on their motivation. The findings are summarized and placed into theoretical categories, with common themes found throughout the interviews. Pseudonyms are used when presenting the interviewees' opinions and feelings. Additionally, we indicate whether they experienced a decrease or complete removal of the bonus, in order to enhance readability and comprehension as the perceptions may differ between the two groups.

4.2.1 Motivation Definition

When asked about motivation, it became evident that the definition of motivation is slightly ambiguous and individual, however its broad definition can be derived from the following statement made by Niklas:

> *"Motivation is something that makes you want to do something. It is a feeling of wanting to deliver."*
>
> – Niklas (Removal)

For the purpose of this study, we specified the definition further during the interviews to *the willingness to put in additional effort*. When then asked what different factors motivates them in this way, interviewees stated a number of things. Examples of such things are fun tasks and projects, working on things they feel have a purpose, being challenged, personal development, feedback and appreciation from colleagues and managers, prestige, responsibility, and loyalty. Most interviewees also stated that a fair monetary compensation for their work is important, albeit it is not what drives them to put in additional effort into their work.

4.2.2 Motivational Effects

The general perception seems to be that the bonus had/has zero, or close to zero, impact on motivation. Interviewees say it was/is of course pleasant to receive the bonus once a year, however it is not what motivates them to put in a certain amount of effort or work extra hard on a specific task. It was/is simply a short-term positive reaction. Niklas expressed this by saying:

> *"Of course, it was really nice when it [the bonus] landed in the salary envelope once a year; then you got happy."*
>
> – Niklas (Removal)

But when asked a follow-up question, whether he put in more effort when he had the bonus, than the effort he puts in now not having the bonus, he said that he felt no difference. All other interviewees who experienced a removal, as well as the interviewees for which the bonus decreased, echoed this sentiment and stated they do not feel more or less motivated now, nor did they perceive any change in their performance level. They expressed that this is because monetary rewards are not what motivates them, rather it is the non-monetary rewards, such as feedback and appreciation from others, and self-fulfillment aspects previously mentioned. In connection to this a few interviewees expressed an idea that what motivates an employee may also be influenced by where the employee is at in their career. They believe that a young employee starting out at the company may be more interested in the monetary benefits as they may not be fully satisfied with the level of their monetary compensation, and/or they have not experienced the non-monetary benefits yet. When asked what motivates him the most out of monetary and non-monetary compensation, Fredrik expressed his thought process of this varying over one's career. He said:

> *"I believe that there is a point where one receives financial compensation that allows for a comfortable life in general and feels satisfied with that life. Where I am now in life, it is more important for me to have a motivating task, a good project, and a good workplace rather than more financial compensation."*
>
> – Fredrik (Decrease)

Moreover, several interviewees stated that the loyalty and solidarity towards the company and their colleagues impact their motivation more than monetary rewards. Erik supported this by saying:

> *"I have a significant sense of responsibility or solidarity towards my colleagues; I do not want others to struggle because I do not deliver. I want to contribute my fair share (...), you could call it loyalty, wanting to be part of a group, contribute, and do my part. That motivates me. However, no, I do not believe that the salary level and such, even though it is undoubtedly an important acknowledgment that I'm doing things well, has ever had a decisive impact on how I have chosen the jobs I have taken."*
>
> – Erik (Decrease)

Even though all interviewees in both groups state that the bonus did/does not affect their motivation to put in additional effort, they all agree upon the bonus having a slight effect on motivation in some way, but they imply this in connection to the total monetary compensation for their work. They mean that, of course you want to be fairly compensated for the work you do, and if you are not compensated, you will not do your job. The total monetary compensation, and the bonus being a part of it, is therefore connected to the basic motivation to go to work each day or stay at the specific company, but not the motivation to put in additional effort.

Additionally, several interviewees, also from both groups, stated how the bonus ensures that the individual goals get done, as doing/not doing those tasks have a direct impact on one's own money. Erik believes that a monetary compensation can be a good way to generate a specific behavior, but not to generate an overall increase in motivation.

> "*If you attach a significant amount of money to a specific behavior, you can probably elicit that behavior. Does it mean that people are more motivated in some general sense? Probably not.*"
>
> – Erik (Decrease)

This was supported by Anna for whom the bonus was completely removed. She expressed that the clear and direct link between the individual goals and the bonus outcome ensured that these were done and if there was not a direct reward connected to these, one might have taken a shortcut or not been as concerned about getting them done. Daniel, for whom the bonus was decreased, echoed this and expressed that one would be rather foolish to not do the tasks since they were things to simply tick off, and they were not difficult to do, one only had to dedicate time to do it. The bonus being connected to these tasks thereby made/make employees do them, but it did/does not motivate them to put in additional effort. Since Anna does not have the bonus anymore, these individual tasks are not part of her current working tasks. When asked if she would have done these tasks without the bonus connected to it, if they were still included in her work responsibilities, she said:

> "*Well, I believe I might have done them anyway, but maybe slacked more on doing them.*"
>
> – Anna (Removal)

4.2.3 Expected Compensation

As briefly mentioned, the interviewees seem to, despite perhaps not including it in their month-to-month budget, at different degrees have considered/consider the bonus to be part of the total monetary compensation for their work. This includes both groups, where the ones not receiving a bonus anymore refer back to when they did. Peter explained this total monetary compensation expectation as:

> *"I believe the compensation model in my role and in the industry, are somewhat my base salary plus a bonus like this."*
>
> – Peter (Decrease)

This indicates that the bonus was/is not solely seen as an additional compensation to their fixed pay, but rather a part of their total monetary compensation. Most interviewees believe that if their total monetary compensation was to decrease, in any way, their basic motivation, explained in 4.2.2 Motivational Effects, would decrease. When asked how they would react if the bonus would have been removed without a proportionate raise in fixed salary, both Niklas and Sara stated that they would have been really upset and thought it was bad. Furthermore, when Daniel was asked the same question, if his bonus would have decreased without the raise in fixed salary, he stated:

> *"I would probably have walked around sulking, and it would have had indirect consequences, creating ripples that might be perceived as negative. It could contribute to something negative from that perspective, but I probably wouldn't have said, 'No, I am done with this, and I am going home early', or 'I am not doing this task now.' My motivation might not have plummeted instantly, but it would have affected me emotionally."*
>
> – Daniel (Decrease)

Several interviewees echoed this feeling and discussed how if the total monetary compensation would decrease, one might have to think bigger regarding, for example, how the new total monetary compensation stands in relation to what the same position is offered at other companies. The important thing is thus that the employees feel as if they are being reasonably compensated for the work they do and if the level of total monetary compensation does not change in a restructuring, they will not experience any change in basic motivation or satisfaction. Since all the interviewees perceive that they were, more or less, reasonably and proportionately compensated with a raise in fixed salary, they perceived no change in their total monetary compensation, and thus no change in satisfaction and basic motivation either.

An interesting point is that all the interviewees who perceived a reasonable increase in fixed salary for their decrease or removal of the bonus, expressed a positive attitude towards the change. They explain that the positive attitude was mostly caused by the increased security and expectation of getting a previously variable part of their total monetary compensation. Even though they fully trusted that PDCC would pay the bonus that was promised if certain goals were reached, a bonus is still a variable pay and the size of the payment depends on results. As opposed to this, a fixed salary remains the same no matter the results, and you can always count on that money in your pocket each month. Furthermore, a few interviewees expressed other benefits of the increased fixed salary, for example, in connection to pensions, lending and insurance.

Even though the bonus is variable in its nature, and dependent on the results of company, due to historically high outcomes of the bonus, employees at PDCC did/do expect a high outcome. If the bonus now, or when everyone still received a bonus, would yield much lower outcomes than usual, most interviewees state that they would perhaps be a bit disappointed and displeased. Nevertheless, Erik explained this further and stated that such an outcome may be due to, for example, a recession, and he perceives that there is an understanding for this, and one year without the bonus would not cause great distress. As an example, he described:

> *"This year the goals were set based on a different economy, so this year it is impossible to achieve them. It does not matter what we do; it is easier to fly to the moon than to achieve those goals."*
>
> – Erik (Decrease)

However, he further explained that if this was to continue for several years, and the goals of the bonus would not be adapted to, for instance, fit the current state of the economy, or be reasonably achievable, displeasure would emerge and there might be reason to look for work elsewhere.

4.2.4 Individual Impact on Goal Achievement

As mentioned, the bonus was/is based upon goals that fall on different levels and parts of PDCC. While all interviewees state that all goals are clear and how goal achievement translates into the bonus outcomes, the different levels entail that each employee's individual performance had/has different degrees of impact on each goal being achieved. For example, the manager of a project that is a part of a specific region, has less impact on a regional goal, than its region manager has.

When asking the interviewees for which the bonus was removed, it was clear that these felt a general sense of disconnection from the results that the bonus was based upon, except for the few goals directly connected to the individual performance. Regarding the non-individual goals, the same interviewees agree that while their own performance had a slight impact on the results these goals were based upon, the direct impact was not clear. As Niklas, who was quite disconnected from the project-, regional- and PDCC Sweden goals, explained:

> *"Of course, one understands that if you do a good job and everyone is working towards the same goal, then that has some significance. But that direct connection, I never had that."*
>
> – Niklas (Removal)

Sara emphasized this when asked if she felt that she could impact the results that the bonus was based upon:

> *"It was very hard to influence [the results]. It was a very small portion that was my own merit, and for the rest, you are dependent on the success or failure of others. (...) It felt like either everyone gets a bonus, or no one does."*
>
> – Sara (Removal)

Furthermore, Hans supported the notion of disconnection by saying:

> *"If I did an excellent job, it was not reflected in the bonus, or if I did a very poor job, for that matter."*
>
> – Hans (Removal)

Gustav, who also experienced a removal, echoed this by saying that he wished that his individual performance would have had a stronger impact on the results of the different goals, and in turn his bonus outcome.

However, the feeling of not being able to directly impact all of the goals is not isolated to the interviewees who experienced a removal of the bonus. Adam, who is working at a higher level than the ones the bonus was removed for, still has a part of his bonus but feels as though he is in a grey area regarding his impact on the goals. While he, through the department he is in charge of, feels he has a bigger impact on the results of PDCC Sweden, than the lower-level employees, he also stated:

> *"One part [of the bonus outcome] is PDCC Sweden's result where I am, not an insignificant part, but my results do not make PDCC Sweden* fully *reach its goals."*
>
> – Adam (Decrease)

Peter, who is working at the same level as Adam, also stated that he has a big impact on the results of the district he is in charge of, and explains how this in turn impacts the results of PDCC Sweden:

> *"As I am responsible for a district, I can influence the outcome of the results in my district, and when we look at the levels above, my funds contribute to a region. This can also have an impact on how things appear somewhere, and then it goes to a business branch, or let's say, a C-level manager who is in charge."*
>
> – Peter (Decrease)

In conclusion, all interviewees, both the ones who experienced a decrease and removal of the bonus, thereby agree that the impact oneself had/has on the non-individual goals increases the closer the goal was/is to their daily work, and their work level and position.

Even Erik, the one at the highest work level of all interviewees, who felt he had a big impact and responsibility over the results of PDCC Sweden as a whole, still expressed that this does not mean that he alone, with his individual effort, can make sure the goals are fully achieved. An interesting point, though, is that he said this lack of full control is not something he is unhappy with as long as he believes the goals to be reasonable and to focus on things he agrees with. This sentiment was also voiced by other interviewees, in both groups. Despite perhaps not seeing a clear connection to each goal, if they agree with the goals set, they deemed/deem the system to be appropriate and were/are not displeased with the ratio of individual and non-individual goals. Furthermore, Gustav said that his loyalty to PDCC would make him dedicated to work towards company goals, even though he personally did not think it was an important goal.

"Even if I thought it was the wrong measure, or if I thought it was not the most important goal, I would still feel dedicated to reach the goal since it is something that the company think is important."

– Gustav (Removal)

However, if the interviewees would not agree with the goals set at all, for example, if it was a goal in conflict with the values of the company, they would not be happy and may even get demotivated, as they would feel that the company is working towards the wrong things. Adam emphasized this:

"Well, if I had thought it was a bad goal, I might have become even less motivated by it because I believe the focus is wrong."

– Adam (Decrease)

It appears that several of the interviewees, from both groups, were/are not severely unhappy with the ratio between individual and non-individual goals. This seems to be partly caused by an aspect of trust between employees. If the goals are reasonable for their part of the company, the interviewees seem to expect that the goals for other parts are also reasonable, and therefore the employees in those parts will strive towards reaching the goals too. Thus, due to reasonable goals and faith in that their colleagues can achieve their goals, the interviewees think it was/is okay that the bonus was/is decided by results on a non-individual level that they could not/cannot affect on their own. They instead saw/see the goals that the bonus was/is based upon as overarching company goals, and due to loyalty and team-feeling, they wanted/want to work towards them. Daniel emphasized this:

"If a larger portion of the goals is based on the region and I feel that this is based on me and my colleagues' projects, and there are some issues in my colleague's project, I might even want to help a little extra because it benefits our joint result and bonus. I believe that would bring some extra driving forces and motivation."

– Daniel (Decrease)

He continued:

“That [the team-feeling] is what drives me, and I believe it drives my colleagues as well (...) then it becomes a ripple effect of 'Okay, now we succeeded in this and then we get a bonus,' but that is not the driving force. Instead, it is more about the soft parameters, such as winning as a team and achieving our goals. 'If we have set this as a goal, we are going to reach it.'”

– Daniel (Decrease)

Connected to this, Erik discussed how the bonus can be a good leadership tool and create a common direction for the company and employees. If there are goals that all “leaders” in the company want to achieve because that will result in a higher bonus, the entire company will strive for the same overarching goals. He believes that this would not be as effective if there was not some sort of reward connected to the goals, and while it might work for a short period of time to only have the goals, monetary rewards are needed for long-term effectiveness.

4.2.5 Effort, Performance and Rewards

Looking at the link between effort and performance, the interviewees can clearly see how their increased effort leads to increased individual performance, and how this performance leads to non-monetary rewards and feelings of self-fulfillment. This link is clearer than the link between increased individual performance and how this leads to monetary rewards. The findings suggest that the link being clearer for non-monetary rewards may have to do with these often being a direct gratification and more instant, while the monetary rewards are developed over a longer period of time. For example, if one puts in additional effort into preparing a meeting and the attending colleagues are pleased with the meeting, one knows this instantly and thus receives that gratification in real-time or directly after, by the colleagues expressing their pleasure. As opposed to this, the monetary rewards, such as increased fixed salary and the bonus outcome, are not perceived as instant and directly connected to one’s individual performance to the same degree.

As described in 4.2.4 Individual Impact on Goal Achievement, the link between one’s individual performance, and the bonus outcome varied/varies between work levels. Nevertheless, most interviewees, regardless of level, perceived/perceive this link to be less clear than the link between their increased individual performance and the outcomes of especially non-monetary rewards, but also the outcomes of monetary rewards other than the bonus. For example, Niklas expressed how the link is clearer between his individual performance and his fixed salary, than the link between his performance and the bonus was.

> *"You have a better chance at influencing your salary in the annual salary increase than the bonus."*
>
> – Niklas (Removal)

In conclusion, the perceptions of the links between effort, performance and rewards are individual. However, a common reflection is that the link between one's own performance and the bonus outcome, was/is less clear than the link between that performance and both non-monetary and other monetary rewards.

5. Analysis

In the findings we conclude that the employees interviewed at PDCC Sweden do not perceive the bonus to impact their motivation to put in additional effort into their work. The findings also show that the perceptions and experiences about the impact on motivation do not differ between the employees who experienced a complete removal of the bonus, and the ones for which it only decreased. The conclusions made in the analysis therefore apply to all interviewees, regardless of group, unless otherwise is explicitly stated.

In this section, the findings will be analyzed with the lens of the modified expectancy theory of Chiang & Jang (2008) to get an understanding of why employees perceive that the bonus does not impact their motivation. The analysis is divided into the three core elements of the expectancy theory: expectancy, instrumentality, and valence. Within the sub-sections instrumentality and valence, the division of extrinsic and intrinsic factors will be used.

5.1 Expectancy

Examining the separate factors influencing expectancy, the findings regarding self-efficacy differs quite a lot depending on the type of goal discussed. Regarding the self-efficacy for individual goals, no interviewee expressed a lack of this. This may have something to do with the seniority and experience of the interviewees and it might have been different if the sample included employees newer to the company or younger in age. Employees' high self-efficacy and the relatively low goal difficulty of the individual goals, leads to the individual goals being fully achieved for the most part. An important note is, that even though employees do these tasks, they do not get motivated to put in additional effort, and why that is will be analyzed further in the upcoming sections.

However, regarding the non-individual goals, employees feel a lack of self-efficacy and perceived control. That is, that they cannot achieve the non-individual goals on their own, since these goals are dependent on factors other than the individual's own contributions, such as the state of the economy, company resources, work responsibility limitations, and other employees' contributions. Furthermore, despite low perceived control and self-efficacy, the presence of non-individual goals is not perceived by employees as something bad. For this, the importance of setting appropriate goals emerges. If the goals are reachable and targeted at things employees believe the company should work towards, they have faith in other employees at the company to do their best at achieving the goals, and thereby it is not vital that each employee has full control. This is linked to employees' feelings of team spirit and loyalty towards each other and the company. Thus, if the goals set would be unreachable or against company and employee values, employees may get demotivated.

Since the bonus system in our study includes goals on many levels, such as individual-, project-, regional-, and company level, the analysis regarding perceived control is complex. The degree to which employees perceive their own control over the different goals being achieved, and thus the impact on the results that the bonus is based upon, differ depending on the level the goal is at. Therefore, regarding perceived control, we must look at the whole chain of effort-performance-outcome, rather than what the theory suggests, effort-performance and performance-outcome separately. Since the chain thus includes instrumentality, we will discuss perceived control further in the section below.

5.2 Instrumentality

When defining instrumentality as the employees' perception of how and if the performance of the company transfers to bonus outcomes, instrumentality is high. As stated, employees perceive the goals to be clear and they understand how the results are transformed into bonus outcomes, thus the policy stating this transformation is clear and well understood. Employees are also confident in that when goals are achieved, they will get the promised bonus outcome, indicating high trust in the reward-giver. However, even though there is high trust regarding the bonus, employees feel a higher security with fixed salary, partly explaining why there was a positive attitude towards the change.

Our study, however, is more complicated as it involves individual and non-individual goals and thus different levels of performance that all play a role for the bonus outcome. Therefore, looking at how employees perceive that their *own* performance transfers to bonus outcomes, the analysis becomes quite complex. Since the bonus, according Chiang & Jang's (2008) division, falls under extrinsic instrumentality, this is the focus of this analysis. While Chiang & Jang (2008) only look at monetary rewards as extrinsic rewards, our findings show that non-monetary rewards play a vital role in how employees perceive their motivation. For our analysis we therefore divide extrinsic instrumentality into monetary instrumentality and non-monetary instrumentality. Employees can more clearly see how their increased effort and their own performance leads to non-monetary rewards (e.g. peer recognition and feedback), than monetary rewards (e.g. bonus and salary), indicating that non-monetary instrumentality is higher than monetary instrumentality. We find two separate factors contributing to the clarity of the links between how employee's own effort and performance leads to outcomes.

One of the factors contributing to the difference in how employees perceive the two links seems to be the time it takes between the effort and the reward. The monetary instrumentality is developed during a longer period of time as, for example, the bonus comes once a year or a salary increase is done annually, if even. Non-monetary instrumentality can be developed quicker as the non-monetary rewards are often more instantaneous. For instance, if an employee puts additional effort into a task, already when that task is done, they can get recognition and feedback. This instant link makes the non-monetary instrumentality high.

Another factor influencing the monetary and non-monetary instrumentality levels, is whether the reward is based solely on an employee's own effort and performance, or others' performance as well. Regarding non-monetary rewards, more times than not, they are based solely on the individual's own effort and performance, making non-monetary instrumentality high. Disregarding the individual goals of the bonus, employees feel as though their own effort and performance does not fully translate into the bonus' goals being achieved, since these are, as mentioned in the section 5.1 Expectancy, more based on the effort and performance of multiple employees and the company as a whole. However, there is a difference in the strength of this feeling depending on the level the employees are at, as the level may indicate the impact their individual performance has on the non-individual goals. For instance, the disconnection between own performance and achievement of goals was stronger for the interviewees for which the bonus was removed, than the ones for which it decreased, as the latter are at higher levels of the company. The unclear link between increased individual effort and performance, and bonus outcome, thus makes monetary instrumentality with regards to the bonus low, and increasingly lower with the levels in the company.

Additionally, the previous factor also explains why employees feel that the link between their effort and performance, and other monetary rewards, such as fixed salary and promotions, is clearer than the link between their effort and performance, and their bonus. As mentioned, the bonus is dependent on other employees and the entire company, while their fixed salary and promotions are solely dependent on their own effort and performance. The monetary instrumentality regarding fixed salaries and promotions is thus higher than the monetary instrumentality regarding the bonus. The difference in instrumentality between the bonus and fixed salary can explain why almost all employees appreciated the increase in fixed salary. The increase not only offered more security, but the monetary instrumentality also increased. According to this line of thinking, it could have been the case that, for the ones who felt no connection to the non-individual goals of the bonus, their motivation would increase in the change from the bonus to fixed salary, since this would lead to an increase in monetary instrumentality. However, this was not the case, and why will be discussed below in section 5.2 Valence.

While not as relevant for the analysis of how employees perceive the bonus impacts their motivation, it is worth mentioning that the intrinsic instrumentality is high. Intrinsic instrumentality is high since intrinsic rewards, for example the feeling of accomplishment and self-fulfillment, are directly connected to the employee's individual effort and performance, and these rewards can be instantaneous.

Regardless of which performance, individual or non-individual, it appears the overall performance level and thus the bonus outcome has been fairly stable historically, which has made employees expect a certain level of the bonus outcome every year. This expectation does not, however, include special circumstances such as an economic recession or other setbacks for the company. Employees thus expect a certain level of total monetary compensation and if the bonus would suddenly be decreased without other monetary compensation, it would lead to a decrease in monetary instrumentality, and in turn decreasing employee's perception of motivation. However, as stated in the findings, the motivation affected is not one defined in this thesis of putting in additional effort, but rather as the motivation for working at all. This will be further discussed in 5.3 Valence. This complements the finding of Chiang & Jang (2008) that hotel employee motivation decreased if extrinsic instrumentality decreased due to a lower level of monetary rewards, all else being equal. In our study the employees did not, however, perceive a change in motivation when the bonus was decreased, as it was compensated with a raise in fixed salary, and the total level of monetary compensation remained the same.

So far, we have disregarded the individual goals as the analysis differs a lot between these and the non-individual goals, and a majority of the goals in the bonus system were non-individual. But looking solely at the individual goals, the bonus does in fact make employees do these tasks. This can be explained by the high instrumentality caused by the goals achievement being dependent only on an employee's own effort and performance. Furthermore, employees only have to perform the task and the quality or level of performance is not relevant for the bonus outcome, thus an increased effort will not lead to an increased bonus. Our findings thereby show that the bonus makes employees do these tasks, but it does not yield motivation in the sense of putting in additional effort.

In conclusion, regarding the instrumentality of how employees' own effort and performance transfers to bonus outcomes, the intrinsic instrumentality and non-monetary extrinsic instrumentality is high since these rewards are instantaneous and directly connected to an employee's own effort and performance. The monetary extrinsic instrumentality is much lower since these rewards are not as instantaneous as intrinsic and non-monetary are. The instrumentality is the lowest when it comes to the bonus, but slightly higher when it comes to the fixed salary. The reason for this is that the fixed salary is solely dependent on one's own effort and performance while the bonus is dependent on multiple employee's and the entire company's performance.

5.3 Valence

All the employees interviewed have high levels of both intrinsic valence and extrinsic valence. However, our findings indicate that in our analysis extrinsic valence should, just as extrinsic instrumentality, be divided into monetary valence and non-monetary valence as these differ a lot. Comparing these two, monetary valence is much lower than non-monetary.

Even though employees do not get motivated to put in additional effort by monetary rewards such as bonuses or salary, they still value, expect and need it. Monetary rewards seem to create some sort of basic level of what an employee needs in order to be fundamentally satisfied with the job they have. It does not create any motivation to assert *additional* effort, but if this basic level is not reached, this need would not be fulfilled, and employees would be unsatisfied with their work. They would feel like their work is not being fairly compensated for and would have a reason to look for work elsewhere. Looking at the bonus specifically, this may explain why interviewees stated that they would be unhappy if the bonus was removed or decreased without fair compensation, and while some stated this would demotivate them, they meant this not in the definition as putting in additional effort, but in the motivation to work at all and be satisfied with their job. But since employees were proportionally compensated with a raise in fixed salary when the bonus decreased, any motivation or satisfaction did not decrease since the *total* level of monetary rewards did not change, and their needs are thus still fulfilled.

This basic need aspect also connects to the previous analysis of instrumentality, where it was discovered that the monetary instrumentality may have increased in the change from bonus to fixed salary. However, this did not increase motivation to put in additional effort, as the bonus did not have an impact on this motivation to begin with due to the low monetary valence, and as the total level monetary compensation did not change, neither did the basic satisfaction of their work.

Regarding the individual goals, it has been mentioned that employees were compelled to perform these tasks because of a high instrumentality. Without the bonus the employees would perhaps not be as inclined to do the tasks. One may think this means the bonus motivated the employees. However, these tasks did not require the motivation to put in additional effort and the conclusion of monetary rewards only serving as a compensation for the basic work performed, further explains why the bonus did not create motivation for these goals either.

In essence, it seems like monetary rewards creates motivation, but a different kind of motivation than the one we have defined in this thesis. It appears monetary rewards are necessary up to a certain level where the employee feels as though they are compensated for their work and without this, they would not go to work. However, when the monetary rewards have reached that level, an increase will not lead to the motivation of putting in additional effort. For this type of motivation, intrinsic rewards and non-monetary rewards are needed instead.

Every employee interviewed for this study was motivated by things such as peer recognition, feedback, and self-fulfillment. As mentioned in section 5.2 Instrumentality, reasons for employees valuing these rewards over monetary can be that they are more instantaneous and the link between one’s own effort and performance, and the outcome, is thus clearer. Getting recognition for good performance instantly motivates the employees more than getting a monetary compensation for it in the future.

According to Vroom (1964), valence is very individual, and depends on the individual employee’s values, needs and preferences. This gives rise to a question of why every interviewee valued the same outcomes. The answer to this, and also another reason for the factors motivating the interviewees being intrinsic and non-monetary rewards, may be that almost all of the interviewees have worked at PDCC for several years, and they really enjoy it – everything from their colleagues and the work culture to their individual tasks and day-to-day work. This creates a high personal wellbeing, a team-feeling, as well as loyalty to the company, which in turn can drive motivation as discussed in the findings. When working for a company a long time, and when sympathizing with the company values, these can get intertwined with your own values. Furthermore, when working with people you like, look up to, and want to impress, peer recognition and other non-monetary rewards from colleagues and managers become important for oneself. However, as one interviewee said, the value one places on intrinsic, non-monetary, and monetary rewards varies during your career and age, which opens up for further research as all the employees interviewed were well established in their career. Investigating the perceptions of employees newly established may therefore yield a different result.

6. Discussion and Future Research

In this section we first relate our findings and analysis to existing literature before moving on and explaining any limitations to our study as well as suggestions for future research.

6.1 Discussion

The simple answer to our research question is that the employees do not perceive the bonus on its own to have any impact on their motivation, defined as their willingness to put in additional effort. However, the thorough answer is far more complex. In connection to our findings, Bedford et al. (2016) and Thibault Landry et al. (2017) argue that the effect of a management control practice, Thibault Landry et al. (2017) meaning specifically financial incentives, differs in different conditions, contexts, and combinations with other practices. Our study reveals that employee motivation is influenced by various factors beyond the bonus system. The analysis also suggests that a different context, such as lower fixed salary or lack of non-monetary and intrinsic rewards, may alter the employees' perception of the bonus' impact. Although the bonus does not enhance the motivation to put in additional effort, employees expect it as part of their total level of monetary compensation. A decrease in this level may yield changes in work satisfaction and the basic motivation to work at all. This brings thoughts to Herzberg's two-factor theory where the total monetary compensation can be seen as a hygiene factor.

However, as this theory and this specific basic motivation definition have not been focused on in this thesis, any concrete conclusions regarding this cannot be made without further research.

Condly et al. (2003) found in their meta-analysis that monetary incentives had a greater increase on employee performance than non-monetary incentives. Novianty & Evita (2018) complemented this research by bringing in a motivational aspect stating that financial incentives do have a positive effect on employee motivation. Our findings complement this research but shows that employees perceive that this type of bonus system itself does not impact their motivation nor performance. A reason for this difference in results may be industry- and firm specific features and cultures. An employees' values may intertwine with colleagues' and the company's values over time due to developed trust, team-feeling and loyalty. It was concluded that this is one reason for the employees' intrinsic and non-monetary valence predominating monetary valence. Condly et al. (2003) and Novianty & Evita's (2018) studies are quantitative and involves several companies and industries, thus company- and industry details, like the one mentioned above, are not examined. Our study therefore complements the existing research by examining a specific company and thereby taking these details into account when looking at what rewards motivate employees.

Furthermore, the team-feeling and loyalty aspect, aligns with the discussion of Garbers & Konradt's (2014) and Condly et al.'s (2003) findings of team-based incentives having a greater impact on performance and motivation than individual-based incentives. These authors suggest that team-based incentives may have a greater impact since it strengthens the team member's value for work, appreciation of employees and willingness to collaborate, and these incentives signaling collaborative values of the organization, which in turn increases performance and motivation amongst employees. Even though our study is not investigating team-based versus individual based incentives, the findings still contribute to this existing research since the bonus system examined includes both individual and non-individual goals.

While our analysis suggests that the individual goals of the bonus impacted employees' willingness to complete certain tasks as the completion of the task was so clearly related to the bonus outcome, it does not drive motivation to put in additional effort, but rather just the willingness to perform a certain task employees would otherwise not have done. Condly et al. (2003) found that incentives have significantly less impact on performance with the motivation outcome to perform a new task, as compared to persisting at a task or working more efficiently. Seeing the individual goals as new tasks, our study thereby suggests results different from Condly et al. (2003). We find employees perform these tasks, albeit not needing to do it particularly well, in order to get the monetary compensation. Thus we find that financial incentives do in fact have an impact on making employees perform a new task. However, there are many reasons why ours and Condly et al.'s (2003) results may differ. For example, the meta-analysis of Condly et al. (2003) includes several different factors, and their incentive type is not specified when testing for motivation outcomes. Additionally, Condly et al. (2003) focus on performance and the organizational perspective while our study focuses on perceived motivation and the individual perspective.

Our findings regarding individual goals are partly in line with Kuvaas et al. (2020) study on IVPFP and how, if these are perceived by the employee as controlling, will decrease intrinsic motivation. The individual goals of the bonus system were tasks employees needed to do to get the highest bonus possible and often times, these tasks were things they would otherwise not prioritize, suggesting employees were forced to change their behavior, perhaps making them feel controlled. This, in turn, is in line with the findings of Thibault Landry et al. (2017) that if employees feel controlled, this decreases the feeling of autonomy, which decreases motivation. The study of Kuvaas et al. (2020) is supported by the previously mentioned studies of intrinsic and extrinsic motivation with regards to the self-determination theory, all saying that if intrinsic motivation exists for a certain task, then extrinsic rewards can have a detrimental effect on this intrinsic motivation. In our study, we could not find evidence for these individual goals actually *decreasing* motivation, but rather they simply did not create motivation. A reason for this difference may be the difference in study approaches, as our study did not look at intrinsic and extrinsic motivation separately, but rather at total motivation, where we use a theory which has divided the factors contributing to the total motivation into intrinsic and extrinsic factors.

As mentioned, our study was performed on a case where a change in a PFP system was observable. A part of the reason for this choice of case was to see whether the change impacted the employee perception of how the bonus system impacted their motivation. Ghosh et al. (2022) found that when a bonus system's structure was changed from focusing on non-financial measures to financial measures, this led to a decrease in organizational performance. Their study indicates that the bonus system was effective before the change, but since the change induced a different focus, which was not aligned with the strategy of the company, it was not as effective after the change. Our belief was to find something similar when investigating the change in bonus structure of PDCC Sweden. Surprisingly, we found that the employees did not perceive any negative nor positive impact on their motivation when the change was enacted. The reason for this perhaps being that the specific bonus system at PDCC Sweden was not perceived to have any impact on the employee motivation to begin with, due to a missing link between one's own performance and the bonus outcome, and the employees valuing intrinsic and non-monetary rewards higher than monetary rewards. If the bonus system was deemed effective before the change, the conclusion regarding the change in perceptions may have been different.

Another study touching upon a change in bonus system is Benzer et al. (2014), where they investigated how a removal of a bonus system affected employee performance. They found that the implementation of the bonus system increased employee performance and the performance level persisted after removal. However, an important note Benzer et al. (2014) make is that their study only examines the effect for 1-3 years after removal and it could be that the effect of the removal is delayed and will show face later. This is interesting with regards to our study, as we examined the change impact at a point in time around 3-5 years after the restructuring. Therefore, caution should be taken to results regarding the employee perception of the change in bonus system in our case since we have only looked at the perceptions at a certain point in time, and when a recession is present. The positive attitude towards the change amongst interviewees was caused by an increase in fixed salary based on previous years bonus outcome being high and having great company and macro-economic circumstances. The current recession may thus create an overly positive perception of the fixed salary compared to the bonus. A different economic environment in the future, for instance very high bonus outcomes, may influence the perception of the change to fixed salary. This might indicate that if the study was to be performed in another point of time, the results may have been different.

6.2 Limitations and Future Research

This study has limitations which, together with the results, imply the need for further research. One significant limitation is that the interviewees were chosen by the company itself, perhaps biasing the selection and in turn yielding skewed results. Furthermore, the number of interviews was quite small, and the group of interviewees is rather homogenous in terms of seniority and being seasoned employees at the company or in their career. As these factors seem to play a role in an employee's perception of what motivates them, another group of employees may yield different results. Furthermore, all the interviewees live in Sweden, and the majority are men, which indicate that there might be a cultural aspect affecting the results. Therefore, future research should include a broader range of employees, people newer to the company or earlier in their career, and from different cultures. Even though our results did not indicate that there would be any differences between genders, gender differences in this question could be an interesting topic for future research.

This study briefly touches upon the idea that a bonus system like the one in PDCC Sweden could affect motivation indirectly by creating shared directions and goals for the company, giving the employees a team-feeling and fostering loyalty to the company, which becomes a part of their motivation to put in additional effort. However, since this study did not focus on a division of indirect and direct motivation, future research needs to address this to reach any valid conclusions.

Another interesting aspect of this study, presumably impacting the results, is that the study has been made within the project development- and construction industry. Within this industry, work and performance is heavily dependent on teams and projects, making it hard to construct a bonus system on an individual level. This indicates that it is hard to make sure every employee feels as though their own effort and performance contributes to all goals. Therefore, the results of this study, that bonus itself does not have a direct impact on employee's perception on their motivation, calls for future research within other industries not possessing this trait to see if the results would be the same there.

Furthermore, we found that extrinsic factors, as Chiang & Jang (2008) have defined them, needed to be divided into monetary and non-monetary factors in our study. It was found that monetary and non-monetary extrinsic rewards impacted the employee's motivation differently and were valued to different extents. These employee perceptions were found because of the qualitative approach used, delving deeper into employee insights. Since existing literature within the field of PFP systems is mainly quantitative, we suggest further qualitative research on the individual level to gain more insights in what role the division between monetary and non-monetary factors plays in different contexts.

7. Conclusion

When analyzing our findings, it was revealed that Chiang & Jang's (2008) study, since only looking at monetary extrinsic rewards, did not encapsulate all factors needed to understand employee motivation in our case. We therefore separated extrinsic instrumentality and extrinsic valence into monetary- and non-monetary factors in order to properly answer our research question. We hope this creates interest for future research to further delve deeper into the differences in impacts that monetary- and non-monetary had on employee motivation, but also performance.

Our analysis indicates that the answer to our research question is that employees do not perceive that the bonus system at PDCC Sweden drives their motivation to put additional effort into their work. This can be explained by the low (and increasingly lower for lower work levels) monetary instrumentality between the employee's own effort and performance, and the non-individual goals of the bonus. Another reason for this is a lack of monetary valence, that is, that the employees value intrinsic and non-monetary rewards higher than monetary rewards.

Our study complements the existing literature in how PFP systems affect employee motivation, by using a qualitative approach allowing us to contribute to the predominately quantitative literature with nuanced insights on how employees perceive that different factors impact their motivation. Investigating a change in PFP systems also allowed us to gain insights on employees' perceptions of such a system amidst a changing context and environment. Our specific findings contribute to the field in the sense of it both complementing and supporting, but also to some extent questioning existing literature regarding the potential impact of pay-for-performance systems on employee motivation. We suggest that differences found should be researched further, adopting a similar study approach as the one in this study, since the differences in results may be due to differences in for example research design, method theory used, and motivation definition.

Finally, we hope that this study can promote interest for future research within the field of PFP system with the feature of changes, to further complement the existing literature and uncover interesting new findings.

8. References

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9. Appendices

Appendix 1: Interviewees

The names are not the interviewees' real names.

Interviewee	Level	Bonus change	Format	Date
Adam	3	Decrease	Online	20-10-2023
Peter	3	Decrease	At office	27-10-2023
Daniel	3	Decrease	Online	27-10-2023
Fredrik	4	Decrease	Online	31-10-2023
Erik	5	Decrease	Online	31-10-2023
Niklas	3	Removal	Online	29-10-2023
Sara	2	Removal	At office	7-11-2023
Hans	2	Removal	Online	23-10-2023
Anna	2	Removal	At office	27-10-2023
Gustav	3	Removal	Online	9-11-2023

Appendix 2: Interview guide

The interview guide has been translated from Swedish to English.

Area	Questions
Admin	- Is it okay if we record the interview? - Is it okay if we quote you in our thesis? - How long have you been working at [the company], and what is your job title?
Motivation	- How would you define motivation, and what motivates you? (in general, not related to the bonus) *In theory, rewards can be divided into two parts: a more external part with monetary aspects such as bonuses, promotions, salary increases, etc., and an internal part that is more about feeling that one contributes to something they care about, being satisfied with an achievement, and gaining better self-esteem.* - Thinking a bit about exerting extra effort and getting some sort of reward for it, would you say you receive this internal aspect? - Would you say that you also receive rewards in the monetary aspect if you increase your effort, whether it is a bonus, salary increase, promotion, etc.?

	- What would you say motivates you the most to exert a little extra effort? The monetary or the intangible?
The Bonus	- As we understand it, the bonus was based on various levels, somewhat individually but mostly at a project- or company level. How did/do you view this structure? What did/do you think about it? - Did/do you find the goals that the bonus was based on clear? And how the goals were/are translated into the actual bonus that was paid out? In what way was it clear or unclear? - Did/do you feel that in your role and tasks, you could/can influence all the goals on which the bonus was based? To what extent? - Did/do you find the goals achievable? (regardless of whether you had/have a direct impact or not) - Would you say that you agreed/agree with the goals and could/can stand behind them? If there were/are goals you disagreed with or could not/cannot support, how would it affect your motivation? - Did/do you feel confident that when the goals were/are met, your company would pay out the promised bonus? - Would you say that you expected the bonus, that you saw it as part of your total compensation? - If you expected the bonus, how would you feel if it wasn't paid out, or paid out at a much lower level than usual? How would your motivation be affected? - Would you say that the bonus in any way, directly or indirectly, affected/affects your motivation to exert extra effort? - If the goals the bonus was/are based on were more individual, how would it affect the motivation aspect for you?
The Change	- The bonus was completely removed for some employees, and the level was reduced for others. How did you experience the change? - How did it affect your motivation?

	- What was your view on some keeping part of the bonus while others lost it completely? Did you understand the logic behind how it was determined? - How do you think you would have felt if the bonus was completely removed without leading to an increase in base salary? Or if the percentage increase would be significantly lower than what it was for those who had the bonus converted last? - If the bonus were to increase instead, how would it have affected your motivation or performance? - What do you prefer, a fixed salary or the bonus? Why? - If there was a short-term bonus instead, such as 'if you put in extra effort this month on this project, you get a bonus,' how do you think it would have affected motivation? - Is there anything you feel as though we have missed asking, or anything you would like to add?