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# COMPENSATION POLICY IN STARTUPS

## "KENDA BIKES" FIRST STRIKES TOWARDS A COMPETITIVE COMPENSATION STRATEGY

PHILIP NODORP

MASTER STUDENT 40678

A Project carried out on the International Master's in Management Program, under the supervision of:

Alexandre Dias da Cunha

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**Abstract**

KENDA Bikes[1] is a young, dynamic, and strong brand growing rapidly fueled by a pandemic and a connected e-bike hype. As the company is still very young, the startup lacks the right processes and structures in human resource management, especially in compensation policy, to cope with the constant growth in the future. Hence, the Case Study offers a teaching opportunity to analyze factors of "attracting, retaining, and motivating talent", "what a reward strategy is", "how to determine a pay structure", and "what change management tool cloud be used to implement a reward strategy".

**Keywords**

Growth, Compensation Policy, E-Bikes, Startup, Reward Strategy, Change Management

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[1] All actions and problems shown in the case study are based on a real enterprise in the cycling industry. The name „KENDA Bikes, all names of the protagonists and mentioned locations have been disguised for confidentiality reasons. Any resemblance to actual events or persons, living or dead, is purely coincidental.

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## 01 INTRODUCTION

It is October 6, 2020, and the "management team" of the company KENDA Electric GmbH[2], a young and ambitious pedelec[3] manufacturer from the city of Münster, is sitting together over dinner. Like most meetings of the company, this one takes place in a relaxed atmosphere. Private matters are discussed, there is good food, drinks, and extensive laughter until the more serious topic is addressed. The scheduled management meeting's actual reason is one of the most important and often, most underestimated issues for companies, especially young companies. The management team came together to discuss the current compensation policy and how it needs to change in the future to remain relevant to the well-educated and talented members of the team and potential new hires. Two days from now the founder of KENDA Bikes has a shareholders meeting where he has to present the results of the first year, has to justify his recruitments, and probably has to discuss how the compensation package of the management team as well as new recruitments can look like in the future (Appendix A.1).

## 02 UNDERSTANDING THE PEDELECS MARKET

The bicycle industry has experienced an unprecedented boom in recent months and has benefited from "COVID-19", in contrast to most other sectors in the world. The bicycle industry has already shown strong growth in recent years. One reason is undoubtedly the stride of technologically advanced e-bikes. Nevertheless, it must be mentioned that e-bikes and conventional bicycles are equally in vogue, and both have seen a considerable increase. The mentioned pandemic, the sustainability awareness of people in the 21st century, the car industry's turnaround, and collective goals like car-free inner cities are more than beneficial for the bicycle industry and some of the reasons for the mentioned boom. In the 1970s, the textile and bicycle industry left Germany and the rest of Europe and moved towards Taiwan. The

[2] The abbreviation GmbH stands for *Gesellschaft mit beschränkter Haftung*, which in English means a ‘limited liability company’ or ‘company with limited liability’.
[3] The abbreviation for "Pedal Electric Cycle" - in which the driver has to pedal by himself. Thus, the e-bike in use today is an electric bicycle that assists in pedaling up to a speed of 25 km/h

cheap yet high-quality labor force was the most severe reason. Over the decades, the bicycle industry in Taiwan has developed further, and thus some European know-how has migrated to Asia. Due to the rising standard of living in Taiwan and the oversupply of engineers, and the related low wages in China, the production sites have changed. The new production sites in China, Vietnam, Cambodia, and Thailand have created new opportunities. Some of them are protected by the EU's anti-dumping duties, but now also smaller players with less capital can access incredible know-how. Manufacturers offer more or less an all-in-one service and provide everything from technical drawings, prototypes, sourcing, assembling, and sea transport for their customers and all this for an "affordable" price.

**DEVELOPMENT OF THE EUROPEAN MARKET IN THE LAST FIVE YEARS**

For the German bicycle market, 2015 was the best year ever recorded. Suppose one cumulates e-bikes and conventional bicycles, 4.34 million new bikes were sold in Germany in 2015. Until 2017 the cumulated sales figures have decreased, but the share of e-bikes has slightly increased. Since then, sales figures have been growing again, reaching 4.31 million units in 2019, of which 1.16 million were e-bikes (Wagner, 2020; Appendix B.1). According to the German Two-Wheeler Industry Association, import has increased by 7.4%, export by 14.2% and sales by 3.1% (Bundesministerium für Wirtschaft und Energie, 2020). The penchant for high-quality products and the significantly more expensive products from the e-bike segment have resulted in the industry achieving a 34 percent increase in 2019 compared to the previous year (Wrede, 2020). If one looks at the e-bike market in Europe, one can see substantial growth over the last ten years. In 2019, 3.6 million bicycles were sold in Europe, of which 1.36 million came from the German market (Statista Research Department, 2020; Appendix B.2). It will be exciting to see how strong the boom in 2020 was. Still, it is already predicted that the global market for electric bicycles will increase by 5.2 billion U.S. dollars from 2019 to 2023, from 14.8 billion to 20 billion (Wagner, 2020). According to the co-founder of FAZUA GmbH [4], the American market, in particular, will play a significant role in the coming years, as experience shows that it is five years behind the European market (Fabian Reuter, 2020).

## COMPETITION AND THE ATTACHED CHALLENGES

As already mentioned, the bicycle market is growing at an incredible pace. Established giants in the industry have had good times in the last three years and are now flooding the Asian parts market with inquiries. Even small niche suppliers appear in the brand landscape and try to stand out from the crowd with an exceptional product and small quantities. Due to the technological development of e-bikes, large players from other industries are also coming to the market and pumping large amounts of money into the industry. Names like BMW, Ducati, Jeep, and Harley Davidson all take part in the competition. Not all attempts to jump on the bandwagon are taken seriously, but it shows the potential and, at the same time, the enormous pressure for small competitors.

Last but not least, there are the pioneers of the e-bike industry. The "early movers" Vanmoof and Cowboy are on everyone's lips, and both have the most futuristic bikes on the market. With large financing rounds, both attract VCs, PEs, and other investors from all over Europe and have already raised around 50 million Euros each. These well-financed enterprises give small players in the market problems with purchase quantities and component procurement. In addition, these companies also have better opportunities to attract and retain talent over time to create real value. Companies that use most of their equity and debt to pre-finance new lines for the next season are even more critical to provide an excellent overall package for their employees.

[4] Fazua was founded in 2013 in Munich, Germany, by a small team of Bavarian cycling enthusiasts. Since then, the company has relentlessly pursued its goal of revolutionizing the eBike market. FAZUA has developed an innovative eBike drive system to push the limits of cycling mobility while also preserving the natural feel of a non-motorized bike.

## 03 “KENDA BIKES” BACKGROUND

A lot has happened so far, and the company has achieved more than it could have wished for at the foundation. The founder Alexander Walter was able to put together a team of shareholders before the foundation of the GmbH. They have extensive knowledge of founding a company and a vast network in the German start-up landscape. Over many months Mr. Walter has mastered all operative tasks independently and has relied on freelancers for complex problems that required unique expertise. In January 2020, five months after the product launch, the founder created the first position for a permanent employee and hired a marketing manager (Appendix A.1). On July 29, 2020, KENDA Electric GmbH and especially the founder, Mr. Walter, had a lot to celebrate. The company's product launch took place exactly one year ago and the twelve months after that could hardly have been better than what the company has to show. During the festivities, Mr. Walter gave a speech about his inspiration to bring such a product to the market and the initial steps and difficulties on the way to its establishment. *"The daily commute from my apartment to the location of my internship at KPMG changed my perceptive about E-Mobility and E-Bikes, especially."* Mr. Walter remembers while he was talking about his inspirations at the Event. The train of thought was quite simple. He liked his father's e-bike, which he rode to his internship every day, but such a bike was not affordable for a young person, too heavy, and just not cool enough to be seen on campus. A few months later, and countless nights in the garage together with his father, Mr. Walter launched an affordable, light, and puristic but stylish pedelec. Such a success story fueled by a global pandemic that not only contributed to this journey but elevated the bike market on an unprecedented level entails new challenges for a young and still small start-up.

## CURRENT HRM STRUCTURE

In recent months, not one, two, or three permanent employees joined the team, but four permanent employees and various interns. Three of the four new employees are part of the management team, and one person is responsible for customer support. The framework conditions and compensation package that were negotiated at the first hiring process should also apply to future employees. At that time, the idea was to limit these contracts at the beginning to one year to not leave the still very young company with obligations that might not be bearable in the future. In terms of recruiting, KENDA's strategy is to convince highly qualified master graduates of the advantages of an early-stage start-up. Two of the five permanent employees have been hired by the founder through his extended circle of acquaintances, one permanent employee through a previous internship, and the remaining two through the traditional recruiting channel. So far, this has worked very well, and the company has been able to acquire talents who could earn significantly more money on the open market. However, how does the remuneration concept of the GmbH look like? Incentives are provided mainly by potential opportunities in the near future, such as promotions, possible equity, or partnerships in affiliated start-ups. Besides, the possibilities of learning leadership skills at an early age are also taken into account. In monetary terms, the company offers little. Its base salary is below the industry average and far below the wages that employees could earn elsewhere. All employees are also provided with a company bicycle and can take advantage of the usual start-up benefits such as free coffee, free drinks, and free cereals. A kind of variable compensation has not yet been introduced. Still, KENDA Electric GmbH has recently entered into a partnership with a sports provider so that employees can take advantage of a wide range of sports activities for 20 euros per month. On top of that, job-related training is also possible. Budgets are provided for skill training and personal development, but this will only happen when its revenue allows it. The climate is amicable and team-oriented, yet the team feels the challenge and pressure of start-up success that drives the whole organization. The team is very committed and willing to put all their energy into achieving the business objectives while believing in its leadership, which could be a significant attraction for many potential recruits.

KENDA Electric GmbH is still at the beginning of a hopefully very long and successful journey and has not yet reached a stage where a reward strategy could be implemented as the structure for this was not in place. The founder intends to develop a competitive reward strategy for KENDA Bikes to show his team an appropriate appreciation.

**LOOKING AHEAD - FUTURE EMLPOYEE REMUNERATION**

Here they are, the CEO Alex, the marketing department Veronica and Reily, the business development and operations section represented by Janis, and the supply chain management represented by Pete sitting together over a well-deserved dinner, drinking beer, and having a good laugh. After a bit of time has passed, the founder took the floor: *"As you know, you all have a temporary contract for 12 months, and I am very grateful for the last weeks and months we have worked together. As the first contract of our beloved Head of Marketing will expire in the next few weeks, we have to look into the future and see how we can continue from there. I had told you when signing the contract that the next contract will be longer and better paid. Whether this will be the case, I cannot say for sure. That's why I would like to hear your opinions, if you could live another year with the same compensation or if you have other ideas. Please keep in mind that I do not have absolute authority here. If it were up to me, you would all earn more, but I am still very cautious at the moment, and so are our shareholders."* Veronica and Reily immediately jumped in and made it clear that they appreciate the benefits of this start-up but would not work another year below the industry average and would be more likely to aim for a salary just above the average due to the high level of responsibility. On the other hand, Janis and Pete would accept another year with the same pay, but they doubt that it makes sense. Janis paraphrased it with the following words: *"Alex, you know my point of view. Money is not the decisive factor why I work for this company. Still, we are already having problems getting enough applications together. Attraction, long term retention, and keeping everyone equally motivated is tough with the* *current compensation package".* Pete agreed and continued that even hiring interns becomes more difficult due to the given wage structures. With the sales targets set and the accompanying growth targets, the salary structures should be reconsidered and worked out newly. If the people present are part of the management team, everyone who follows will be subordinate and earn less. However, with current fixed pay, this is not reasonable. *"I am aware that we rely on every employee and that every employee is a part of the company's success, but we should start building a salary structure with different job grades and salary ranges soon to avoid running into major problems,"* Pete added. Veronica replied that she sees it similar and said*: "I see this similar to Pete. I think the atmosphere, the team, and my tasks are great, but I think that we earn far too little in the long run and in relation to our education. I think it's great that you try to organize several things for us, like the new sports program, and that's exactly why I wanted to emphasize again that Reily and I are not just about money. It is an important component, but we can focus our attention on many other things if we don't make a 100 percent agreement on the salary. We have enough examples of start-ups and cooperation partners that try to offer their employees a complete package. I know we are still small, but maybe we should think along these lines. We cannot implement this immediately, but it would be worth considering, wouldn't it? "—everyone*, including Alex, nodded. *"I think Veronica has mentioned a valid point which we should consider. Even though we are talking about money all the time, it is still a small part of many that could make us feel appreciated and attract potential applicants,"* said Janis. After a few moments of silence, the founder took a sip of his lemonade, stared in the middle of the table, and retook the floor. *"I hear you loud and clear. And I can understand all points of view. But let me give you one more thing to think about first or to elaborate on together. Even though we don't know how to solve these things yet, I also noticed that we have a hard time getting changes done in our company, even though we are still tiny. Maybe it might seem a bit silly for some of you, but if we want to change the things we talked about, we need a proper tool to* *successfully implement any change. I've been thinking about how we can make this work for a while now, and I think to be able to implement all this soon, it is inevitable to work something like this out. Not only for this problem but all future obstacles that may arise, affecting the whole organization. Why? Because I think such changes need to be communicated well to the rest of the staff and maybe explained and justified. Let's look for solutions in the next weeks".* All management members nodded and agreed that many intended changes weren't appropriately implemented in recent weeks. Mr. Walter continued: *"Okay, thank you for the honest answers. I will raise all this at the shareholder meeting and update you afterward. Let's start to think about how we want to tackle the issues raised so that we are prepared at the time we can and want to implement them. And now, let's put the work aside and enjoy the rest of the evening for a while."* Alexander Walter raised the glass and proposed a toast to the team.

## TEACHING NOTE (PART B)

## 04 CASE SYNOPSIS

This case study enables understanding of the challenges young companies face when competing against big companies in the “war of talent” and understand the importance of a total reward strategy. As increased sources and studies have proven that a comprehensive compensation package improves talent attraction, retention, and motivation, this case study enables identifying the key insights that will allow similar companies to benefit from such a strategy. Since the case study also addresses the importance of money, the reader will understand how a pay structure is determined and how this fundamental organizational change can ultimately be achieved.

## OBJECTIVES

This case study will help clarify what young companies have to struggle with regarding talent attraction, retention, and motivation. It will also provide strategic insights into total reward stray, fix pay determination and organizational change, and the tools to master change. If possible, the students should work on the following objective topics: 1. Why do Companies and

Startups fail to attract and retain talent; How can they change that and become relevant for outstanding talents; What can KENDA Bikes do to become relevant for the right talents. 2.What is the total rewards strategy; What are the components of a comprehensive rewards strategy; What is the goal of a total reward strategy; Why should every company follow the total reward strategy. Understand the importance of pay. 3.What is a Job Analysis; What is a Job Design; List and define the five steps to determine a pay structure. 4.What is organizational change; Define Lewin's Change Model and Kotter's Eight Steps.

## 05 ANALYSIS

### 1. What are challenges for start-ups when attracting and retaining talent?

In 1997 Steven Hankin came up with the term "war of talent", referring to the increasingly fierce competition to attract and retain employees. During that time, the baby boomers departed from the work-life, and generation X and Y were too few to make up the gap (Keller and Meaneym, 2017). The offer becomes more extensive with the entrance of the "Gen Z" into the working life. However, the fight for the talents remains, since unique skill sets are looked for, and in particular for start-ups, it is vital to find "high performers". The right employee can make the difference between death and survival for start-ups, so it is all the more critical that they make an effort to attract and retain qualified talent. Start-ups inevitably need to evaluate their finances carefully and their attached capabilities to attract and retain talent. At the beginning of a business, they usually try to keep cash compensation as low as possible. One of the reasons for this is that start-ups are often faced with the significant obstacle of securing the necessary capital and ongoing finances (Grünhagen, 2008). In the long-gone business world, tangible assets accounted for 80% of average company revenues. In recent decades, a gradual, imperceptible but steady shift has taken place in this regard. Today, human capital represents the same corresponding value as tangible assets at that time. In retrospect, it can be said that this requires the management of enormous social transformations, which is why attracting talent is increasingly becoming a critical aspect and a strategic element for all growth-enhancing companies (Sporre, 2013). Newly founded companies generally face additional challenges such as finding qualified employees for the job, the ability to work long hours, and the ability to maintain a balanced workload. However, even these surveys indicated that the biggest challenge is attracting and retaining talented employees (Devaney and Stein, 2011).

**Talent Attraction**

Large and well-known corporations' reputation is still a huge asset and tough to battle for young upcoming start-ups. Clayton Glen (2007) claimed that talented human capital searches for companies offering the best opportunities to develop themselves. Even though it is proven that these large reputable companies have a high turnover rate, these corporations attract talent at every level of employment as they can provide, among others, an ideal career path and competitive financial reward. Jarie Bolander (2010) also advises companies to create a competitive image, which could be achieved by various actions such as offering challenging work, competitive salaries and benefits, talent management and a talented workforce, and a flexible work environment. Unfortunately, many companies, whether large or small, fail to present the jobs they offer attractively. Others, especially start-ups and small-sized companies, face the strain of keeping up with competitive salaries and benefits offered in the industry, enabling employees to perform the work expected from them.

Moreover, it is no longer about moving to a more attractive job. It is rather about moving to a job where other factors come into play, such as family security, child-care, work-life balance, which provide a certain quality of life for employees (Sporre, 2013). Most of these factors are very capital-intensive and require enough resources from companies. Resources that many small businesses and early-stage start-ups cannot or can hardly obtain by compromising elsewhere. Talented employees also tend to want to work with people who are like them and have similar talent, so companies must provide a consistent service level (Bolander, 2010).

Nevertheless, start-ups could also benefit from the things mentioned above. According to The Wall Street Journal, young businesses need to realize their advantages over large reputable companies. They usually have less bureaucracy, more job diversity, more opportunities to develop and close almost familiar relationships between employers and employees. They also offer more opportunities to grow, as well as increased flexibility (WSJ, 2008). Due to the few prevailing obstacles in a start-up, it is easier to establish things and pay attention to how they are handled. Rob Goffee and Gareth Jones (2013) have identified six crucial agenda points for creating the ideal work environment. In order to create the most productive, most rewarding workplace imaginable, a company should fulfill as many of the following points as possible: 1.Let people be themselves / 2.Unleash the flow of information / 3.Magnify people's strengths / 4.Stand for more than shareholder value / 5.Show how the daily work makes sense / 6. Have rules people believe in. This list contains no surprises, but implementing the elements is no easy task and asks for high determination. *"The challenge is to match—and then to exceed—what they have managed to accomplish"* (Goffee and Jones, 2013). Devaney & Stein (2011) suggest that newly founded companies pay attention to the following points: The globe is your battlefield, Focus on recent graduates, First come first serve, Keep the level high, Late founder approach, and do not be too stingy with the base salary (see Appendix C.1). In short, start-ups need to be proactive in their search for the most suitable candidates and need to be.

**Talent Retention**

Hiring talent is complicated and very expensive, but yet one of the most crucial aspects of every company. However, what about retaining the recruited employees? When a company successfully recruits the most suitable employee for the advertised vacancy, it is even more substantial to retain the employee. According to William and Scott (2012), 40% of workers in the United States are planning to look for a new job within the first six months, and 69% say they are already passively looking. When talking about a high investment while recruiting human capital, losing this human capital and the related costs of employee turnover like immediate separation costs, recruitment costs for a suitable substitute, and the productivity costs which may and will occur due to various factors such as the hours of productivity the company loses. At the same time, the position goes unfilled, as well as the time other employees spend trying to pick up the slack (Bretado, 2016)**.** All this is no secret since Hogan (1992) and Wasmuth and Davis (1993) showed already in the early 90s that employee turnover is an essential factor since it can be costly for an organization and harms profitability. Long-term employee retention requires many good reasons. Organizations must offer their employees a perspective and a long-term commitment. Organizations are better equipped to retain their employees through open communication between management and workforce, through the equal treatment of all talents, common sense, and the ability to look beyond the company's needs and be open to confrontation and the workforce's wishes (Bolander, 2010).

For the Harvard Business Review article "Five Ways to Retain Employees Forever, " D.K. William and M.M. Scott came up with the "5 R's" that are essential when retaining talent. The five R’s are Responsibility / Respect / Revenue sharing / Reward / Relaxation time. Companies of all sizes have obligations to their employees. They represent a large part of the daily lives of their employees. Therefore, if they want to maintain a high-performance level, they must offer monetary and non-monetary rewards to employees. This is conducive to build a positive culture in which the employee is trusted, respected, and valued, and they must be given appropriate responsibilities that allow them to acquire new skills and promote career advancement in order to create a strong, stable relationship with the employee (Williams and Scott, 2012). Taplin, Winterton & Winterton (2003) conducted a study that confirmed that rewards positively correlate with employee retention. Williams and Scott (2012) went a step further and claimed that the employees' wages should be attached to the company's performance, thus strengthening retention. Elena Bajic (2013) defines six steps to retain employees who are more focused on intercommunication and appreciation: 1.Communication / 2. Coaching / 3.Setting clear key performance indicators / 4. leveraging performance reviews to gain insights into employees' goals and aspirations / 5.Treating growth opportunities / 6. Underscoring positive feedback with something tangible.

The quintessence of the model is that the interpersonal aspects in an organization matter in addition to all rewards. Interacting with employees through verbal and nonverbal communication, giving them the authority needed to perform their jobs properly, and understanding how they are evaluated and rewarded is key when retaining valuable human capital. Lastly, it is crucial to acknowledge the career goals and possibilities for every employee's progression, so companies should promote from within whenever this is possible. (Bajic, 2013). According to Jarie Bolander (2010), the things listed above are the most severe reasons why companies fail to keep their talents within the organization. For example, most cannot communicate openly or make their employees feel like they are part of the team. This is a big problem for talented people whose good ideas need to be recognized and whose differences should be respected, evaluated, and probably used for the whole organization's good. Another challenge is when managers do not treat employees fairly. Knowing that employees are people with concerns other than work and not allowing them to deal with them is an additional concern, so emotional intelligence is becoming increasingly important.

**Implications for “KENDA Bikes”**

What are the key takeaways for KENDA? As a start-up that is still at an early stage, KENDA has one significant advantage: almost no bureaucracy and internal processes that allow the company to start fresh. KENDA should elaborate on its young, healthy, and fun brand when attracting new employees. It is essential that they also refreshingly present their job listings to stand out from the crowd. Furthermore, they should radiate that working at KENDA is fun. Every day is different, the opportunity for further development is given, and the interpersonal relationship at the company is considered very important. Since many companies communicate this, it is also essential to speak the desired/suitable applicant's language, just as it is vital in marketing to speak the customer's language. Young companies have to find new ways to attract talent and understand what drives people to give up higher salaries and more benefits for a business idea and a unique working environment. This is also strongly reflected in the six steps of Goffee and Jones. In these, it is also imperative that the employee perceives the communicated benefits as real. Going back to the suggestions above of Devaney and Stein, one can say that KENDA already does most of them besides the suggestions “late founder approach”, which is not possible due to the shareholder's wishes not to offer equity in the company and "the globe is your battlefield". KENDA should consider transferring their processes and internal drive system from German to English to be prepared if a suitable applicant cannot speak German on a business level. When retaining employees, communication is a crucial factor.

KENDA needs to provide new employees with information about the company, its organizational chart, communication guidelines, departmental overview, human resources policies, and promotional videos to become familiar with the company. Moreover, it would be advisable for KENDA to elaborate a hybrid out of Bajic's six steps and the 5R's of D.K. William and M.M. Scott since they are trying to imply the same. Both put the employee first, and KENDA should try to live this as much as possible and treat all organization members with respect. Even though no organization can fulfill every hope and desire of its employees, start-ups might implement the mentioned aspects faster than large corporations. In other words, KENDA should focus on the above-mentioned quick wins, which are easier to achieve for start-ups than for large corporates. After that, they should start to tackle other possibilities, such as wages attached to the company's performance.

## 2. What is the „Total Reward Strategy“ and why is it crucial for companies such as „KENDA Bikes“?

In short, the total reward strategy, when properly implemented, should enable an organization to develop policies and practices that attract, retain, and motivate highly qualified employees (Armstrong, 2006). Money is and remains a significant factor and has always been the linchpin of the human-made world. In this context, organizations are required to develop sustainable and comprehensive compensation strategies that are attractive to potential employees (Nwokocha and Iheriohanma, 2012). However, money is not the most important thing for everyone, as it has a lot to do with an employee's character. Many studies say that it depends on the respective employee, which character they have, which education level they have, and in which situation they are asked about the importance of money.

Pay is more important in job choice when pay varies widely across employers than when pay is relatively uniform. There is a declining marginal utility to additional increments of pay. This means that dollar for dollar, being "under market" has a deterrent or demotivational effect than the positive effect of paying above market. People often reject low-paying job offers based on pay alone, without considering other factors (Rynes, Schwab, & Heneman, 1993). The salience or importance of pay is likely to rise after changes are made to pay systems. Pay is probably more important in job choice than in decisions to quit, in part because the pay is one of the few characteristics people can know with certainty before taking a job.

In contrast, once a person has been on the job for a while, other factors come into play (Rynes, Schwab, & Heneman, 1993; Towers, 2003). Pay will do little to motivate performance in systems where people receive similar pay increases regardless of the individual or firm performance. However, dramatic performance changes often occur when payment is made more contingent on performance (Rynes, Gerhart and Mine 2004). Nevertheless, an employer has to offer more than just fair pay, and this is where the aforementioned total reward strategy comes into play. World at Work, the former American Compensation Association (2007) draw up the total rewards strategy decades ago and improves it continuously. It refers to everything that employees value in the employment relationship. World at Work (2007) defines total rewards as the overall return provided to employees in exchange for their time, talents, efforts, and results. It involves integrating five key elements that effectively attract, motivate, and retain the talent needed to achieve a company’s goals. The five essential rewards elements are Compensation, Benefits, Work-Life, "Performance and Recognition", and "Development and Career Opportunities" (WorldatWork, 2007; Appendix C.2).

**Why do companies need the total reward strategy?**

Brets, Ash & Dreher (1989) have recognized earlier that an organization's reward structure is one of the foundations and determines the differentiation of one organization from another. Brown and West (2005) agree that the reward strategy is a mindset that can be applied to all types of reward problems to achieve valuable results. Reward strategies are designed differently because each organization is different from the other and can lead to a strong competitive advantage, according to Hiles (2009). An effective overall reward strategy should be aligned with the business strategy and well communicated to all organization employees (Lyons and Ben-Ora, 2002). Research has shown that a company's performance depends in part on the extent to which compensation practices underpin and support companies' strategies (Gomez-Mejia, 1992; Miles & Snow, 1984; Youndt, Snell, Dean, & Lepak, 1996). Silverman & Reilley (2003) discovered in their study that compensation systems are more likely to be successful, the better the overall compensation and corporate strategy fit together. Well-designed reward programs offer employees a long-term perspective on the company, which helps retain employees and give them a common goal to strive for (Welbourne and Andrews, 1996). Finally, these programs, which are designed in the early stages of a business start-up, positively affect the company's short-term success and long-term survival (Collins and Porras, 2004). The quality of human capital is of crucial importance, especially in entrepreneurial firms and start-ups, as it determines the business's success (Ireland, Hitt, & Sirmon, 2003; Shrader & Siegel, 2007; Snell & Dean, 1992). Designing an effective communication system helps employees understand the reward structure. It also helps them to understand their contribution to the company and the rewarding process that accompanies it. Even if the organization has created a perfect reward structure, it can fail if it is not communicated well to employees (Lyons and Ben-Ora, 2002). Organizations today typically use various digital media (such as, among others, interactive PDF files and quick links) to avoid poor communication (Rowley, 2009).

**Implications for "KENDA Bikes"**

In summary, each employee has their own needs that companies should understand if they want to achieve their short and long-term goals. Money is not the only motivating factor for employees to be motivated to work harder and achieve goals. As already mentioned in the previous question, KENDA is financially limited and bound to the shareholders' wishes to not pay a higher base salary, which means that compensation will stay unaltered. Resulting from this, KENDA needs to focus on work-life balance, "performance and recognition", and "development and career opportunities". In order to secure the work-life balance, KENDA could implement working time based on trust. By implementing this as an initial step, the employees can organize their day and focus on private life, obligatory appointments, or their family. Even though the so-called extra mile is vital to start-ups, KENDA should consider that each employee's declared working hours are met. For performance and recognition, KENDA could implement "1on1s", which are often used in start-ups and are super functional and easy to organize for small companies. The supervisor takes every two or four weeks some time to talk personally with his subordinates. Topics such as problems, ideas, own development, and goals/KPIs are discussed and evaluated if necessary. In such a small company, it can also help to establish a culture of praise and encouragement among the staff. Once again, communication and an intact group structure within the company are essential. "1on1s" are also useful for the aspect of development as it should be an integral part of the "1on1s". To cover training opportunities, KENDA should consider putting up a fixed budget for every permanent employee. Due to the limited financial capabilities, it should always be double-checked if the training/education is useful for the employee and the company. In combination with an effective communication system (interactive PDF files, quick links, Slack, or G-suit) and a transparent overall strategy, a considerable part of making your employees feel better is already achieved. What is meant by that? Let the employee know where the company is heading and communicate these strategies, values, and policies straight forward. When the financial capital and time have come, KENDA should develop benefits and variable compensations. Nevertheless, variable compensations for the team are imaginable immediately since bike turnover is measurable, and since the company is still small, almost everyone is contributing to achieving revenue goals.

**3. List and define steps with which “KENDA Bikes” can design a sufficient pay structure?**

Even though we already worked out that pay alone is not enough to attract, retain, and motivate employees, it is the starting point for everything else and must be adequately determined. Compensation is a critical area of human resource management that can significantly influence employee behavior. Sufficient compensation must be perceived by employees as fair, competitive in the marketplace, accurate, motivating, and easy to understand. Especially when having in mind that KENDA wants to grow in the future, one has to define a pay structure in a detailed manner.

Step 1: Job Analysis - Job analysis is the process of examining jobs in an organization. This process is a job description that includes the job title, a summary of job duties, a list of essential tasks and responsibilities, and a description of the work context. Also included are the knowledge, skills, and abilities required to perform the job (Ivancevich, Konopaske, and Robert, 2012). "What gets done, How it gets done, and the skills required to get it done." One essential part of a job analysis is a job description (Appendix C.3). Step 2: Job Evaluation - A job evaluation is the process of rank-ordering jobs based on job content to demonstrate the relative worth and level of responsibility of all jobs to one another. The result of job evaluation is the development of an internal structure or hierarchical ranking of jobs. Step 3: Developing/Identifying a pay policy - What is the organization's goal or belief about compensation? This is also attached to the approach if a company wants to lead, match, or lag behind the market in terms of pay. Leading the market means an organization pays above the market rate, aiming to gain personnel advantage or attract talent away from the competition. Match the market means that an organization pays around a market rate similar to competitors. Lagging behind the market means an organization pays below the market rate, which is never advisable. That is not a conscious pay strategy. Usually, a misjudgment that needs to be corrected could result from a limited compensation budget, or the employer branding is so attractive that they can lag behind the market without a negative impact on recruitment. Step 4: Pay Survey Analysis - Pay survey analysis is the process of analyzing compensation data collected from other employers as part of a survey of the relevant labor market. Collecting external salary data is vital to keeping the company's compensation competitive within its industry. Step 5: Pay Structure Creation - Creating the pay structure is the final step, where the internal structure (step 2) is merged with the external market pay rates (step 4) in a simple regression to develop a market pay line. Depending on whether the organization wants to be ahead of, behind, or in line with the market, the market salary line can be adjusted up or down. To complete the salary structure, pay grades and pay ranges are developed (Milkovich and Newman, 2008).

**Implications for “KENDA Bikes”**

Firstly, KENDA has to analyze the jobs already existing in the company and the jobs they want to create soon. For that, Kenda should do a job description for every vacancy. A job description is a list of tasks, duties, and responsibilities that a job entails – or in other words, a job specification/job profile: A list of KSAOs[5] that an individual must have to perform a job: Knowledge - factual or procedural information necessary to perform a task, Skill - individual's level of proficiency at performing a task, Ability - refers to a general enduring capability that an individual possesses, and Other characteristics: might include personality traits, resilience, and motivation (Appendix C.4). Another essential part of a job analysis is job design. It is the process of defining how work will be performed and the tasks that will be required in a given job. To effectively design jobs, one must thoroughly understand the job as it exists and its place in the larger unit's work-flow process (Ivancevich, Konopaske & Robert, 2012). Some approaches are mechanistic, motivational, biological, and perceptual (Appendix C.5). In KENDA's case, all Jobs follow the motivational approach. Secondly, KENDA needs to evaluate all jobs. There are three methods of job evaluation: the point method ranking and classification. Job evaluation helps ensure that compensation is internally aligned and perceived as fair by employees. As it is the most commonly used method, KENDA should follow the point method (Appendix C.6). Thirdly, KENDA has to set a pay policy or strategy which will likely influence employee attraction and retention. Pay policies can vary across job families and job levels if the top management feels that different strategies can be useful in different organization areas. As we already know, the lagging behind policy will not work for much longer since KENDA is even struggling to attract new interns and retain current employees. Therefore KENDA needs to consider adjusting it, at least in the management team. Fourthly, KENDA has to analyze the competition to know where they stand and improve employee attraction and retention. Lastly, KENDA can complete the pay structure by developing pay grades and pay ranges. A conventional graded pay structure consists of a sequence of job grades into which equivalent value jobs are fitted. Each grade has a pay range or band, offering the employee scope for

[5] KSAO stands for Knowledge, Skills, Abilities, and Other characteristics. This acronym is commonly used by recruiting professionals to describe job requirements.

progression within his/her grade. Graded pay structure places more significance on such factors as tenure and progression through the organizational hierarchy. Each job family can have its pay grades and pay ranges established independently from other job families, or all job families follow the same pay grades (Appendix C.7 & C.8).

**4. Define two different change management tools shortly and describe how “KENDA Bikes” can use one of them in order to implement a sufficient reward strategy.**

Leading organizational change is one of the most important and challenging responsibilities for executives. The mentioned organizational change is analyzed from a process approach (Langley et al., 2013). It is important not to confuse organizational change with change in organizations. Changes in organizations occur to the extent that individuals try to accommodate new experiences, e.g., change occurs continuously in organizations. Change initiatives, either locally or centrally undertaken, remain "improvisations" or plans without becoming institutionalized. Organizational change refers to sets of institutionalized categories (Tsoukas and Chia, 2002). Change can be episodic in its roots or continuous. On the one side, Episodic change is used to group organizational changes that tend to be infrequent, discontinuous, and intentional. This kind of change occurs during periods of divergence when organizations are moving away from their equilibrium conditions. Divergence is the result of growing misalignment between a deep inertial structure and perceived environmental demands. On the other hand, continuous change refers to organizational changes that tend to be ongoing, evolving, and cumulative. The distinctive quality of continuous change is the idea that small continuous adjustments, created simultaneously across units, can cumulate and create substantial change (Weick and Quinn, 1999).

Two prominent tools are Lewin's force field model and Kotter's eight steps. Lewin's force-field model is a model to analyze episodic changes. 1. Unfreezing: This step refers to minimizing the forces that maintain the organization's behavior at the current level. It can be done by introducing a system of information that would show certain discrepancies between the employees' behavior and actual behavior. 2. Change proper: It is about modifying the organization's behavior, about reaching another level of this plan. This step refers to developing new behaviors, values, and attitudes through organizational structures and processes. 3. Refreezing: This step refers to stabilizing the new stage the organization is in, to reinforcing the newly introduced elements; it can be accomplished via organizational culture, norms, policies, and structures Kurt Lewin (Pathak, 2010).

Kotter (1995) called it the anatomy of episodic organizational change. Rather than winning over individual employees, it focuses on getting buy-in on a macro scale. The first step establishes a sense of urgency among both managers and employees. Secondly, form a powerful guiding coalition by winning trend-setting people for your idea and bringing them together under the flag of change. After that, one must continue developing a strong vision and concrete strategies to achieve the goal. Fourthly do not be afraid to communicate the vision to managers and employees again and again. In the fifth step, it is all about empowering others to act on the vision. The following step is about planning for and creating short-term wins. In the penultimate step, one consolidates improvements and produces still more change by analyzing what went well and what could have gone better in the future. Lastly, anchor the achieved goals firmly in the corporate culture (Kotter, 1995). Since Kotter's 8-phase model provides concrete instructions on successful change management, it can be of excellent service in practice, and it demonstrates, like hardly any other change management model, the importance of good communication for sustainable change.

**Implications for “KENDA Bikes”**

Applying Kotter's eight steps on the previously discussed reward strategy, KENDA has already reached a particular urgency due to the lack of applicants and various rejections due to a bad salary. Nevertheless, the management team must root the sense of urgency even deeper in the company by developing scenarios that could occur if no change occurs. They need to discuss further present strong arguments to the rest of the organization. According to Kotter, it is essential to have the right mix of people from different departments and skills. As KENDA is still small, the management team members already represent such a constellation and need to take the lead. When creating a vision, it is crucial to identify a common goal for the whole company. It does not matter if it is far out of reach as long everyone can relate and when it is realistic. An overarching goal for the company will help implement the change. KENDA could relate to its drive to grow organic and considerably fast by which all employees have the same driver.

Furthermore, another critical step for KENDA is to communicate the vision properly. Prepare all communication methods well and give a powerful speech for the rest of the workforce to boost trust and boost motivation. In the fifth step, KENDA observes the infrastructure of the company. KENDA has to closely examine the status quo and eliminate unfavorable organizational structures, workflows, and routines. In the specific example of reward strategy, it will be crucial to decide which parts of the current compensation package can stay and which have to be cut. When it comes to set short-term wins, it is about creating realistic goals. Even small achievements at KENDA have to be rewarded, especially the employees who achieved them—continuing with developing new ideas and goals and bringing new employees into the management team to make the change even further and double-check on the wins that KENDA already achieved. Furthermore, the new reward strategy needs to be institutionalized by showing people how the change has benefited the organization and ensures that the next generation of employees personifies the new approach (Kotter, 1995).

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COMPENSATION POLICY IN STARTUPS

"KENDA BIKES" FIRST STRIKES TOWARDS A COMPETITIVE COMPENSATION STRATEGY

# APPENDIXES

PHILIP NODORP

MASTER STUDENT 40678

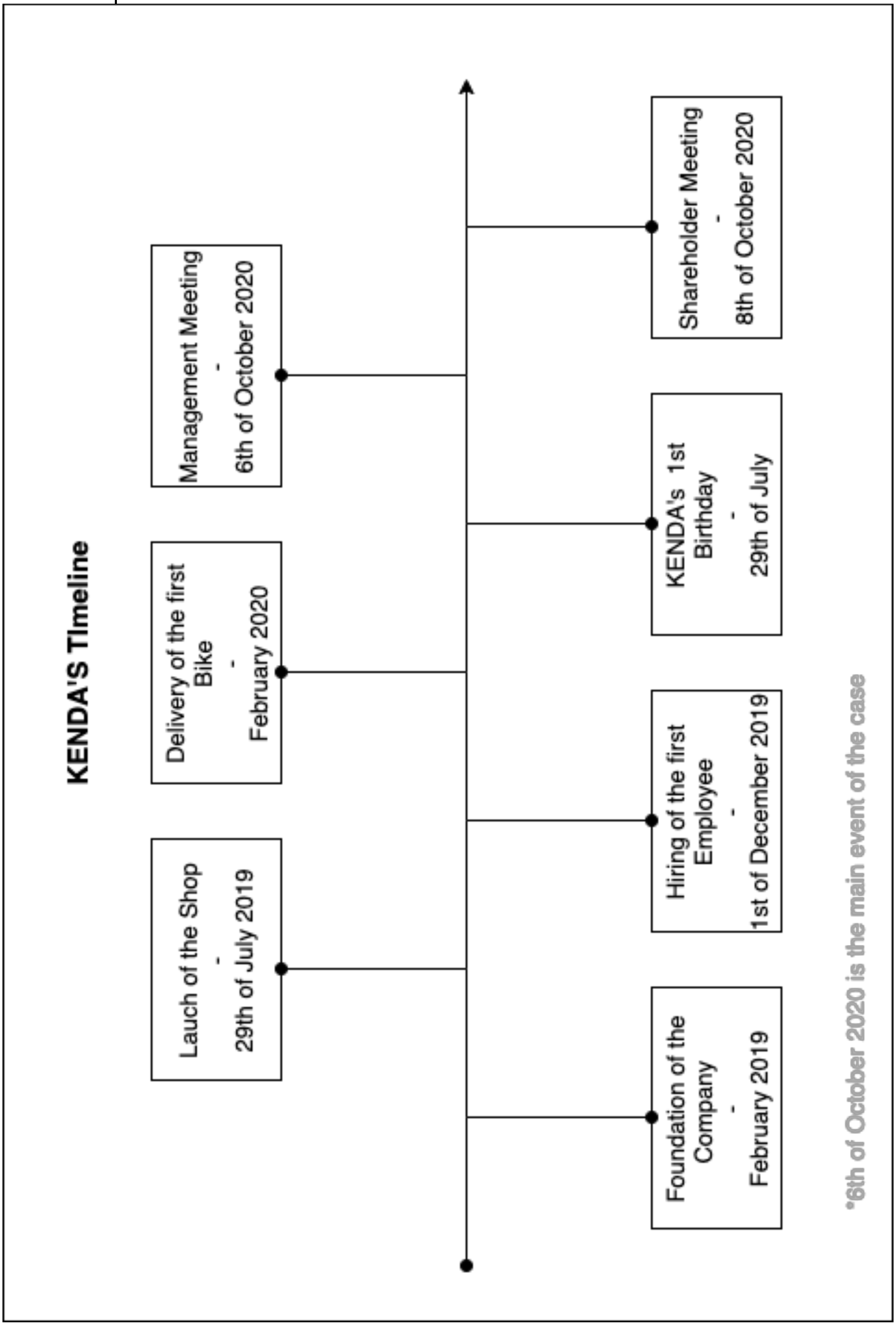
A Project carried out on the International Master's in Management Program, under the supervision of:

Alexandre Dias da Cunha

# Table of Contents

## Appendix A | INFORMATION ABOUT "KENDA BIKES"

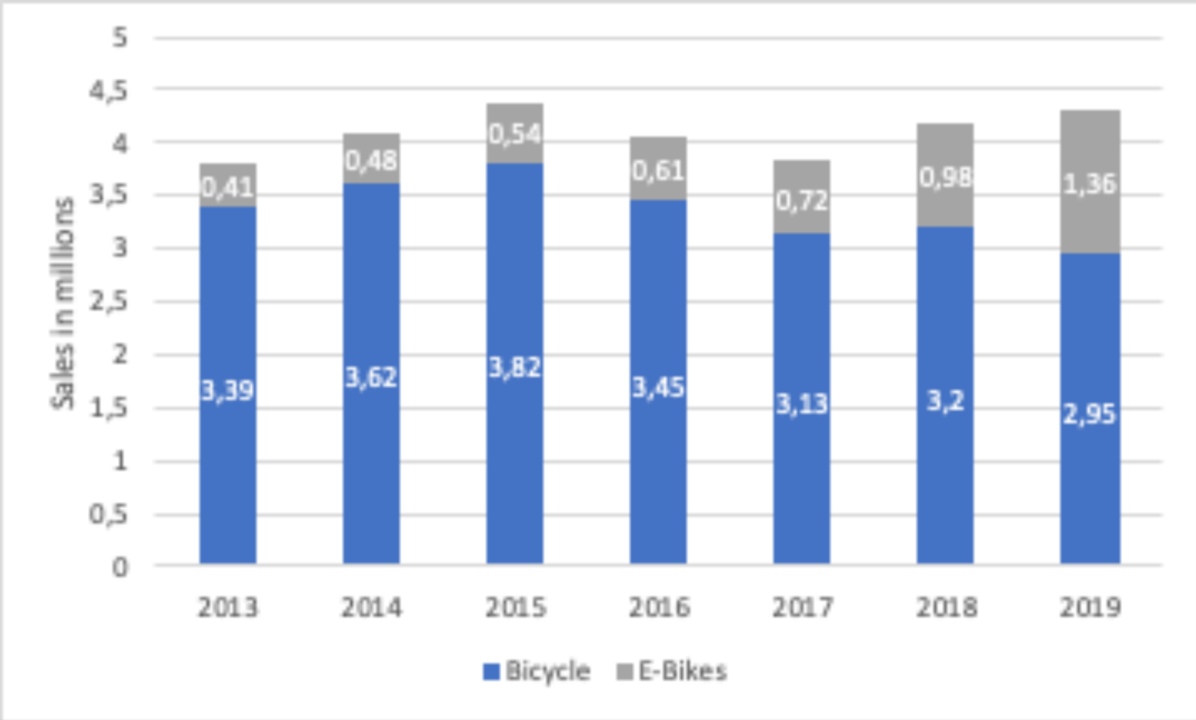
### Appendix A.1 | KENDA's Timeline




Source: adapted by Author, 2020 from KENDA Bikes, 2020

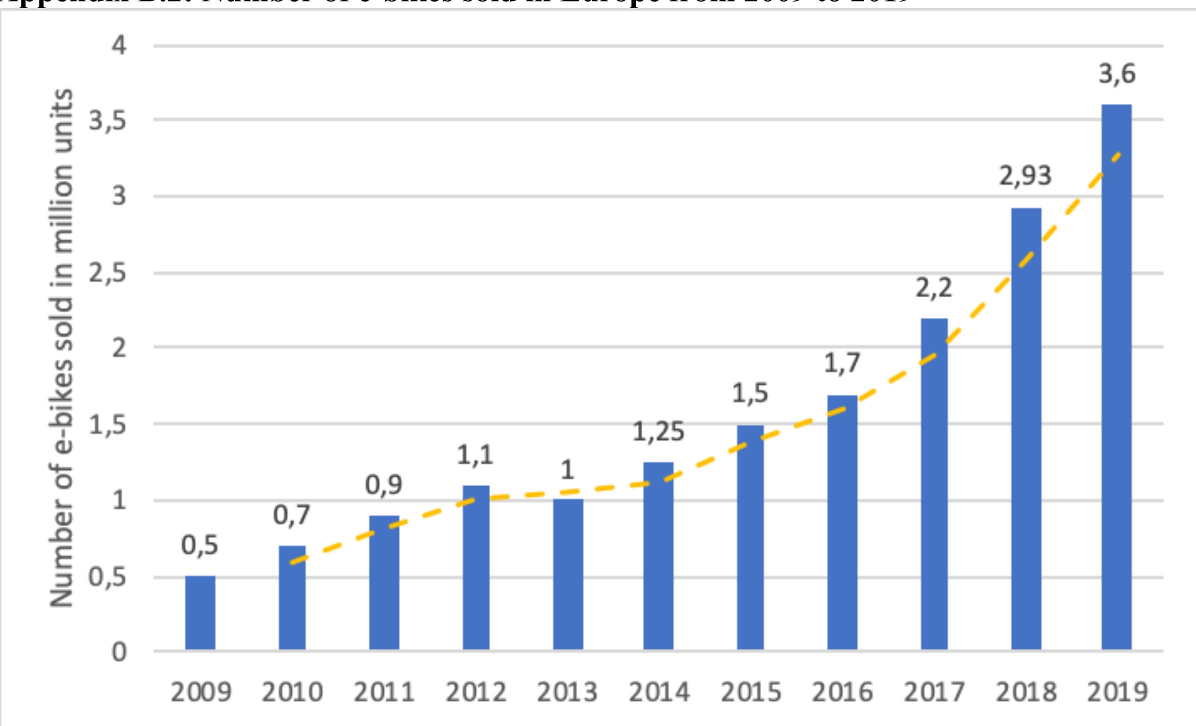
## Appendix B | INFORMATION ABOUT THE E-BIKES MARKET

### Appendix B.1 | Number of bikes and e-bikes sold in Germany from 2013 to 2019




*Source: adapted by Author, 2020 from I.Wagner, 2020*

### Appendix B.2: Number of e-bikes sold in Europe from 2009 to 2019




*Source: adapted by Author, 2020 from Statista, 2020; BWMI, 2020*

## Appendix C | ADDITIONAL MATERIAL FOR THE ANALYSIS PART

### Appendix C.1 | Devaney & Stein’s guidelines for startups when attracting talent.

| Suggested Action | Description |
|---|---|
| **The globe is your battlefield** | *Startups need to look for talent without being limited to a specific geographical region and/or educational background.* |
| **Focus on recent graduates** | *Start-up companies have a better opportunity with recent graduates because they tend to care more about solving problems than earning big money.* |
| **First come first serve** | *Start-ups have to make use of their ability to evaluate a potential employee and offer a job more quickly than large companies.* |
| **Keep the level high** | *Encourage new talent to participate in teamwork by making the level of work challenging.* |
| **Late founder approach** | *Start-ups need to offer a considerable equity to attract talented people especially if they are liable to look at other job offers.* |
| **Don’t be too stingy with the base salary** | *along with equity start-ups have to offer an acceptable salary since also graduates are not working below their market value/ below industry average when choosing to work in a young company.* |

*Source: adapted by Author, 2020 from Devaney & Stein, 2011*

**Appendix C.2 | Key Elements of the Total Reward Strategy.**

| Key Elements | Description |
|---|---|
| **Compensation** | *Includes fixed as well as variable compensation, which is linked to the level of performance and is intended to match the services rendered as far as possible.* |
| **Benefits** | *Benefits such as health, income protection, savings and retirement programs, which are designed to provide security for employees and their families in addition to the compensation.* |
| **Work-Life** | *Organizational practices, policies and programs, and a philosophy that actively supports efforts to help employees be successful both at work and at home and to be the work-life balance.* |
| **Performance and Recognition** | *Performance: Measures to trigger individuals, teams and the entire company to achieve corporate goals and the success of the company. For example: setting expectations, demonstrating skills, assessment, feedback and continuous improvement.* |
| | *Recognition: Recognition of employee actions, efforts, behaviour or performance - Whether formal or informal, recognition programs recognize employees' contributions immediately after the fact, usually without pre-defined goals or performance levels that the employee is expected to achieve.* |
| **Development and Career Opportunities** | *Development: Development through diverse learning experiences drives employees to better performance and leaders to advance their organization's people strategies.* |
| | *Career opportunities: Such as an individual career plan for employees, which includes advancement to a more responsible position in an organization, talented employees are placed in a position that allows them to deliver the greatest value to their organization, and internal hiring. Even if all these services are the standard for the ordinary employee, the total reward strategy is more about the art of combining all these aspects in a complete package to achieve optimal motivation.* |

*Source adapted by Author, 2020 from WorldatWork, 2007*

## Appendix C.3 | Example: Job Description

**Internship - Supply Chain Management (m/w/d)**

**JOB SUMMARY & RESPONSIBILITIES**

Are you not only interested in our KENDA bikes but also its stunning recipe? You want to know where our fresh ingredients come from, how our KENDA is made, and how we get it to our KENDA lovers? Then we need your support! The following tasks await you at the earliest possible date:

- You will take over your own projects with high relevance for production as well as for logistics.
- You will be involved in the design of the future production control and material supply system
- You participate in improvement activities to increase efficiency, transparency, and communication
- You will take co-responsibility in the coordination and execution of daily operational logistics activities through appropriate prioritization and management of tasks according to internal needs
- You will be a significant part of prototyping activities
- You will assist with projects through research, analysis, and active stakeholder management

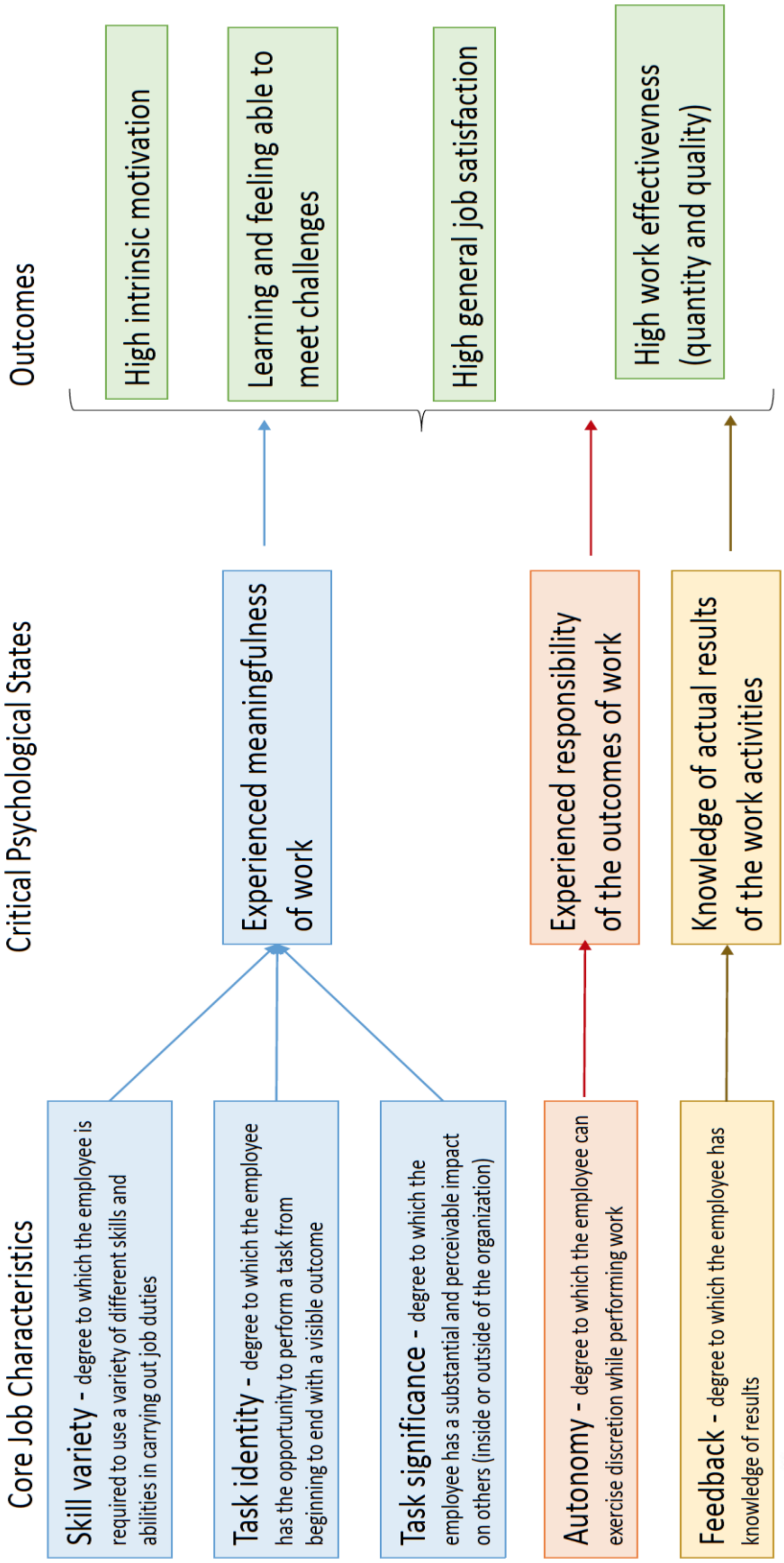
If all of this sounds exciting to you and you want to help keep us busy delivering KENDA in 2021, send us your resume and a short cover letter. Feel free to tell us why you would fit into our team and why we definitely shouldn't be without you.

**JOB SKILLS & QUALIFICATIONS**

- You have already gained experience in logistics, production planning, or supply chain management
- You have good analytical skills and excellent Google Sheets knowledge
- You have no trouble getting to grips with technical issues independently
- You recognize optimization potential and address it independently
- You are ready for the startup world and the associated framework conditions
- You like to go the extra mile and want to advance us as a team
- You have the desire to develop yourself and take responsibility for your own operations continuously
- You find it exciting to question and improve current mobility concepts

*Source: adapted by the Author, 2020 from KENDA Bikes, 2020*

## Appendix C.4 | Job Characteristics




*Source: Hackman & Oldham, 1976*

**Appendix C.5 | Job Design**

| Approach | Description |
|---|---|
| **The mechanistic approach** | *The mechanistic approach focuses on identifying the simplest way to structure work that maximizes efficiency by increasing simplicity, specialization and repetition. The work is not meaning full and all individuals are easily replaceable which means there is a reduced need for individual workers. Potential drawback are boredom and fatigue which could be solved by job and task rotation such as a periodic shifting of employees between tasks.* |
| **The motivational approach** | *The motivational approach focuses on job characteristics that affect meaning and motivation through increasing meaningfulness of jobs – Job Characteristics Model (see APPENDIX C.4). The meaningfulness of the job and thus the performance of the employee can be increased by job enlargement, job enrichment, self-managing teams, relational and cognitive crafting, and prosocial impact* |
| **The biological approach** | *The biological approach addresses physical demands through ergonomics and work conditions. The goal should be to reduce physical strain on the worker by structuring the physical work environment around how the body works. Everything has direct effects on physical health and indirect effects on the employees psychological state and organizational climate of health and safety.* |
| **The perpetual approach** | *The perpetual approach designs the job while having the employees menta capacity and limitations on mind. This approach improves reliability , safety and user reactions by designing jobs to reduce their information-processing requirements.* |

*Source: adapted by the Author, 2020 from Campion, Cheraskin, &Stevens, 1994; Grant, et al.,2007*

## Appendix C.6 | Example: Job Evaluation – Point Method

Knowledge-skill requirements

| Level | Points |
|---|---|
| Basic | 10 |
| Basic + | 25 |
| Complex | 40 |
| Complex + | 60 |
| Very Complex | 80 |
| Extremely Complex | 100 |

Responsibility

| Level | Points |
|---|---|
| Basic | 10 |
| Basic + | 25 |
| Important | 40 |
| Important + | 60 |
| Very Important | 80 |
| Extremely Important | 100 |

Working Conditions

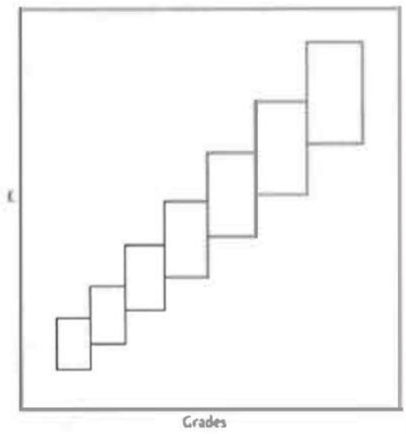
| Level | Points |
|---|---|
| Excellent | 5 |
| Good | 10 |
| Some danger / Undesi Conditions | 15 |
| Danger / Very undesi. Conditons | 25 |

Physical requirements

| Level | Points |
|---|---|
| Normal | 5 |
| Normal + | 10 |
| Medium | 15 |
| Medium + | 20 |
| Infrequently heavy | 25 |
| Moderately heavy | 30 |
| Frequently Heavy | 35 |
| Continuously Heavy | 40 |

*Source: adapted by Author, 2020 from NOVA SBE Course Material - Prof. Samantha Sim, 2019*

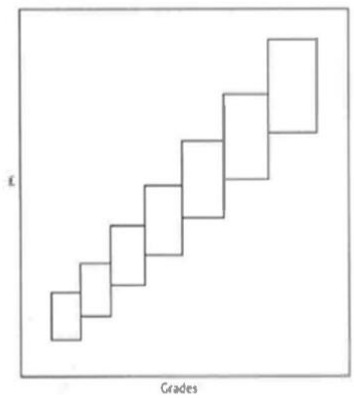
## Appendix C.7 | Example: Pay grades and Pay ranges – established independently




| | 1 Points | 2 Grade | 3 Weekly Pay Range |
|---|---|---|---|
| Customer Service Representative | 300 | 5 | $600–$750 |
| Executive Secretary/ Administrative Assistant | 298 | | |
| Senior Secretary | 290 | | |
| Secretary | 230 | 4 | $550–$650 |
| Senior General Clerk | 225 | | |
| Credit and Collection Clerk | 220 | | |
| Accounting Clerk | 175 | 3 | $525–$575 |
| General Clerk | 170 | | |
| Legal Secretary/Assistant | 165 | | |
| Senior Word Processing Operator | 160 | | |
| Word Processing Operator | 125 | 2 | $490–$530 |
| Purchasing Clerk | 120 | | |
| Payroll Clerk | 120 | | |
| Clerk-Typist | 115 | | |
| File Clerk | 95 | 1 | $450–$500 |
| Mail Clerk | 80 | | |
| Personnel Clerk | 80 | | |
| Receptionist | 60 | | |

*Source: adapted by Author, 2020 from NOVA SBE Course Material - Prof. Samantha Sim, 2019*

## Appendix C.8 | Example: Pay Grade - Job families




| Proposed Ranges | Min | Mid | Max |
|---|---|---|---|
| Grade I | $11.48 | $13.50 | $15.53 |
| Maintenance I | (market salary = $13.00) | | |
| Administrative Asst. | (market salary = $14.00) | | |
| Grade II | $15.09 | $17.75 | $20.41 |
| Mechanic I | (market salary = $17.50) | | |
| Machinist | (market salary = $18.00) | | |

*Source: adapted by Author, 2020 from NOVA SBE Course Material - Prof. Samantha Sim, 2019*