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**IMMATERIAL REWARDING IN KNOWLEDGE WORK ENVIRONMENT –  
LITERATURE REVIEW AND MANAGERIAL SUGGESTIONS**

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Abstract  <p>This thesis is set out to map the current state of immaterial reward and incentive research in knowledge work context. Thesis is made to illustrate the current knowledge through literature review. Purpose of this thesis is to increase understanding of immaterial rewarding and its function in knowledge work. This is done by examining the theoretical consensus regarding immaterial rewarding and knowledge work. Thesis also illustrates what are the current practical applications of immaterial rewarding in knowledge work organizations.</p> <p>Method of the thesis is literature review and sources compose of material searched through academic portals. This thesis uses wide variety of search words to widen scope of possible results and method of material selection is personal evaluation. Selected material is then examined and portrayed in general manner regarding the practical applications. This thesis also examines and discusses the problems and contradictions within the literature.</p> <p>Regarding the literature review, this thesis finds out that immaterial rewarding in knowledge work is a complex and conjoined topic. It positions itself in the intersection of humanistic sciences (psychology, sociology) and economics. During the literature review it also becomes apparent that this topic lacks uniform consensus and frameworks to shape and understand this subject. This thesis proposes some categorizations to create structure within the topic.</p> <p>Regarding the practical applications and managerial suggestions, this thesis proposes two major points. First, both employees and employers need to understand the nature of knowledge work and knowledge worker, and treat knowledge workers as assets, not costs. Second, individual preferences and surrounding environment guide knowledge worker's reward perception and thus shape the reward experience.</p>			
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Additional information			

## Table of Contents

<b>1</b>	<b>INTRODUCTION .....</b>	<b>5</b>
	1.1 Topic and purpose of the thesis .....	5
	1.2 Search parameters and notes about sources .....	7
	1.3 Research approach .....	8
	1.3.1 Motivation.....	8
	1.3.2 Organization.....	9
	1.3.3 Material rewards .....	10
	1.3.4 Culture.....	10
	1.4 Important terminology .....	12
	1.4.1 Knowledge worker .....	12
	1.4.2 Knowledge organization .....	14
	1.4.3 Immaterial reward and incentive.....	15
	1.4.4 Motivation.....	17
<b>2</b>	<b>CURRENT KNOWLEDGE OF PRACTICAL APPLICATIONS OF IMMATERIAL REWARDING.....</b>	<b>20</b>
	2.1 Social environment related immaterial incentives.....	22
	2.1.1 Corporate social responsibility and environmental management .....	22
	2.1.2 Knowledge sharing .....	25
	2.2 Physical environment related incentives.....	26
	2.3 Social status related incentives .....	28
	2.4 Skill enhancement related rewards .....	29
	2.5 Flexibility related incentives .....	30
<b>3</b>	<b>PROBLEMS AND CONTRADICTIONS WITHIN IMMATERIAL LITERATURE RESEARCH .....</b>	<b>32</b>
	3.1 Terminology .....	32
	3.1.1 Reward vs. incentive .....	32
	3.1.2 Material vs. immaterial .....	35

<b>3.2 Incentive motivation mechanisms .....</b>	<b>36</b>
<b>4 CONCLUSION .....</b>	<b>39</b>
<b>4.1 Problems in this thesis .....</b>	<b>39</b>
<b>4.2 Summary.....</b>	<b>41</b>
<b>5 MANAGERIAL SUGGESTIONS.....</b>	<b>43</b>
<b>5.1 Introduction.....</b>	<b>43</b>
<b>5.2 Knowing your organization .....</b>	<b>45</b>
<b>5.3 Individual dimension .....</b>	<b>48</b>
5.3.1 Recruitment.....	48
5.3.2 Training and development .....	48
5.3.3 Challenges and advancement .....	49
5.3.4 Interaction and feedback .....	50
5.3.5 Flexibility and work planning .....	51
<b>5.4 Organizational dimension .....</b>	<b>52</b>
5.4.1 Corporate social responsibility .....	52
5.4.2 Work space design .....	53
5.4.3 Work flow direction.....	54
<b>5.5 Conclusion.....</b>	<b>55</b>

## 1 INTRODUCTION

### 1.1 Topic and purpose of the thesis

Private companies and governmental institutions are facing competition that has been intensifying over the past decades. The race for market share, revenue and brand value to attract potential employees and customers is in the heart of most modern day organization's operations. One source of competitive advantage is rewarding and incentive planning to keep employees motivated. (Berberian 2008) One, often used, way to categorize rewards and incentives is to divide them in to two categories: material and immaterial.

Traditionally material rewarding has been the go-to solution for organizations. Material rewarding is easy to quantify, it seems to create at least extrinsic motivation very effectively and has been able to attract potential individuals to organizations. This trend of material rewarding is recessing however. The reason for downturn in material rewarding is threefold. First, people with satisfactory salaries are less motivated with money. Second, the economic turmoil that started around 2008, has forced organizations to rethink their reward policies out of economic necessity. Third, growing portion of work in the post-industrial society is performed in knowledge based environment, and there is evidence that knowledge based workers demand much more from their employers than just monetary compensation. (Kaajas et al. 2002)

This has created emphasis on the research of immaterial incentives and rewards. Distinctive research streams on immaterial rewards in knowledge based work can be identified since the early 1990s. This means that this field of research is relatively new in the context of research in economics. To understand the framework of this particular thesis better, it is noteworthy that the material for this paper was gathered using both international and Finnish databases. Especially the public sector information presented in this paper is largely gathered from Finland. Therefore in some parts of the thesis there could be a bias towards research results in Finland. This is acknowledged and the cultural aspect is taken in to consideration in multiple parts of the thesis. Material consists of scientific publications, articles, reports and books and they have very been carefully selected considering the age of the material. Older material presented in this

research has been mostly selected to portray the continuum in the scientific research and to provide chronological clarity to how the perception of certain phenomena has evolved. This chronologic selectivity was chosen to maintain relevance to the fast pace of changes happening in organizations and society. The advancement of information technology especially has radically influenced the work environment and is argued to be one of the reasons the amount of knowledge based work is on the rise. (Coates 2000)

The focus of this thesis is in immaterial rewards in knowledge based work context. The focus was narrowed to this for four reasons:

1. The body of general organizational research and material rewarding is vast and more thorough.
2. To produce meaningful and hopefully applicable results.
3. To maintain meaningful degree of detail within the scope of the thesis.
4. To serve as an accurate view point to challenges of motivating and rewarding in knowledge based work.

The thesis is conducted in the form of a literature research and critical review and builds a suggestion for a model for immaterial reward planning. The purpose of this thesis can be divided in to two main objectives. First, to portray the current trends and practices of immaterial rewarding in knowledge based work environment and highlight problems and contradictions within said frame. Secondly, to suggest a framework for organizations for planning immaterial reward systems.

## 1.2 Search parameters and notes about sources

The two main platforms for data gathering were ABI/INFORM ProQuest database (<http://search.proquest.com/abicomplete>) and Emerald Journals Insight database (<http://www.emeraldinsight.com/search.htm>). To support these international databases, Finnish source material was sought after in Google scholar and Finnish university library database Oula (<https://oula.linneanet.fi/>).

For English material the search revolved around keywords: *immaterial*, *incentive*, *knowledge work*, *knowledge environment*, *reward*, *rewarding* and *organization*. These keywords were combined with different Boolean operators and mixed to get varied results. All sources of data for this thesis was selected after review of the source material as categorization of research papers and other material was often misleading and irrelevant to the topic of this thesis. Finnish database search used the same keywords translated to Finnish. On top this search and select method material was used based on recommendations to provide cohesive back up for arguments not directly related to rewarding or incentives.

Ambiguity of the source material was the main problem for data gathering as contradicting use of terminology (reward vs. incentive), focus on material rewarding or manual work narrowed and invalidated a lot of potential search results. The selection of whether certain source was valid for this thesis had to be based on personal judgment and evaluation as cohesive consensus of terminology and results is yet to be achieved. The main principle question behind source selection was: “Can this source provide meaningful addition to the understanding of immaterial rewarding in knowledge work environment and does it support the development of a planning model for immaterial rewarding?”

### 1.3 Research approach

Preliminary literature review has led to the following proposal on how to view immaterial rewarding. In the graph below is illustrated how immaterial rewarding is embedded in to four different research areas that are often basis for research in this field.

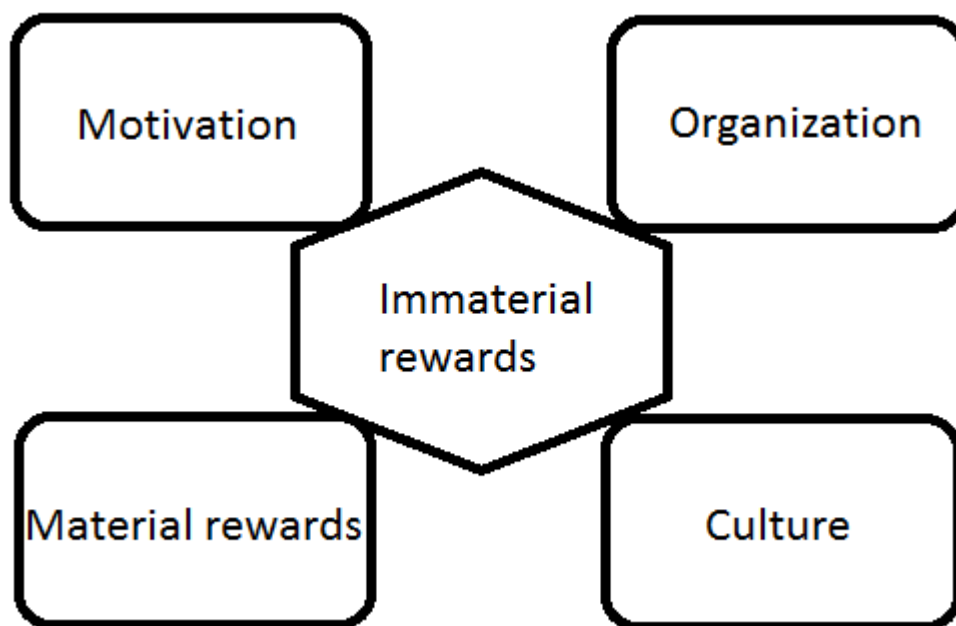


Figure 1. Immaterial rewarding embedded in other research areas.

#### 1.3.1 Motivation

The top left corner labeled *motivation* indicates that immaterial rewarding research is often viewed through its functionality in employee motivation. Perhaps the most renowned motivational dimension is the self-determination theory, division in *intrinsic* vs. *extrinsic* motivation. This theory separates the *intrinsic*, inner motivation that stems from actual work itself and consolidates around job satisfaction meaning that the motivation to perform well is based on the employee's enjoyment of the task itself. *Extrinsic* motivation means that some external rewards or punishments direct the employee to perform to meet or avoid certain task outcomes to achieve or avoid these external goals. Second identifiable dimension is motivation that guides towards *task* or *contextual* performance. Task performance is behavior that relates to direct output



of work in the form of products or services. Contextual performance means contribution to cooperative and supportive functions in organization and in the context of knowledge work environment, these can be vital to organizational performance, e.g. in form of knowledge sharing. Detailed discussion about both of these dimensions and their linkages is included chapter 2.

### 1.3.2 Organization

Organization functions as the context of immaterial rewarding for this thesis. Therefore it is of utmost importance to understand the relationship between rewards and incentives and the organization itself. Organizations manifest themselves in two ways:

5. As a formal entity, coded in documents, laws and physical environment.
6. As an informal entity, embedded in the social relations and social dynamics of the organization.

As organizations exist both in informal and formal dimensions, so does rewarding which is intertwined with the organization. As an example, enabling learning and self-development is one form of immaterial rewarding and has been studied in the context of informal and formal organization structure. The results have shown that both individual and organizational learning can be facilitated through the use of both informal and formal dimensions. There is also evidence that disparity in the actions of the formal and informal organization can create a detrimental effect on reward perception. This is evident in the perception of reward *fairness* e.g. how well the *formal* reward system matches with given rewards in the *informal*, interpersonal setting. (Janssen 2001) It thus seems that organizational norms and practices influence the perception of rewards and therefore influence which reward mechanisms are experienced effectively. This gives organizational culture large weight in the planning of incentive systems.

### 1.3.3 Material rewards

The dimension of material rewards is important because many researchers have focused on the effectiveness of material and immaterial rewards in comparative studies. In some cases it is not meaningful to try to separate material rewards from immaterial rewards completely, as in nearly every organization these forms of rewards co-exist and interact in the motivation process. Also, the existing body of research regarding immaterial rewards is at least partially build on the older research body of material rewarding, and therefore the material reward studies act as the history of immaterial reward research. Rather widely accepted fact about material rewarding is that to a certain point the most common reward, money, functions as motivation increasing agent, but after a critical point it can even be counter-productive to motivation. Most common explanation for this is that once needs that can be satisfied with money are met, the valuation of other goods such as free time, self-development and self-actualization increases. (White & Druker 2000)

### 1.3.4 Culture

Culture in this context refers to both organizational culture and culture the organization operates in. Cultural background, be it organizational and societal, affects how rewards are perceived. While the perception of any reward is tied to the individual, cultural and societal background have effect on individuals and can and should be considered in incentive and reward systems. A study conducted in East Asia distinguished four dimensions to consider when planning culture-sensitive incentive system: *historical events, social/political systems, geographical location, and language characteristics*. (Huo & Steers 1993a) Another noteworthy finding from study conducted in India was that organizational culture can overshadow the national/geographical culture. Study found out that performance based reward perception did not correlate with the culture of India, but with the culture of the organization employees worked for. There is a three-fold possibility for explanation, according to the study. First, it is possible that organizational culture in knowledge work setting is more prominent than national culture. Second, that western ways to determine culture are insufficient to identify the cultural drivers of India. Third, that the Indian culture has shifted since Hofstede made his five-dimension theory. For the purpose of the designing immaterial incentive

systems, the most prominent message is that each individual case must be studied in depth and that incentive plans can't be based on too loose assumptions derived from general studies of culture and organization. (Emery & Oertel 2006)

These four connecting points to other research streams were taken into consideration while analyzing the recent literature of immaterial rewarding. Material that studied manual labor was mostly left out due to the chosen context of knowledge work.

## 1.4 Important terminology

In this chapter I try to portray the key terminology of the knowledge work-immaterial rewarding continuum and highlight the main characteristics of each concept.

### 1.4.1 Knowledge worker

A doctoral thesis from 1992 acknowledged that the term knowledge worker has surfaced itself in the field of organizational studies but that: “*Explicit theories and a literature do not yet exist to explain knowledge work.*” (Jacques 1992)

Research in this topic has come a long way but the early conception of what is knowledge worker depicts them as powerful new breed of work force “*who cannot be closely supervised and controlled, because the organization counts on their knowledge and internal commitment to get the work done*” (Jacques 1992) This perception has carried on through the work of Drucker, Pyöriä and Alvesson in their efforts to characterize what entails the term knowledge worker.

To understand the motivational drivers behind immaterial rewards in knowledge organization, we must elaborate the concept of knowledge organization and the characteristics of knowledge worker. Drucker identified in his widely cited article that knowledge workers are identifiable with six factors. (Drucker 1999)

1. Knowledge worker needs to answer the question: “*What is the task?*”
2. Knowledge work imposes *responsibility* on the worker very directly. Knowledge workers have to manage themselves and they must have *autonomy*.
3. Continuing *innovation* is part of the work.
4. Knowledge work requires continuing *learning* and teaching.
5. Productivity of the knowledge worker is not – at least not *primarily* – matter of *quantity*. *Quality* is at least as important.
6. Knowledge worker’s productivity requires the knowledge worker to be seen and treated as an *asset* rather than a *cost*. It requires that knowledge worker *wants* to work for the organization despite all the other opportunities.

While Drucker's article was about knowledge worker productivity, it depicts the characteristics of knowledge work very well. These characteristics work as a basis for drawing a more coherent picture of knowledge work and are reinforced and refined in later studies.

Another characteristic of what knowledge workers are is what they use as the inputs and outputs of their work. E.g. production uses energy and material inputs to produce outputs, such as products or services. Knowledge work distinguishes itself as its main input and output is *information*. (Pyöriä 2005)

Second distinction from material work is the notion of substance. In work where material outputs are expected as results, the qualifying aspect of the work is the end *product*. In knowledge work the *process* defines the quality and provides the real substance of work. To uphold this *process* quality ongoing education and learning seems to be important. The nature of knowledge work also requires different skills and abilities from knowledge workers. Rising number of highly educated workers is a well-documented phenomenon and reflects a change in the work environment: symbolic, abstract and interactive skills overshadow manual skills in knowledge work. (Pyöriä 2001) One of the more important tasks of a knowledge worker is to distinguish useful and important information from large quantities of data and then sharing this information within the organization.

This puts emphasis on higher level of education where the learning process, rather than the diploma, provides the worker for the skills he or she needs to succeed. On the forefront of things knowledge work demands from worker are: problem solving, problem identifying and strategic brokering skills, flexibility, interdisciplinary cooperation and rapid learning. (Alvesson 2001b) This set of requirements is very demanding. It emphasizes abstract problem handling, out-of-the-box thinking, versatile communication skills and high general knowledge and understanding. It seems that a competent knowledge worker is a highly capable individual and requires motivation techniques that encourage him to use his capabilities to the fullest. (Pyöriä 2005)

All the reviewed literature seems to converge around these core findings: knowledge worker is well educated. Autonomy, information processing, communicational and problem-solving skills are highly important and the form of input and output (information) dictates the nature of the work and imposes these requirements on the knowledge worker. It is relatively safe to conclude that organization and management alike must be able to place trust on the knowledge worker as his personal professional expertise is the value-adding mechanism in his work process. (Alvesson 2001b)

#### 1.4.2 Knowledge organization

Knowledge organizations are companies that require information to operate and create value. Typical examples would be law and accounting firms, management and consultation companies, engineering and computer consultation companies, advertising agencies and R&D/High-tech companies. This is not to be misconstrued to mean that all knowledge companies are similar and would function in a similar way. Knowledge can be the sole input (e.g. law firms) or act as a catalyst for value creation. (R&D/High-tech).

	Low capital intensity	High capital intensity
Low knowledge intensity	Service sector (for example)	Traditional industries
High knowledge intensity	Knowledge companies	High-tech industry

Figure 2. Knowledge work foursquare (Following Nurmi 2000, *via* (Rajakangas 2005))

Low knowledge intensity sectors aren't in the focus of this thesis but both high knowledge industry sectors are. For the purpose of motivation and rewarding there can be distinctive difference between low capital intensity and high capital intensity sectors of knowledge organizations. As said earlier, the form of input and output characterize knowledge work, but the output can vary within knowledge organization. Innovation and task orientation focus can also vary. Practicing law and researching new technological solutions requires different application of knowledge. There is scientific evidence that this affects how reward systems work in different knowledge organizations. (Burroughs 2011)

### **1.4.3 Immaterial reward and incentive**

Words reward and incentive are not synonymous but do have an overlapping meaning. By definition incentive is "*A thing that motivates or encourages someone to do something.*" Incentives can be promised rewards, something that incites effort and performance to get set tasks done in a high performance fashion. Once goals are met, some incentives turn in to rewards when they are given. What strikes as noteworthy is that these words are not well defined in research inspecting them. From the context reader can extract their meaning but they are often used in confusing and overlapping manner. For clarity of this work, I will try to make distinction between them by defining incentive as *something that is promised for good performance and reward something that is given*, whether it has been promised beforehand or not. Other important aspect of incentives is that they can be a continuous existing source of motivation without ever manifesting themselves as rewards. Example of such incentive could be a flexible working arrangement. Flexible working arrangement allows employee to practice personal freedom and acts as a continuing proof of being trusted upon. This can be a powerful immaterial incentive.

Furthermore, the difference between immaterial rewards and incentives is that immaterial incentives can in some cases be construed by physical things, such as office design and decorations, while rewards normally cannot. Something material received as a reward can't be categorized as immaterial. Contradictory to this, immaterial incentives can be physical entities as long as the person receiving the incentive from them does not get anything physical from them *for himself*. The experienced comfort

and pleasure from functional and aesthetically pleasing office design and decoration is derived from physical objects but only incites in a non-physical way. For purpose of clarity and attention to detail, this debate must be mentioned and notified.

The definition for reward is “*A thing given in recognition of service, effort, or achievement.*” (Oxford dictionary, cited 25.5.2014) Immaterial rewards are everything except material rewards. Therefore salary, material benefits, company cars etc. are excluded. The real problem is that effectiveness and even existence of immaterial rewards depends on the perception of the individual receiving said rewards. How rewarding something is perceived is related to cultural, individual and organizational aspects. (Forstenlechner & Lettice 2007, Hong et al. 1995) immaterial rewards can be planned and instated by the organization or simply perceived by the employee. A good example of this is positive feedback. Perception of whether feedback is a reward depends on the person receiving the feedback. Similarly, feedback can be spontaneous gesture by a superior or a planned organizational activity.

Continuing the problematic nature of immaterial rewards is the vast number of possible rewards and lack of uniform categorization. Even if literature is not uniform, some trends do emerge. Researchers use different terms, but trends within the content can be found. Rewards in general can be categorized three-dimensionally in relation to how they are organized: *formal structures, incentives, rewards & recognition* and *informal management techniques*. By nature, formal structures mean everything ranging from salary to work time control. *Formal structures* constitute how the company routinizes everyday tasks and functions of the company. Second category, *incentives, rewards and recognition*, are situational but often at least to some degree planned systems of rewarding. Such systems could include employee of the month programs, further training of most competent employees and bonuses tied to performance figures. Third category, *informal management techniques* involve rewarding that is done outside of written or planned managerial tasks. Again, giving spontaneous positive feedback is a good example. (Petroni & Colacino 2008, Rajakangas 2005) This categorization determines how the rewards are positioned in relation to the company providing the rewards.



Similarly, the contents of incentives or rewards can be categorized. In R&D context, incentives have been categorized in four different categories: monetary incentives, *social status-related incentives*, *skill enhancement-related incentives* and *flexibility related incentives*. (Muhlemeyer 1992) Monetary incentives are self-explanatory. *Social status-related incentives* exist to promote distinguished employee's status and prestige. Mention in an in-house magazine and personal recognition of senior staff are good examples. *Skill enhancement-related incentives* mean that well performing employees are given the possibility of access to further training. Managerial training and further training on employee's field of specialization are examples of skill enhancement incentives. Lastly, *flexibility related-incentives* consist of degrees of freedom and empowerment of employees. They aim to facilitate innovative and self-regulating work behavior to provide employees with a feeling of autonomy to bestow a sense of being trusted and valued. (Muhlemeyer 1992) Similar categorization can be found in newer publications as well. (Brelade &Harman 2003) This categorization is wide enough to include possible other unmentioned types of rewards and is used to categorize what is the method of effect of each reward.

Combining these two categorizations is not meaningful in the perspective of this thesis. Different reward systems can be arranged differently in organizations. One company might want to establish formal structures for some parts of flexibility-related incentives where other company keeps this area informal. The important notion here is the nature of immaterial incentives. They seek to increase (1) *employee motivation* and (2) *company performance*. Secondly, well-functioning (immaterial) rewarding schemes help employees to balance the work and personal life equilibrium and through this increase long-term benefits for both individuals and companies. (Brelade &Harman 2003)

#### **1.4.4 Motivation**

Motivation is a very thoroughly researched topic in the field of both business and human sciences. A widely accepted and used concept to understand motivation is the SDT or Self-Determination Theory. (Kohn 1993, Ryan &Deci 2000, Wong-On-Wing et al. 2010) This theory separates motivation into *intrinsic* and *extrinsic* motivation. Intrinsic motivation derives from individual's own desire to work and achieve, it is

coming from within. Intrinsic motivation stems from enjoyment and inherent satisfaction of performing something. Extrinsic motivation is created by the need to achieve certain outcome. The source of motivation is the result of activity, not the activity itself.

As Kohn points out, the problem with extrinsic motivation is that rewards are nothing but the flipside of punishment. The setting of “If you don’t perform well, you will be punished” does not differ much from “If you don’t perform well, you won’t get a reward”. Kohn’s claim is that rewards can only create *extrinsic* motivation and even undermine *intrinsic motivation*. He argues that extrinsic motivation alone is not enough to create lasting performance and results. (Kohn 1993) While not completely groundless, Kohn’s deductions have been under criticism. Critics have claimed that Kohn’s theory of losing intrinsic motivation when rewards turn work performance into economic exchange, has been discredited. (Montemayor 1995).

Second widely used theory for motivation is Victor H. Vroom’s expectancy theory. The basic setting of expectancy theory is that individual acts in a goal-oriented way and tries to maximize the benefits from his efforts. Individuals choose behavioral and performance practices that lead to satisfaction of their needs. The assumption here is that if employee feels that further effort produces extra value for him or her, he is ready to make that effort. (Reber et al. 2004, Van Eerde &Thierry 1996) Based on expectancy theory, requirements and reward system need to be clear to create the motivation to achieve high level performance. The understanding of effort-reward relation is the key for employee motivation.

In relation to immaterial incentives, these motivation theories lead to two conclusions. First, *intrinsic* motivation is the fuel that creates lasting performance, while *extrinsic* motivation created by situational incentives can be used to create short-term performance benefit. (White &Druker 2000) Second, reward system can never deliver satisfactory results if the inner workings of the system are incomprehensible to the employee. The effort-reward relation needs to be clear and enticing.

For knowledge work environment this leads to further conclusions. Regardless of reward system, perception of the reward is the key to success. A large study conducted

on corporate benefit programs found out that different demographics perceive benefit programs differently. Younger or older, married or single, management or employee position, low or high education, for example, all created different perception and reception of the benefit program. (Hong et al. 1995) Another study that combines 75 years of work motivation study into five factor motivation model identifies five different drivers that affect development of motivation: sociological, psychological, cultural, generational (age) and knowledge work driver. This again further strengthens the idea that reward system planning must, if possible, be taken to the individual or at least take these drivers into account. The success of reward system in creating motivation and performance is dependent of its ability to match the demographics it is tailored for. (Amar 2004)

## 2 CURRENT KNOWLEDGE OF PRACTICAL APPLICATIONS OF IMMATERIAL REWARDING

It is established that there are a plethora of different immaterial incentives and rewards firms can use to influence employee motivation. The problem is how to find *efficient* ways to influence motivation. Because of the enigmatic nature of motivation, its link to performance and high importance to companies, this context has been researched widely. (Nair &Vohra 2010)

To conceptualize the existing immaterial rewarding practices, I must look into effective categorization of different reward types and search for empirical studies within each category. There are little to no scientific publications with a comprehensive categorization related to immaterial rewarding. Based on earlier observations and observations presented later, I propose a categorization myself.

One way to view immaterial rewarding is the earlier contemplated split into incentives and rewards. Incentives can further be split into categories based on whether they affect *social work environment* or *physical work environment*. Social environment entails the cultural and social biosphere where employees operate in, meaning *organizational culture, work relationships, formal and informal feedback and participation systems* and so forth. Physical environment involves *architecture, aesthetics, work equipment* and numerous other factors. This division into physical and social environments is important to start to categorize possible immaterial incentive systems.

To avoid overlooking existing research regarding incentives, Herzberg's two-factor theory must be mentioned. Especially in the area of incentives, some factors must be labeled *hygiene* factors and some *motivation* factors. Adequate desk, chair and computer are common *hygiene* factors in knowledge worker's physical environment, while art within the office premises could be a *motivation* factor. Basic assumption of Herzberg's theory is that *hygiene* factors must be met to avoid dissatisfaction while *motivation* factors can create motivation. This research is particularly interested in finding *motivation* factors within this context. (House &Widgor 1967)

Regarding immaterial rewards, Muhlemeyer's division into *social status-related*, *skill enhancement-related* and *flexibility related* rewards is adequate. Muhlemeyer speaks of incentives in his paper, but as explained earlier, incentives/rewards as terms, this categorization is meaningful for the purpose of dividing immaterial rewards into manageable categories. Below is an illustration of how I have arranged immaterial incentives and rewards based on literature.

This illustration exists to provide structure for my work. On top, you can see sources of motivation being divided into (immaterial) incentives and rewards. Incentives can further be categorized into social environment-related and physical environment-related incentives. For rewards Muhlemeyer's categorization was used and three categories were chosen: social status-related, skill enhancement-related and flexibility-related rewards.

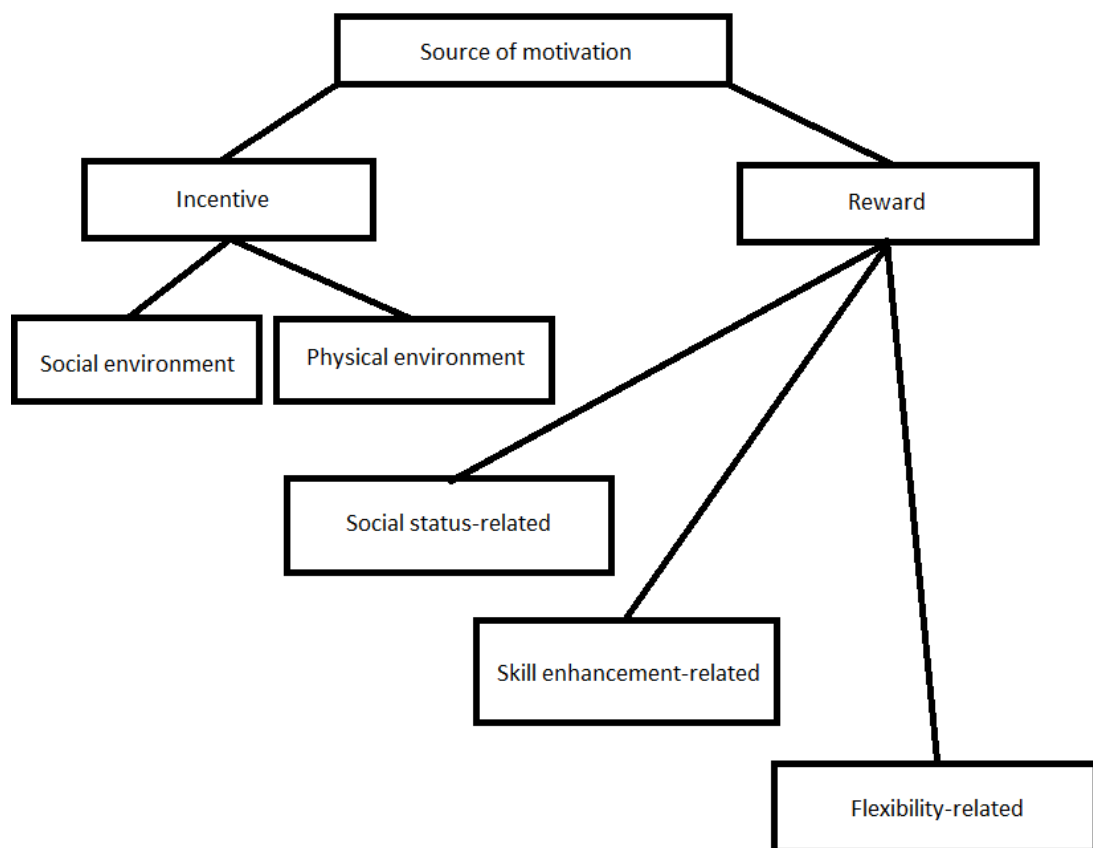


Figure 3. Division of immaterial rewards and incentives. (Following Muhlemeyer 1990)

The goal here regarding both incentives and rewards was to find empirically proven effective ways to create motivation. Extreme sensitivity for *intrinsic* motivation was used as it is the source of lasting motivation and commitment. (Hiam 2002, Ryan & Deci 2000)

## **2.1 Social environment related immaterial incentives**

*Social environment-related* immaterial incentives are perhaps as ambiguous as a subject gets in this context. The over-arching theme with everything in this category is the high degree of intangibility. The problem is that many immaterial incentive programs tread in both *social environment* and *physical environment*. Discovering some themes in relation to social environment, I looked first for ethics and morale values. Several studies have been conducted regarding corporate social responsibility and green values. Results of these studies are inconclusive to some degree, but have indication that knowledge workers do value responsibility and environment friendly values.

### **2.1.1 Corporate social responsibility and environmental management**

In essence, corporate social responsibility means corporate actions that go beyond the traditional pursuit of economic profit. Caring for society's well-being, addressing environmental issues and contributing to local welfare are good examples of CSR. CSR contributes to economic success of companies, but also to employee morale and motivation. (Daza 2009) Several benefits for corporate social responsibility have been found in research, and some of them are listed in journal article examining these findings: *employee attraction, employee self-image, employee salaries, employee satisfaction, commitment and loyalty, employee willingness to contribute to social change initiatives, team work enhancement, performance and productivity, belongingness, trust and morale*. (Skudiene & Auruskeviciene 2010) To provide clarity and avoid misconceptions, I explain every factor presented by Skudiene shortly to emphasize the, in my opinion, very meaningful effects of social responsibility:

*Employee attraction* – Socially responsible companies have been able to attract valuable employees.

*Employee self-image* – Socially responsible companies have been successful in fulfilling employee needs to feel membership and belongingness.

*Employee salaries* – Some employees have been found out to be content for working with a lower salary in order to have a chance to work for a socially responsible company.

*Employee satisfaction. Commitment and loyalty* – Empirical research has found out that CSR can enhance employee satisfaction, commitment and loyalty towards the company.

*Employee willingness to contribute to social change initiatives* – Socially responsible companies have experienced higher degree of involvement from employees regarding social change initiatives

*Team work enhancement* – CSR activities have been found out to inspire team work.

*Performance and productivity* – When employees get to experience the positive impact of their work on society, they put more effort and demonstrate more persistence toward their job.

*Trust* – Socially responsible organizations are perceived fair and thus more likely to be trusted by employees.

*Morale* – Favorable company reputation (through CSR) has been identified as raising employee morale.

(Skudiene & Auruskeviciene 2010)

Another study found out that when employees were encouraged to take part in company's environmental management program, three-fold benefits were gained: Employees began to participate and share their tacit knowledge about work processes and how to further improve them environmentally. The knowledge sharing increase is extremely important for successful knowledge organizations as explained in the next chapter. This lead to employees being empowered and contributed in making them feel their input is valued and thirdly increased the effectiveness of environmental management. (Renwick et al. 2013)

This notion is further reinforced in a study that was conducted within SMEs that operate in knowledge work domain. The study found out that relating to CSR: *“Employees' needs have to be satisfied and a channel provided for their concerns, if they are to feel part of the company and participate in a community of people identified with the company business project as its most valued asset.”* (Iturrioz et al. 2009) Employees are the “manufacturing machine” of any knowledge organization, particularly in the case of SMEs. It is possible that the company does not even have any support functions within the organization, but only experts of their chosen field. Therefore, as the article points out, being in conflict with your employee's perceived need for corporate responsibility presents a great risk of loss of motivation, and similarly the feeling of belongingness to a responsible employer creates motivation and commitment, both recognized as key elements to knowledge work success. (Iturrioz et al. 2009)

It would seem that social responsibility and environmental responsibility both act as powerful *social environment-related immaterial incentives* even though some aspects of both naturally reach to the side of *physical environment* too.



### 2.1.2 Knowledge sharing

Another dimension of *social environment-related* incentives is knowledge sharing. Knowledge sharing and development has been identified as one of the key success factor of knowledge companies. (Smoyer 2009) Developing both technical and non-technical means and culture of knowledge sharing has two-dimensional benefits: First, it increases the critically important flow of knowledge within the company and second, it increases employee involvement. (Fan et al. 2007)

Furthermore, a study was conducted to examine the social aspects of knowledge sharing. One of the key findings was that employees who enjoy helping others are more prone to sharing knowledge, and receive *positive social effects* from sharing knowledge. Study suggests that from managerial point-of-view, it is critical that management is able to increase this level of enjoyment to motivate employees for knowledge sharing. Some practical ways to succeed in this were suggested:

1. Development of feedback system that enhances employee knowledge self-efficacy.
2. Developing top management facilitation of knowledge sharing in order to increase competence and improve innovation. (Lin 2007)

There is plausible evidence that knowledge sharing can function as a strong organizational motivation catalyst. Several studies regarding knowledge sharing found out that knowledge can, if well organized, create a positive feedback loop within the organization and between its (internal) stakeholders. (Ning Nan 2008) A study found out that employees that were motivated by planned and formal knowledge sharing schemes developed positive social responses while sharing knowledge. This finding is backed with another study that examined the effect of incentive planning to facilitate knowledge sharing. Properly developed and employee involvement focused incentive plan for knowledge increased employee satisfaction, improved their perception of their employer and increased organizational efficiency by improving up-to-date data availability for all stakeholders. (Li-An &Kuo 2013) Siding with these findings there is also evidence that material rewarding can also affect knowledge sharing and

motivation beneficially. (Bartol & Srivastava 2002) While material rewarding is not the main focus of this study it is meaningful to include these findings to create coherent understanding how effectively knowledge sharing can increase motivation in knowledge organizations.

From this it is possible to conclude that knowledge sharing acts as an important factor for both organizational efficiency and knowledge worker involvement. Development of knowledge sharing channels, both informal and formal, is important to maintain competitive advantage and allow employee knowledge to benefit the organization as a whole. (Lin 2007)

## **2.2 Physical environment related incentives**

As mentioned earlier, the distinction between what comprises *social environment* and *physical environment* in the context of immaterial incentives is not easy to define, but some research has been conducted that clearly examine the *physical environment-related* immaterial incentives.

Norwegian telecommunications company, Telenor, invested over 11 million euros in building and furnishing their new headquarters in Oslo, Norway. Telenor's new headquarters were designed with three main lines of aesthetics in mind: art, architecture and design. It is important to notice that the physical nature of company's headquarters involves multiple organizational goals such as brand, marketing and workspace design. (Bjerke et al. 2007) This means that while the investment in aesthetically pleasing headquarters was not done solely to incite motivation, but rather to communicate Telenor's vision via physical structures.

The study focuses on finding whether conscious investment in art and architecture can act as an incentive and create motivation. Earlier studies about organizational aesthetics have identified aesthetics to be part of organizational culture. Aesthetics communicate the values, brand and morale of the company through decisions how to

construct the physical environment of their employees and by conveying a message to any stakeholders visiting company's offices.

When examining the results, the study seems to make two distinct proposals. First of all, on conscious level, employees are not able to pin-point the effects of aesthetics. On the most basic level, work environment was recognized as a positive factor in their work, but employees weren't generally able to distinguish art, design or architecture from each other. Secondly, employees did not regard work environment as the most effective source of motivation. Colleagues and other factors were placed above environment. (Bjerke et al. 2007)

There was also distinct difference between effects of the environment on employees working on customer support and business to business-related tasks. Explanation was that B2B employees spend much more time walking around in the office building, hosting guests and attending meetings. They experienced the environment more thoroughly and felt proud about their aesthetically pleasing environment. (Bjerke et al. 2007)

While I acknowledge that a single study of physical environment as immaterial incentive is a very concise sample, the study leads to few potential conclusions. First of all, it seems that results align with the assumption of physical environment is a part of company's identity, as B2B employees felt more proud (positive) about the company they represented. This means that even if pleasing aesthetics might not directly influence motivation and satisfaction, their indirect effects must still be considered.

Secondly, physical environment is still closer to being a *hygiene* factor rather than *motivation* factor. This is evident as employees weren't really aware of the details of their surroundings at all, but rather treated it as whole, which was considered positive. Therefore it is meaningful to ask if investment in office aesthetics could be better spent on some other motivation inducing aspects of work. (Brooks 2007)

### 2.3 Social status related incentives

Praise, more responsibility and authority, professional recognition, special parking, membership in prestigious teams: these are all forms of social-status related rewards. All of these can be powerful, but there are some guidelines and limitations to their use. (Koning 1993) First important finding in giving and receiving social status-related rewards is that they must be both *timely* and *in appropriate surroundings*. This can be generalized to any rewards, but is not absent in the case of social status-related rewards. By *timely*, Koning means that reward should be given and received as soon as possible after it is earned. His study found out that the longer the time lapse, the less effective the reward is. Second attribute, *appropriate surroundings* means that related personnel should be present (if appropriate) and the time and place should be carefully considered.

Another approach to how to use social status-related rewards is to look at how well they are perceived by employees in order to target them properly. In order to maximize effectiveness of reward programs, you need to know your employees preferences. (Dyke &Garlick 2008) Another claim by Dyke and Garlick is that only 19% of employees are not motivated *at all* by immaterial rewards. This is remarkably low number as it means that 81% of employees are at least to some extent motivated by immaterial rewards. Lastly Dyke and Garlick suggest that offering choice of rewards an effective way to ensure efficient rewarding and provide individually motivating incentives.

Third angle when examining social-status related rewards is what actually has worked in different organizations. A study conducted about R&D personnel motivation found out that perception on rewards is different depending on the size of the organization. Employees working in smaller organizations were more interested in monetary rewards than their large organization counter-parts. In large organizations, *people-oriented* rewards (recognition, flexibility etc.) were more valued than monetary ones. (Ellis &Honig-Haftel 1992) Second finding was that only 20% of all reward systems were perceived motivation inducing, 80% were not. This further emphasizes the notion that developing reward programs that match your company's and employees needs is essential to succeed in social status-related rewarding.

## 2.4 Skill enhancement related rewards

Training and opportunities for self-actualization and development can be perceived as rewards. (Nordhaug 1989) This finding was basis in a research on healthcare personnel in US and Singapore. Study examined how healthcare personnel perceived their employing organizations efforts to provide them with new skills and competence to manage their current tasks and take on new ones. Findings were almost unanimously positive. If employees perceived that their organization provided adequate means for self-improvement and career advancement, three types of benefits were identified. First, job satisfaction and commitment to the organization solidified. Second, investment in employee training was perceived as caring for the employees that created trust and enhanced communication between employee and managerial levels. Third, intentions to leave the organization were lessened on employees who were selected for training. (Lee & Bruvold 2003)

There are various routes for employee development. A study on Taiwanese IT R&D personnel regarding their emotional intelligence showed that investment in both personnel emotional intelligence and management transformational leadership skills provided three-dimensional benefits. Study findings included that increase in transformational leadership capabilities enhanced employee's emotional intelligence and through that lead to both increased task performance and organizational citizenship behavior. By OCB study meant behavior such as helping employees who have been absent to catch up their work and sharing best practices. (Yuan & Hsu 2012)

The experiences from many case studies were compiled in to paper by Psarras and the key notion of this paper was that organizations that manage to transform knowledge work and knowledge management goals of the organization in to personal goals of the employees strongly increase the level of involvement and knowledge exchange within the organization. (Psarras 2006) The most noteworthy of this study was that any organization coping with the need to innovate, adapt and evolve, significantly benefited from employee training in knowledge management. The most important gains from knowledge management training were the aforementioned involvement increase and the availability of critical (tacit and explicit) knowledge in a timely fashion.

Skill enhancement, training and employee development seem to have positive effects in organizational capability and motivation, regardless of the content of training. This leads me to the conclusion training and development should be seriously considered when planning new rewarding systems as empirical research seems to show positive results in multiple settings.

## **2.5 Flexibility related incentives**

Atkinson's flexible firm theory has been the basis of majority of the flexibility studies since its release in 1984. The reviewed version of Atkinson's study focused on employment and contractual options for organization's as a model about how employees and stakeholders can be tied to the organization. (Pinfield & Atkinson 1988) This concept of organizational core of full-time employees supplemented with part-time and other forms of contracts functions as flexible safety net for organization's to have access to critical competencies when needed. This study focuses on organizational needs but in the context of knowledge worker incentives, the focus must be shifted on to the employee and how they perceive flexibility as an incentive.

Work and especially knowledge work has blurred boundaries between work, social and family life compared to earlier decades and other types of work. This is a result of both technologic and work culture evolution. Essentially, providing employees with flexibility their work time and work method is a sign of trust. The organization trusts the employee to deliver expected results and perform agreed tasks even when unsupervised. There are limitless numbers of different flexibility programs in place and the degree of flexibility varies greatly. Despite degree of freedom and flexibility, all arrangements that give employees control over their allocation of time between work and personal life were perceived as positive. (Pedersen & Jeppesen 2012)

Interestingly, another study found out that *informal* flexibility was perceived as more rewarding than formal flexibility. This means that habits and accepted but not documented ways of organizing flexible work were perceived superior to organized and planned flexibility. (Hall & Atkinson 2006) The biggest problems regarding the

use of planned flexible work arrangements was perceived to be the loss of monetary compensation and the gap between employee knowledge of the possibilities for flexible work arrangements and the actual possibilities. This could explain why the informal ways of arranging flexibility were perceived more motivating. All this is in line with the earlier finding that any reward or incentive needs to be understood and perceived correctly in order to function to its full potential. (see pg. 17)

There is slight problematic with flexibility as it is often an instated practice within a knowledge organization that all or almost all employees have access to some degree of it. Therefore whether flexibility can be perceived as *reward* or *incentive* is somewhat questionable. It is also important to note that flexibility can be extended to work at least two ways. By this I mean that flexibility can only mean that the employee can decide when to perform his agreed tasks and/or decide where to perform them. Second dimension is opened when employee can also decide *how much* work he wants to do. This opens up the possibility to work more when employee wants to earn more and work less when he values his free time. Norwegian study has also shown that not all benefits of flexibility are gained directly. Secondary, indirect benefits are gained through extended overall well-being, especially if members of a family both enjoy the luxury of work flexibility. Study showed that there were compounding benefits for employees whose significant others also had flexible work arrangements. (Pedersen &Jeppesen 2012) This leads me to ask if companies should try to coordinate their flexibility efforts in order to gain maximum benefit?

Another dimension of interest regarding work time flexibility is its different effect on male and female workers. Generally female workers experienced more benefits from flexible work time and location than their male counter-parts. In the study this was explained with women carrying more responsibility at home, such as taking children in and out of school, to hobbies and so forth. (Peters et al. 2009) This is yet another piece of evidence that immaterial rewards and incentives should, if possible, be tailored individually to gain maximum benefits from each investment.

### 3 PROBLEMS AND CONTRADICTIONS WITHIN IMMATERIAL LITERATURE RESEARCH

In this chapter the purpose is to highlight and discuss the problems and contradictions found during the literature review. Some of these have been very apparent, for example the overlapping and misleading use of terms *reward* and *incentive*, others less clear. The general problem with all the research in this fields seems to converge around two main things. Firstly, immaterial rewarding is so heavily entangled in the mesh of other research streams that the viewpoint seems to dictate to some extent the results and perceptions. A good example of this is the research stream stemming from human sciences and motivation theories vs. newer stream of organizational culture and artefact studies. Where the motivation study stemming research stream is merely seen as continuation of the decades of motivational studies in a case, the organizational artefact research stream is roughly 15 years old and not nearly as vast. This is reflected in the manner of how to study was conducted and how the results are extrapolated and discussed. (Bjerke et al. 2007, Reber et al. 2004)

#### 3.1 Terminology

The main contradictions and ambiguousness in terminology lies in the word pairs that circulate the rewarding related literature. First pair is *reward* vs. *incentive* and second one is *immaterial* vs. *material* rewards.

##### 3.1.1 Reward vs. incentive

Out of the 63 articles reviewed for this 25 can be strictly categorized to be about immaterial rewarding in knowledge environment. Zero of these articles tried to distinguish the words reward and incentive from each other or comment the meaning of the words in any way. By looking into motivational theories, the consensus seems to be that incentives tend to be a more solid source of *intrinsic* motivation and rewards more geared towards *extrinsic* motivation. Since *intrinsic* motivation has been determined to be more important especially for knowledge workers, it is of some



importance to know whether the researchers have meant *incentive* when they have written so. (Ryan & Deci 2000, Wong-On-Wing et al. 2010) To backtrack to previous discussion within this thesis, *incentive* by nature is a more ongoing and intangible source of motivation than *reward*. The temporal fixation of *ongoing* is the key here as incentives seldom manifest into a conclusion where rewards are in essence a single-time events where employee is rewarded for doing something viewed as positive towards the organization he is working for. While taking into account the purpose of reviewed research papers, it is understandable that the deliberation of this terminological difference is not written, but was it taken in to account when the research was conducted?

We have to look in to actual details of how rewards and incentives and their effects are considered within the literature. Starting from research conducted in early 1990s it is apparent that the care for the reward vs. incentive dilemma isn't always there. Quoting Muhlemeyer: "...it would plainly be an illusion to think that a technocratic approach, involving detailed regulations concerning the relationship between incentives and rewards, would be successful..." (Muhlemeyer 1992) It might be disheartening to see that a respected author in incentive planning field states that my quest to find clarity in the ambiguity that exists within this field is doomed, but it seems later research offers some answers. Example of this ambiguity from the same period, early 1990s, offers a glimpse in to how carelessly the words incentive and reward were/are used in the literature: "In a cultural environment with greater tolerance for ambiguity, non-specific incentive systems which loosely tie performance to rewards would be more effective than specific incentive system in motivating employees." (Huo & Steers 1993b) I understand what the author means in this particular sentence but what I disagree with is his disregard for temporal fixation of incentive. Incentive systems *per se* are about creating *continuous* incentive for the employees to maintain satisfactory level of performance. This is contradictory to the nature of reward which is a single-time reward from a specific effort. From the article by Huo & Steers arises the notion that incentive and reward are not different but rather synonymous. As explored in this thesis it would seem that there is strong evidence this is not the case.

Another comparison pair between two articles from same time period reveals that authors sometimes do distinguish between reward and incentive in some part of their

research and disregard that in others. Article by Barnes states that flexible work arrangements function as an incentive to boost employee's long term motivation and should be considered by companies when designing incentive plans, and that they differ from material, one time rewards. (Barnes 2002) Later in the same article the author addresses these same flexible work time incentives as rewards and states that they motivate employees at least in short term. Same problem arises in article by Bartol & Srivastava, in which the authors state that knowledge sharing functions as a social incentive and that it motivates people in the long term if planned well. Later in the article the author calls participation in knowledge sharing "a reward in itself" and makes no notion whether participation is actually considered incentive (long term motivation) or reward (short term motivation). (Bartol & Srivastava 2002)

This discrepancy in word selection and lack of consideration whether examined reward or incentive mechanism incites short or long term motivation is abundant in almost all literature regarding immaterial rewarding. Considering the requirements of knowledge work (see pg. 9) I suggest that future research should consider the temporal dimension of the examined incentive mechanisms. It is highly likely that satisfactory levels of job performance and knowledge processing efficiency can be achieved without long-term commitment to the company and the tasks of the employee. Therefore I stress that research conducted in this field should clearly state the desired length of incentive effects and research whether the incentive effects are met for the whole duration of the timeframe.

The most apparent lack of this consideration is in research that tries benchmark the effects of material reward systems vs. the effects of immaterial reward systems. A typical case is a study where employees are monitored for a short period of time and then interviewed how they felt about the given rewards. A research titled "Organisational incentive plans in Spanish manufacturing industry" by Bayo-Moriones & Huerta-Arribas is an excellent example of this problematic. The topic of the research gives an educated reader the notion that the research is about long term incentive plans. On the other hand "manufacturing industry" could refer to manual labor which would exclude it from this study if used for anything else than to showcase the terminological problems within this particular area of literature. The study actually is about the managerial level employees of the manufacturing, and thus is in the field

of knowledge work. The study reviews how well *short-term* material rewards and *long-term* immaterial incentives match up in manufacturing environment. Manufacturing is often driven by exact production, quality and time targets and it is easy to fixate short term rewards to motivate employees to reach these targets. The study found out that more lasting results (72% success vs. 65% success) could be achieved by motivating employees with incentive plans rather than short-term rewards. (Bayo-Moriones & Huerta-Arribas 2002) The article's findings are very relevant for this study, but the authors pay little attention to the temporal dimension and focus on whether material rewards are more efficient than immaterial ones. This is evident in topic selection and wording of the article. While this is of course one important dimension of incentive planning research, when it comes to knowledge work I strongly emphasize the fact that the temporal dimension should always be at least a side focus to distinguish between short term goal oriented boosts and long term, commitment boosting behavior.

### **3.1.2 Material vs. immaterial**

The problem of material vs. immaterial rewards is not as much terminological as it is a research setup problem. At first glance, it would seem that the distinction between material and immaterial rewards is clear and that any studies that revolve around the effects of either of the groups would distinguish between them clearly. Unfortunately this is not the case and there is evidence that some research has made poor effort to discuss and examine the differences in material and immaterial reward mechanisms.

There are two typical cases that seem to repeat themselves in research. First case is that there is a lack of consideration for research questions and the difference in reward mechanisms of material and immaterial rewards. A good example of this type of research is article by Ellis & Honig-Haftel. The article examines the effects of material rewards (variable bonuses and single-time rewards) and immaterial rewards (public and private recognition and praise) and tries discern their effectiveness. Study results conclude that public recognition is more effective in large companies and monetary rewards in small companies, but the study does not even attempt to explain or explore

what are the inner workings of these reward mechanisms and why company size effects experienced reward. (Ellis & Honig-Haftel 1992)

The study tangles itself to exemplify the method of bestowing these rewards on employees and does not try to understand the rewarded employee's experience. Other studies have shown that researchers try to understand the mechanisms of individual experience of any perceived reward mechanism, the understanding of the effectiveness is greatly increased. Good examples of this study type are presented earlier in this thesis, such as the Norwegian telecom aesthetics study (Bjerke et al. 2007) and the corporate social responsibility studies (Daza 2009, Skudiene & Auruskeviciene 2010). These articles tapped deep into the inner workings of each immaterial reward mechanism and shed insight into their chosen topics in a much more meaningful way than articles that tried to quantify the increases in motivation percentages and/or present their results after transcribing five-scale quantitative questionnaires.

There are some scholars who would not like to mix the studying of material and immaterial rewards and some who think comparative studies are relevant and meaningful. Based on my work for thesis, I would lean toward the opinion that comparative studies between the effectiveness of material and immaterial rewards *can* be meaningful, but as in most cases when it comes to immaterial rewards and knowledge work, qualitative studies in general back their findings with more sound reasoning and in detail discussion about the consequences of their findings. To better understand a phenomenon as complicated as *what induces motivation in knowledge workers*, the research needs to go in great detail and listen to the individual. (Morrell 2011)

### **3.2 Incentive motivation mechanisms**

The biggest problem is that some studies fail to ask "why?" Why as in "*why the results indicate reward mechanism X is more efficient reward in this particular case than reward mechanism Y?*" Or why as in "*why does our data suggest that the reward or incentive mechanism under inspection provides these results?*" Examination of the

more thorough and knowledge work related research points to the direction that the question of underlying motivation mechanism is a matter of utmost importance within the *knowledge work-immaterial reward* continuum. This is evident in all the qualitative cases. In some instances the question of “why” had to be left open and researchers admitted that further research on the topic was necessary in order to answer what actually caused the increased motivation. In some cases the results lead the researchers to ask “why” and they were able to derive their answer from the (usually) qualitative data. But in every case where the underlying mechanism was presented in some form, be it the requirement for further research or the triggering mechanism of the reward experience, it provided the insight that enabled me as the reader to gather more information about what makes or breaks immaterial reward’s effectiveness. Out of X papers, relevant for this topic that were reviewed for this thesis, Y contemplated the underlying mechanism in some way and addressed it in, at minimum, to the point that the mechanism is important and needs to be examined.

This seems to be in line with very demanding requirement for knowledge workers. As Drucker proposed, knowledge worker needs to answer the question “What is the task?” and his efforts are appreciated for its *quality* not *quantity*. (Drucker 1999) This means knowledge worker must deeply understand what is required in order to provide the *quality* and that his efforts are not appreciated in file sizes or page numbers (much like this thesis) but the content of the documents, for example. This means knowledge worker, in order to succeed, must *care* for the quality and thus he needs to be motivated to do his best in a situation where it is extremely difficult, sometimes even impossible, to determine the quality of his work. He might be the best in his field of expertise or no one in the company he works for is able to determine whether his works quality is poor, good or superb. The effects of the quality are hard to determine and often manifest themselves in long term stakeholder relations. (Hultman et al. 2012)

Another often overlooked detail was the type of motivation a reward or incentive creates. As discussed earlier (see pg. 17) motivation types differ. Many studies that focused on examining what was perceived motivating did not examine the type of motivation. This leaves the results in a mixed state. In some cases, extrinsic motivation is adequate to push a project natured work over the finish line in a satisfying manner but often knowledge work requires more continuity. Knowledge worker acquires

knowledge and reshapes it in the future for the benefit of the company. Often only intrinsic motivation can guarantee the quality of work and thus affects the quality of future work as existing knowledge, practices and data is used in most knowledge work settings.

For the reasons discussed above, it is clear that the biggest lapses in judgment were present in cases where “why” was ignored and the results were simply presented without contemplating the reason for them. Such studies were often (8 out of 11) studies that compared the effectiveness of material and immaterial rewards. The sample size is small, but this leads me to pose the question whether the approach of immaterial vs. material rewards is a fruitful approach to study either of the phenomena. At least some new innovative ways to conduct these studies are required. All of the studies that benchmarked material and immaterial rewards against each other used quantitative means to determine both the value of material rewards and employee experience. For the reason of Pyöriä’s and Drucker’s description of what knowledge work entails, I strongly suggest that any study that wants to understand the *immaterial reward-knowledge work* continuum must carefully consider its research questions in order to relevantly address the matter of the reward mechanism and perception (the “why”).

## 4 CONCLUSION

In this chapter I try to draw together the key findings and discuss lapses and problems within this thesis. The most prominent problem has been the scope of the thesis.

### 4.1 Problems in this thesis

Stemming from the selected scope of the research and terminology, the available material proved to be almost overwhelmingly abundant. Concepts such as *motivation*, *organizational culture*, *immaterial rewards* and *knowledge work* contain a huge spectrum of connected concepts that broaden the required amount of research to be examined. Due to the nature of this being a master's thesis, I feel I have managed to adequately stay within a reasonable number sources while still addressing the key concepts and issues of both knowledge work and immaterial rewarding. I completely acknowledge that in hindsight the topic of the thesis could have been narrowed even more or should be the topic of a larger publication, such as a book or Ph.D. I did not choose to retroactively narrow the scope because I feel that it is important to address this topic with a "wide-angle lens". Immaterial rewarding operates in the junction of many research streams and while this turbulent position forces a wider examination of the phenomenon, it can also lead to a more wholesome understanding of surrounding themes if done in appropriate depth.

The most challenging aspect of the thesis was to narrow the amount of source material in a credible manner. The selection trends for the material was based on my existing but limited knowledge of this field based on my bachelor's thesis and university studies. Considering whether to include or exclude an article or a book came down to examining the key concepts of each source closer and then making a decision whether it was within the scope of this research. I acknowledge that doing this type of selection work without consultation from specialist in this fields leaves some source decisions in a debatable state.

Another challenge was already mentioned in chapter 3. The overlapping, often confusing and contradicting use of terminology required extensive reading and re-reading of the material to minimize the possibility of misinterpreting the material. This

is connected to the problem I mentioned earlier. When researching the intersection of organizational studies and human sciences, the difference of research approaches and viewpoints of articles often leads to different use of terminology and concepts. This problem was even commented on in some publications, as Scott Geller discusses in his article Reinforcement, reward and recognition. He argues that the technical use of the word reinforcement is misplaced in workplace setting as only behavior can be reinforced, not individuals. He argues for the use of the word reward in this context, and wants to replace the word reinforcement in his field of expertise. (Geller 2006)

While this particular problem only aligns with my own, it is a good example of what is wrong with rewarding literature in general. The jungle of terminology and concepts is often too tangled for anyone without extensive efforts to grasp the exact meaning of publications.

Third problem was more subtle in its nature. As discussed earlier, perception of the reward is the ultimate test of its effectiveness, and perception is affected by the individual and surrounding organization. This forces us to question whether different results of reward effectiveness are comparable. It is possible that case study results regarding one knowledge based work environment can't be transferred seamlessly into another one. There are multiple reasons for this. First reason is the effect of organization and culture. As discussed on pg. 8, organizational culture can overshadow the national culture in reward perception and thus affect the effectiveness of reward systems. It is noteworthy to ask whether different reward efficacies are transferable across national and organizational boundaries. Secondly, individual perception influences reward effectiveness. Many case studies were conducted within one or at maximum, few organization. This inevitably leads to sample sizes being rather small. A company which is staffed majorly by males is comparable to more heterogeneous or female dominant workplace could find reward and incentive systems providing different results based on findings by Jeppesen and Pedersen.

The mentioned dimensions, individual and organizational are only two of the many possible factors that influence reward system effectiveness and it is relevant to question whether universal answers for immaterial rewards are even meaningful to pursue. Based on my research I find the triggering mechanisms much more important



than the actual results. This leads me to question the results of my work in the sense whether they can be applied to any organization. I try to address this matter in the conclusion part and my model suggestion in chapter 5.

## 4.2 Summary

In introduction I stated the purpose of this thesis is to “*portray the current trends and practices of immaterial rewarding in knowledge based work environment and highlight problems and contradictions within said frame.*” Contradictions were discussed in chapter 3 and it is time to summarize the trends and practices.

Judging by the literature review, it is apparent that the practical applications of immaterial rewards are diverse at first glance. Many case studies reviewed for this thesis revealed that immaterial rewards are not treated as a separate entity from overall rewarding schemes, but as part of them. Often immaterial rewards were also informal in nature, whereas material rewards were more often documented and formal in nature. Judging from the overall evidence, it would seem that more consideration towards immaterial reward would benefit most organizations.

The most evident lack of consideration is found in customizing the reward and incentive schemes for each organization. Size of the organization, country, industry and existing organization culture all play a role in determining whether reward programs succeed or not. Regardless of surroundings, individuals perceive rewards and incentives differently. It would seem that addressing both *organizational* and *individual* dimension as thoroughly as possible, creates the best condition for reward programs to succeed. Keeping the rewarding in line with company policies creates *fairness* which is perceived motivating. Customizing the reward to fit individual needs creates *effectiveness* that ensures the investment in the reward is not futile.

The research on immaterial rewards needs to make a distinctive detachment to establish itself as a separate topic in the literature. I have highlighted how immaterial reward and incentive research is inarguably embedded into other research streams and must base some assumptions on existing knowledge. I suggest that research on this topic should understand its problems and limitations and adjust accordingly. This is

especially true when it comes to sub-categories like knowledge work environment. Understanding the specific needs of knowledge work and the intangible nature of reward perception as a concept is the key to fine tuning any future research to cater for the needs of this complex topic. My suggestion for the research of immaterial rewards in knowledge work is to focus on the underlying mechanisms of reward effectiveness. Five-scale answer of “I feel this is somewhat motivating” does little to contribute to the understanding of what exactly went right or wrong in the examined reward or incentive scheme.

## 5 MANAGERIAL SUGGESTIONS

In this last chapter of my thesis I try propose a model for immaterial reward system planning in knowledge work environment. Any new references in this chapter exist to support and provide consistency for my model proposal. Some of the references could not be cited meaningfully in the literature review and thus were used here. However, most of the material used in this chapter has been reviewed prior to writing the literature review and thus have affected my views and conclusions regarding the literature review. The model is constructed in chronological order in the sense that I try to present my ideas in order that they need to be considered in real life planning situations.

### 5.1 Introduction

Initially rewarding composed almost solely of material rewards, mainly salary. Forms of immaterial rewarding have emerged all throughout 19<sup>th</sup> century but their appreciation and distinction as a separate reward system is rather new phenomenon. One popular way to look at rewarding nowadays is to view it is an overall-reward system where material and immaterial rewards and incentives complement each other to form a wholesome system. More in detail, reward system in general consist of different modules where salaries and bonuses constitute the base of the system and different, usually overlapping systems add value and choices for employees. In this model proposition I try to, based on my knowledge and this literature review, construct a planning model for *immaterial rewarding* in knowledge work environment. I acknowledge that this limitation has negative impact of the models practical applicability but I hope it gives ideas how to plan immaterial reward systems.

For knowledge organizations, leading their highly skilled workforce is the key to success in often fiercely competed fields (traditionally private companies) or fields that stress effectiveness heavily (traditionally public sector). In either case tapping the tacit and explicit knowledge of employees as efficiently as possible is one of the more important task of leaders. Reward and incentive systems should be planned and implemented to support this goal.

Earlier, based on my literature review, I proposed that dimensions affect reward and incentive effectiveness: *individual* and *organizational*. To recap shortly, individual dimension affects the reward perception based on personal preferences, age, life situation and so forth. Organizational dimension affects reward perception through accepted norms and practices and directs how work is done in the organization. How others perceive rewards give to certain individual or group affects the reward receiver's perception and the experienced *fairness* of the reward and affect their behavior as well. I try to address both these dimensions in every section of my model. Both organizational and individual dimension contribute to reward system effectiveness and therefore affect the returns of time and resources invested in the system.

As the literature review portrayed, immaterial rewards contain a vast array of different things that affect employees. Some are direct (praise, training etc.) and some are indirect (CSR, office design). Nevertheless, both direct and indirect rewards and incentives should be accounted for to consider all, or nearly all, things that can affect knowledge worker motivation and work satisfaction.

In my model individual dimension is constructed from four parts: training and development, challenges and advancement, interaction and feedback and flexibility and work planning. Similarly, organizational dimension has been divided into three parts: corporate social responsibility, work space design and work flow direction. This division was selected to present the model in a more tangible manner.

The model was based on the idea of what is viewed as an effective reward system in knowledge based work environment. Extracting from the literature, the following themes were visible:

1. Rewarding is perceived fair.  
*Right reward for the right person at the right time.*
2. The reward mechanisms are clear and transparent.  
*The system works as employees expect it to work.*
3. Rewarding is designed or discussed with employees.  
*Sense of appreciation and involvement.*
4. Rewarding contributes positively to work place atmosphere and enforces desirable organizational behavior.  
*Rewards enhance positive involvement and knowledge sharing.*

## **5.2 Knowing your organization**

To begin with the task of designing or re-planning any organization's immaterial reward system needs to begin with identifying what kind of organization the system is designed for. Industry, host country's culture, global economic situation, age of the organization, size and instated practices all need to be identified and the basis of planning immaterial reward and incentive system *must* be based on these facts. Why is this? Throughout my literature review it grew more and more apparent that while some uniform trends of for immaterial reward effectiveness could be found, the factors mentioned above did have major influence in reward system success.

### *Industry*

Industry affects everything knowledge organization does. Going through all the possible industries is meaningless in this type of work, but the key thing related to industry is to identify what creates competitive advantage in any given industry. Examples could be innovation in high-tech R&D or size and reliability in medical or insurance sectors. Both of these examples require different things from both the employee and the reward system. As Burroughs found out, in new product development setting, creativity training combined with extrinsic rewards (bonuses etc.) created by far the greatest increase out of any other tested incentive combinations.

(Burroughs 2011) On the other hand, in medical sector training and employee developments most profound benefit was employee commitment to the organization, rather than increased work output. (Chay & Bruvold 2003) Naturally this is a debatable result as work output is difficult in medical knowledge work (doctors and nurses) but the result for my statement is the same. Difference in industry may and most likely will affect how different immaterial reward and incentive systems affect employees.

#### *Host country's culture*

Social cultural background affects how rewards are perceived and thus affects what kind of rewards should be designed. (Forstenlechner & Lettice 2007, Luoma et al. 2004, Reber et al. 2004) A typical stereotype of Finnish culture is that more often than not us Finns disapprove of public appreciation, while another stereotype is that Americans love public displays of gratitude. While these stereotypes do little to guide in managing individuals, it is worthwhile to familiarize oneself with researched cultural antecedents such as Hofstede's model of national cultural dimensions. As an example, individuals affected by high power distance culture are less likely to voice their opinions against a superior than in low power distance culture. For example, this can be used when designing how development discussions are planned.

#### *Global economic situation*

As private companies and to increasing extent, public organizations, are facing competition in their field. Global financial situation can affect how rewards and incentives could be planned. The economic realities have forced companies to downsize material reward systems and things like job security, professional development possibilities and job satisfaction gain relative value. Unstable and uncertain economic situation can also lead organizations to take less risks and focus more on their existing profitable revenue streams and clients. This mentality can reflect what kind of behavior is most beneficial for the organization at times of uncertainty and thus should be considered in rewarding, how to direct employee behavior in the same way.

#### *Age and size of the organization*

Age of the organization is linked to the perceived fairness of rewards. Anything new introduced in reward systems or new employed rewarded by a reward system needs to align with existing practices to avoid perceptions of unfairness. The instated practices and size of the organization are also linked in this topic. Larger companies are typically expected to have a more robust foundation of resources to provide both material and immaterial rewards. The perception of fairness is influenced by size of the company. A bigger company is generally expected to more generous in its reward schemes than a struggling start-up.

To summarize this section, when organizations begin revamping old or building new immaterial reward systems, they should survey their existing practices from the perspectives mentioned in this chapter and gauge how reward system currently is perceived by employees in order to decide appropriate route to proceed. I try to illustrate the actual build up work in the next chapters.

## **5.3 Individual dimension**

### **5.3.1 Recruitment**

Any reward system should begin to manifest itself as soon as new employees are recruited. These employees are recruited into existing organizational culture that has its formal and informal practices and an existing reward and incentive system. As soon as recruitment process is started, the potential employee needs to receive accurate and realistic information about job contents and reward and incentive systems of the organization he is applying for. The importance of “staying on the same page” with in the recruitment process is crucial to create realistic expectations job requirements and possible rewards and incentives in use. Creating positive image of organization’s practices should start during the recruitment process. Discussion with the recruit about the reward system should be done during the recruitment process. It is important to know how the recruit perceives points 1 and 2 on the list in chapter 5.1 and to enable to possibility to discuss the system. (Point 3.) The discussion gains credibility from the fact that company has done a thorough survey and can provide sense that employees are indeed treated as assets rather than costs, which is important. (Drucker 1999)

### **5.3.2 Training and development**

Training and personal development *can* be perceived extremely rewarding by employees but sometimes they have adverse effects. (Nordhaug 1989) The key to successful implementation of training as a reward or incentive is to know how the employee perceives it. Individuals might strive for new opportunities and challenges in the form of training or they might feel they are adequately challenged and occupied with their current work routines and feel the adverse effects of further training. The latter case is luckily the less probable case and thus training can generally be considered appealing. Studies have shown that one of the more desirable effects of training is that employees are more committed to organizations. The second thing to consider regarding training as a reward is how to get the most out increased level of knowledge. Knowledge sharing plays a critical role in realizing the maximum benefits from employee training efforts. Psarras found out that employees involved in training are more committed to their organization and Fan found out that employees involved



in knowledge sharing are more committed to the organization and their co-workers. (Psarras 2006), (Fan et al. 2007) Harnessing the potential synergy in this is one of the key aspects when planning knowledge sharing. Maintaining perceived fairness and being able to at least moderately effectively tap into new knowledge resources within the organization should payback the investment in training at least partially. One good way of doing this is to invest in mid-level management training as they have direct contact and impact on their subordinates on daily basis.

### **5.3.3 Challenges and advancement**

Luoma argues that one of the forces driving knowledge workers forward is the innate satisfaction of their jobs to overcome challenging tasks in everyday work life. (Luoma et al. 2004) This is indirectly evident in many other studies as well, especially in the cases that studied what makes knowledge workers motivated to innovate. The satisfaction of being able to create and improvise provided knowledge work with consistent source of *intrinsic* motivation. (A D Amar 2004), (Ederer & Manso 2013) Thus one “free” source of incentive in knowledge work is to ensure employees have adequately challenging tasks. My suggestion for this is to monitor employee’s motivation toward their job contents via daily contact and regular performance appraisals. Regarding advancement knowledge workers have varying opinions. Natural outcome of a well performed work is a promotion and/or a raise within reasonable time frame. However an example of a problem knowledge worker can run into when being promoted and advancing their careers is that they are usually promoted from some type of specialist position. It is not uncommon for the responsibilities of the specialist position to remain as their task and the added task of the new position are just added on top of the old tasks. (Luoma et al. 2004) This is something I suggest companies play around as well as possible. As rough generalization, I believe that professional engineering staff supported by professional management is by default a more sound organizational design than engineers leading engineers that have been promoted from their old duties.

Other noteworthy mention regarding career advancement is that knowledge workers may not directly seek to get promotions as it is not uncommon for knowledge workers to do what they do because they are highly passionate about their professions. Thus

getting promoted to managerial tasks is sometimes counterproductive to knowledge worker job satisfaction. (Scarborough 1999) This once again promotes the importance of personal preference in rewarding knowledge workers.

#### **5.3.4 Interaction and feedback**

Knowledge work specialists want to have their opinions heard. The foundation of functional communication and interaction within any knowledge organization is built upon open organizational culture where voicing opinions does not pose a risk. This openness cuts through the entire spectrum of careers in knowledge organization, from recruitment to senior positions. Generally knowledge workers are compliant with tasks given by their superiors but being able to discuss about the tasks and choose your way of reaching desired results should be left to the employee. (Luoma et al. 2004)

Regarding feedback, skilled knowledge workers are generally open and willing to receive feedback from their work. One reason for this is most likely the fact that they feel secure about their proficiency and don't view criticism and appraisal as a threat. Feedback is extremely important to maintain critical view towards your own working methods and to avoid excessive routinization. Both negative and positive feedback are important for motivation. (Alvesson 2001a) The defining factor for feedback is appropriate timing and social situation. Feedback should be given as soon as the task it is given from is completed. (Koning 1993) As a general rule, if possible and appropriate, involving everyone related to the task should be present to give and receive feedback the same time. My personal suggestion is that when knowledge workers are given feedback, organizations should encourage them to give feedback how they were lead during the task or project. Interactive feedback motivates people to examine both their own and their peers and superiors efforts.

The most dominant factor related to feedback is the surrounding organizational culture. Knowledge workers desire feedback but can get accustomed to not receiving it and subsequently become too sensitive for it. Planning and implementing functional and motivating feedback systems needs to start from the organizational openness and appropriately include stakeholders in the feedback system. (Luoma et al. 2004) This can include clients, client's clients and other stakeholders.

### **5.3.5 Flexibility and work planning**

Flexibility is probably the most tied to individual preferences in terms of how it is experienced. Multiple studies have found out that work time and work place flexibility can function as effective incentive mechanisms but are tied to individual preferences and overall life situation of the person that is allowed flexibility. (Pedersen & Jeppesen 2012, Peters et al. 2009) To me the key concept that needs to be understood in knowledge work environment is that if organization can't trust their employees with personal flexibility over their work planning, there are more profound problems in organizational culture than how work time is arranged. Knowledge workers that are up to the tasks assigned for them are also capable of planning and executing their tasks in a manner they prefer and view as efficient. I would argue that a system that monitors and controls knowledge worker work time is unnecessary and even detrimental. Only case a system such as this should even be in place is for legislation and even then I would recommend instating company practices that can work around strict and restrictive legislation. Finland is notorious in this manner, forcing strict rules on how work time can be legally arranged.

Overall the key in flexibility is the interactive trust that it can convey to both employer and employee. On the other hand employer trusts its employees to perform agreed tasks in a satisfactory manner and on the other hand time-spatial flexibility requires employees to trust that the tasks are appropriately designed and rewarded. My notion from the literature is that big portion of the studies directly or indirectly suggest leaving control of some of the time-spatial work planning to the knowledge worker and discourage anything but the lightest forms of work time control. If anything, knowledge workers are prone to working too much and should be supported in controlling their own work time and load to be sustainable. (Hall & Atkinson 2006)

## 5.4 Organizational dimension

This chapter about organizational dimension focuses on linking the existing organization to its individuals through immaterial reward and incentive schemes.

### 5.4.1 Corporate social responsibility

Organizations can and in my opinion should go beyond the traditional “line of duty” to provide for their surrounding society. This is naturally tied to the maturity, size and monetary situation of the organization but studies have shown that in brand building, especially toward promising future employees, CSR holds actual relevance. CSR can manifest itself in two ways: innately, where organizations offer more care for their own employees and processes than legally required and externally where organizations do more for their surrounding through, for example, social or environmental initiatives.

There are two important things that can be extracted from the literature regarding CSR. Organizations need to be consistent and honest about their CSR programs and knowledge workers more often than not *do care* how their employer is positioned in this regard. As I showcased in chapter 2.1.1, studies have found a wide array of benefits from high CSR in knowledge work environment. To tap the benefits from CSR, organization needs to make employees feel they contribute to the process of CSR. Generally speaking this is very understandable, people want to be part of things that are good. This has proven to boost their morale, increase job satisfaction and create commitment towards their host organizations. The openness in this matter can't be overestimated as Iturrioz points out, finding yourself in conflict with what your employer is doing can have severe negative effects to your work morale and commitment. Therefore from the very beginning organizations need to understand their own position regarding CSR and communicate this clearly and frequently to stakeholders, most importantly to their own employees. (Iturrioz et al. 2009)

### 5.4.2 Work space design

Work space design can act as an effective way to indirectly affect knowledge workers motivation and job satisfaction. The key in understanding how important work space design is for your company is to understand the purpose of the facilities you are providing and what kind of activities take place in said facilities. As I discussed earlier, some aspects of workspace design are *hygiene factors* and need to be addressed functionally. Making the mundane tasks of data transfer and storage, data input and output (computers, furniture and printers) well enough for no one to pay any attention to them should be sufficient. Aesthetics, art and lighting can provide further satisfaction, although employees were less frequent to be able to pin point these to increase their job satisfaction.

Most important work space design seems to be in cases where knowledge workers need to host customers and other stakeholders in company premises. Here work space design can play a major role. Employees enjoy when they can be proud about company premises where they host stakeholders. Employees have also been found out to be attaching their satisfaction towards facilities to their overall job satisfaction. Whether this is due to organizations that take good care of their premises take good care of their of their human resources as well or that aesthetics actually majorly affect job satisfaction is still somewhat unclear. (Siler 2009) Just from these preliminary results I would draw the suggestion that within reasonable scope, work space design can and should be planned and monitored as seriously as any other managerial topic.

My suggestions regarding work space design is to plan the day-to-day task related facilities to be scalable in the future to avoid any rise of work around solutions for data handling for example. Aesthetically work space design is a matter of resources. Investing heavily into expensive premises can be beneficial but they should never take resources from more pressing issues such as product development, customer management and other mission critical activities.

### 5.4.3 Work flow direction

Work flow direction is an abstract phrase that in this case comprises of how knowledge worker tasks are designed as a whole. When we examined what entails being a knowledge worker and what knowledge work actually is, we extracted that knowledge workers are generally highly educated and skilled in their chosen profession. Knowledge workers want to feel appreciated and they want to hold responsibility over their own tasks. Clear goals and task appointment is crucial to allow knowledge worker focus on the actual task and not the semantics. Overall the best approach seems to be to designate desirable end result from projects or ongoing tasks and let knowledge workers themselves to figure out the ways to achieve these goals. Therefore organizational culture and rewarding should be tuned to support independency and result focused activities and not take too strict stances on how to achieve these goals. How does one achieve this? By addressing all the other topics discussed in this thesis. Flexibility, skill-enhancement, job rotations, interaction and empowering employees to affect their own work and work environment, CSR and work space design can all contribute to allowing knowledge workers determine how things are done and seek ways to find the best way to perform for *themselves*.

Knowledge workers have been found out to prefer holistic tasks, where they have control over the work process from start to finish. Generally managing a subject as a whole instead of parts of it have been found to be motivating for knowledge workers. (Luoma et al. 2004) This is a natural challenge for knowledge organizations as job descriptions are often ambiguous and responsibilities are hard to pin point for each employee separately. This emphasizes the need to be able to trust your employees to partially solve these problems with themselves and with each other. This is a problem and a possibility at the same time. Many subjects in this thesis converge on this same topic. Knowledge sharing, flexibility and skill enhancement are all directly linked to work flow direction and affect it. This holds the key to my suggestion regarding work flow design. Allow employees themselves to determine appropriate way to perform. End results and the process quality knowledge works worth. When to perform and how to perform are inferior in importance.

## 5.5 Conclusion

This thesis and particularly the managerial suggestion have been exhausting, exhilarating and extensive for me. In this last chapter, I try in own words to summarize what I have learned and what are the most mission critical points of immaterial rewarding in knowledge work.

First I would like to recapture the essence of *individual* and *organizational* dimensions. In short individual dimension encompasses the perception of any reward or incentive. This perception is different for each individual and therefore the participation of the employee is critical to address his or her personal needs and preferences. Organizational dimension encompasses everything organization and its culture does to affect rewarding. Understanding the link and interaction between the two is critical. Organizational dimension molds how individuals personally perceive rewards and vice versa. This interaction is ongoing and changes through time. New employees shape the organization and organization shapes the new employees. There is a plethora of literature dedicated to each dimension and therefore information is readily available. Extracting the most important aspects of it is not as easy however. As I explained in the beginning of my managerial suggestions, my view is that the best and most beneficial thing management can do in this matter is to actively include employees in the process of reward design. Illustrating how things are currently done in the organization and what options employee has regarding them and inquiring how he views them is the stepping stone to effective rewarding in knowledge work.

Another thing that is apparent to me from what I have learned through this process is that management has and *should have* less control over their employees in knowledge work than in manual labour. Autonomy and self-direction are important in almost any knowledge work for the employees to succeed and be productive. Knowledge workers are driven by *intrinsic* motivation and as a cliché it can be stated that this type of motivation can't be bought. Entangled mesh of personal preferences and organizational aspects either increase or decrease this this motivation and in my opinion dictate the success chances of knowledge organizations.

Lastly, I would like to underline one already mentioned factor. In business jargon it is a common cited fact that customer is the most important for any business. I would like to argue against this in this context and state that in knowledge work the employee is the most important stakeholder. If your employees are not up to task or are unmotivated, you have nothing to offer for your customers. No amount of facilities, machinery or other resources matter in knowledge work as they are tools to allow knowledge workers to process information, their most valuable resource. And there is nothing that can replace the knowledge worker in this process. Without his expertise the information and all the facilities are worthless and meaningless. At the same time, knowledge workers can only do so much if their work isn't organized and rewarded in a way that encourages to reach for their own maximum potential and interact with their colleagues. I think an appropriate analogy would be football. With the most skilled players in the world, you have a strong team on paper but without a skilled coach to direct the individual specialist towards a common goal results will be poor. Similarly, the most perfect game plan and tactics can never substitute the individual skill required to carry out these tactics. If you want to manage and reward knowledge workers efficiently, what you need to do is to allow them to see what the game plan is and why it should matter to them. They will carry out the rest.



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