

Designing alignment: Human-centered performance and reward systems in FMCG

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Abstract

This article explores which tools within performance management and reward systems most effectively align managerial actions with organizational goals, focusing on the fast-moving consumer goods (FMCG) industry. This sector's operational speed, strategic complexity, and lack of universal governance models provide a rich context for the study. After a literature review grounded in agency theory and traditional governance mechanisms, the article shifts toward motivational theories as alternative frameworks. A conceptual model is proposed, structured around three core alignment mechanisms and shaped by a set of individual and contextual influences identified in the literature. The empirical core involves a qualitative case study with semi-structured interviews of five managers and two directors in a multinational FMCG firm, aiming to uncover alignment gaps and effective bridging mechanisms. Thematic coding and cross-analysis yield evidence-based insights and practical

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recommendations. The study concludes with reflections on its limitations and suggests directions for future research.

Keywords: agency theory, performance management, reward systems

1. Introduction

The misalignment between those who own an enterprise and those who manage it - commonly referred to as the “agency problem” - remains a central challenge in the field of corporate governance. The latter is because, despite the existence of formal institutional and structural mechanisms, agency issues persist because, far from being a mere technical or procedural flaw, they are deeply rooted in the human and often subconscious dynamics that shape decision-making, motivation, and trust (Jensen & Meckling, 1976). Addressing agency issues becomes then paramount as they represent a real cost to the company, and it is not feasible for the company to address ex post the different ways in which managerial deviation can occur. Numerous real-world cases have highlighted the risks associated with persistent misalignment of interests. Enron stands as one of the most prominent examples of agency problems in corporate history. Its executives, driven by stock-based compensation and short-term performance pressures, constructed a network of off-balance-sheet entities to conceal the firm’s excessive debt and present investors with a misleading picture of profitability and growth, thereby inflating the stock price for personal gain. This manipulation - enabled by weak internal controls and the negligence of external auditors - undermined market integrity, created information asymmetries, and eroded investor trust. Enron ultimately filed for bankruptcy in 2001, then the largest corporate failure in U.S. history, prompting systemic reforms such as the Sarbanes-Oxley Act aimed at restoring confidence in corporate governance and financial transparency (James, 2024). Moreover, the prevalence of self-dealing behavior across firms, other than damaging involved companies and investors, has shown to correlate negatively with financial market development, limiting the number of innovative companies able to access capital markets, and thereby constraining national competitiveness and economic growth (Djankov et al., 2008). Furthermore, the structural shifts triggered by the COVID-19 pandemic—most notably the expansion of remote work and the heightened need for transparent, real-time accountability - have amplified classic agency problems by widening the distance between principals and agents. At the same time, the rapid acceleration of digital transformation has increased the speed and complexity of strategic execution, while stakeholder pressure regarding ESG and ethical standards has intensified scrutiny of managerial conduct. Addressing agency costs has therefore become essential not only because traditional governance mechanisms - such as investor protection rights, board oversight, or ownership control - lack the agility and behavioral sensitivity required to function effectively under these

conditions, but also because unresolved misalignments between managerial behavior and corporate priorities now risk undermining organizational coherence, competitiveness, and long-term value creation (Callaghan et al., 2023). Addressing agency costs has therefore become essential not only because traditional governance mechanisms – such as investor protection rights, board oversight, or ownership structures – often lack the agility and behavioral sensitivity required to function effectively under these conditions, but also because unresolved misalignments now risk undermining organizational coherence, competitiveness, and long-term value creation (Armstrong & Taylor, 2023; Lasa, 2024). Within this evolving landscape, the fast-moving consumer goods (FMCG) sector constitutes a particularly relevant field of investigation (Kenton, 2024). Its rapid operational cycles, coexistence of multiple strategic objectives, structural complexity, and culturally diverse workforce challenge the universal applicability of traditional incentive frameworks, while offering fertile ground for observing how behavioral, performance, and reward tools operate in practice (Buck et al., 2021; Murphy, 2024). Against this backdrop, this study seeks to address the central research question: *What are the most suitable tools to mitigate agency costs and the relationship between managers and the company in the FMCG sector?* By explicitly examining this question, the paper aims to identify governance mechanisms capable of responding to the sector’s structural challenges and evolving managerial dynamics. The article follows a structured journey beginning with a brief literature review aimed at establishing the conceptual foundations of agency theory, and to analyze traditional instruments of interest alignment geared towards corporate governance control such as legal mechanisms for protecting of investor rights, the quality of the legal enforcement system, and, where these are lacking, the concentration of share ownership and debt, and ultimately recent trends that enhance the effectiveness of board oversights. The limitations of the aforementioned tools shift the focus of the review toward alternative frameworks—primarily motivational theories—and their implications for performance management and reward design, concluding with a perspective that questions the inherent existence of agency issues. The research begins by proposing a conceptual model that integrates three independent variables aimed at mitigating agency problems, whose effectiveness depends on six moderating variables at the individual and contextual levels, drawn from existing literature. The empirical core consists of a qualitative case study based on semi-structured interviews with five managers (agents) and two directors (principals) from a multinational FMCG firm, exploring perceived alignment, persistent misalignments, and effective mechanisms to bridge them. These insights are derived through cross-analysis and thematic coding. The study concludes with key findings, evidence-based recommendations, and a reflection on its limitations.

2. The Agency Problem: Origins, Manifestations, and Economic Consequences

One of the most extensively discussed topics in economic literature and behavioral economics, and one of the most complex due to its strong human component, is agency theory and the resulting agency problem. Jensen and Meckling (1976) defined the agency relationship as a contractual arrangement in which a principal delegates decision-making authority to an agent to act on their behalf. This relationship is inherently problematic due to challenges such as incomplete contracting, information asymmetry—where the agent possesses more information than the principal—and moral hazard, which allows the agent to potentially act opportunistically. The core issue lies in ensuring the agent prioritizes the principal's interests. In corporate contexts, agency problems typically arise in relationships such as owner-manager, majority-minority shareholders, and between firms and stakeholders. As authority is increasingly delegated, oversight becomes less effective, and coordination costs rise. These agency problems generate significant costs, including monitoring expenses (e.g., audits), signaling costs borne by agents (e.g., disclosure, performance-based pay), and persistent inefficiencies due to the difficulty of aligning divergent incentives within incomplete contracts (Armour et al., 2009).

Over the years, extensive literature has explored the various dimensions of agency problems. Shleifer and Vishny (1997) define the agency problem as arising from the separation of ownership and control within a firm, where corporate governance ensures that outside investors receive a return on their investments. Managers often hold excessive residual control rights due to incomplete contracts, lack of investor expertise, and difficulties in coordinating action among dispersed shareholders. Additionally, legal protections like the business judgment rule make it harder to hold managers accountable for poor decisions, reinforcing control imbalances (Zingales, 2000). Managerial diversion may occur in several forms, such as the “expropriation of wealth” through fraud, transfer pricing, asset theft, or excessive compensation. Furthermore, managers may engage in “misallocation of resources” by pursuing personal interests through empire-building, risky acquisitions, or extravagant consumption, which conflict with shareholder goals like profit maximization.

3. Motivation, Performance, and Rewards: Behavioral Strategies for Mitigating Agency Costs

Alongside the corporate governance mechanisms previously examined, various additional techniques are employed to regulate the dynamics between agents and principals, a relationship that encompasses a diverse range of roles acting as agents, including executives, majority shareholders, managers, and employees. Strategies primarily aimed at aligning the interests of these different stakeholders include as

well performance-based management and the total reward system. The policies and strategic approaches adopted within these frameworks are fundamentally grounded in motivational theories, which explain the principal drivers of human behavior, as motivation directs individuals' effort toward achieving specific objectives, thus shaping performance (Armstrong & Taylor, 2023). Over time, scholarly research has progressively moved away from the rigid sequential structure proposed by Maslow's hierarchy of needs, converging instead toward the recognition that human behavior is driven by the simultaneous pursuit of multiple needs – ranging from basic necessities such as “safety” and “financial stability” to higher-order psychological drivers including “interpersonal connection, recognition, and self-fulfillment”. Although these needs have been categorized differently across various motivational theories (Alderfer, 1989; McClelland, 1961; Deci & Ryan, 2010), they all share the assumption that unmet needs generate internal tension, which in turn guides individual behavior toward their satisfaction (Adair, 2009; Hall & Royle, 2012). Motivational theories therefore provide the foundational lens through which the role of performance management in shaping managerial behaviour and alignment can be understood.

3.1 Aligning Behavior Through Performance Management

Performance management serves as a critical tool in mitigating agency costs, as its fundamental purpose is to implement strategies that align employees' performance with organizational objectives, ensuring that agents within the company work towards common corporate goals. Furthermore, performance management operates on multiple levels, fulfilling a “managerial function” - which consists of identifying the most effective methods to influence and enhance performance; a “developmental function”- which aims to detect gaps between current and optimal performance while implementing strategies for employee growth and skill enhancement; and an “administrative function” - wherein the output of performance evaluations serves as an input for both performance-based management and talent management, facilitating data-driven decision-making. Additionally, the design of performance management systems can be structured in either a formal or informal manner. The former, ideally, entails the systematic implementation of activities related to “planning, monitoring, and reviewing” performance, starting from the overarching corporate objectives, which must ultimately translate into an enhanced level of performance that, in turn, serves as the input for the system in the subsequent cycle. However, the extent to which performance management effectively improves individual and collective performance and aligns it with corporate objectives is contingent upon the active engagement and outcomes of all stakeholders involved throughout the entire process (Armstrong & Taylor, 2023).

From a theoretical standpoint, this performance management framework appears to be optimal for ensuring continuous performance enhancement, but in practice, there are several challenges preventing its full effectiveness. For instance,

although the system follows a logically connected sequence of phases, its integrated nature is frequently misinterpreted or neglected - particularly by executives and managers - who often limit their involvement to occasional, formal performance evaluations, rather than embracing continuous engagement throughout the process. Another critical issue arises from the difficulty of translating strategic corporate objectives into individual goals, which contradicts the principle of co-participation in defining performance targets. Moreover, critics highlight the fact that a “centralized” and highly structured performance management model cannot always be applied uniformly across organizations, as factors such as “corporate culture, implicit and explicit workplace norms, management philosophy, industry-specific requirements, and workforce composition” influence how performance management systems are perceived and adopted. The risk, therefore, is that the system may either become overly complex, bureaucratic or be reduced to a mere control mechanism, where performance evaluation happens in a “top-down” manner rather than fostering genuine feedback culture, ultimately discouraging effective implementation (Callaghan et al., 2023).

3.2 Performance leadership

Performance management should not be reduced to a rigid system of periodic evaluations but should instead be understood as an ongoing process of continuous communication, timely feedback, and behavioral role modeling driven by effective leadership (Armstrong & Taylor, 2023). The latter has a key role in aligning interests and does not simply have to impose targets or micromanage tasks but rather establish clear expectations, ensure their teams understand objectives, and create a work culture where employees feel empowered to take responsibility for their own growth. The approach described above refers to “performance leadership”, which emerges as a solution to the drawbacks of traditional performance management by shifting the focus toward a “people-centered model”. By including performance leadership into day-to-day business operations, organizations can effectively bridge the gap between overly bureaucratic performance management processes and the dynamic nature of real-time employee development, ensuring that performance enhancement becomes an integral and continuous process. However, whether formal structured or unstructured performance management systems are, the choice highly depends, as seen in motivational theories, from both industry and institutional and cultural country-specific conditions as well as organizational specific characteristics (Djankov et al., 2010). Furthermore, stewardship theory has been analyzed to provide a compelling alternative to traditional agency logic and resulting control-enhancing instruments. The theory, in fact, suggests that under certain cultural and structural conditions, individuals can act as true stewards of organizational interests - particularly when their needs for autonomy, competence, and purpose are nurtured through trust-based leadership and meaningful forms of recognition (Davis et al., 1997).

3.3 Total Reward Systems for Strategic Incentive Alignment

To complement performance management and leadership, reward management offers a formal mechanism to reinforce desired behaviors by evaluating roles, distributing compensation, and recognizing contributions. An effective reward system must address three key concerns: internal fairness, ensuring compensation reflects the role's value within the company through transparent evaluations and grading systems; external competitiveness, aligning salary offerings with market standards to attract and retain talent; and performance linkage, tying compensation to both personal and collective performance outcomes. Financial rewards impact short-term results, while non-financial rewards foster long-term engagement and personal development, addressing both extrinsic and intrinsic motivation. Financial elements include fixed salaries, performance-based bonuses, retirement plans, and other economic benefits, all determined through job assessments and external benchmarks. Non-financial rewards, such as career development, enriching job content, flexible work conditions, and a positive organizational climate, resonate with intrinsic motivation, a key driver of performance and satisfaction (Armstrong & Taylor, 2023).

3.4 Key theoretical constructs informing the conceptual framework

Drawing on the literature reviewed, this study adopts a conceptual framework built around three core constructs that the literature consistently highlights as central to behavioural alignment within organizations: performance management, reward systems, and leadership style. These constructs do not function as variables to be quantitatively tested; rather, they provide the interpretive lens through which managerial alignment and the mitigation of agency-related tensions are analysed.

First, performance management is understood as the set of practices through which organizations translate strategic objectives into individual expectations, support development, and maintain ongoing dialogue about performance. Its alignment potential depends on clarity of goals, quality of feedback, and the extent to which the system is embedded in everyday leadership behaviour.

Second, reward systems encompass both financial and non-financial incentives that sustain motivation and influence perceptions of fairness, recognition, and contribution. The literature emphasises that alignment is strongest when rewards are transparent, equitable, and meaningfully linked to performance and competence.

Third, leadership style and the degree of autonomy or control granted to managers significantly shape how performance and reward mechanisms are perceived and enacted. Participative, trust-based leadership tends to foster intrinsic motivation and stewardship, while directive approaches rely more heavily on monitoring and compliance.

In addition to these core constructs, alignment is influenced by individual attitudes - such as sensitivity to intrinsic versus extrinsic drivers of motivation, reward preferences, growth orientation, and risk tolerance - which affect how

managers respond to performance and reward practices. Finally, contextual factors, including cultural expectations and specific features of the FMCG industry, condition the suitability and impact of these mechanisms, highlighting the importance of situational fit.

Taken together, these constructs form the conceptual foundation guiding the empirical analysis and the interpretation of alignment dynamics in the FMCG sector.

4. Methodology

To explore how performance management, reward practices, and leadership approaches contribute to mitigating agency-related misalignments in the FMCG sector, this study adopts a qualitative research design based on a single-case study. A qualitative approach is appropriate given the exploratory nature of the research question and the need to understand how alignment mechanisms are perceived, interpreted, and enacted by organizational actors. The research question is: *What are the most suitable tools to mitigate agency costs and the relationship between managers and the company in the FMCG sector?*

The conceptual model guiding this investigation was developed through an extensive review of the literature on agency theory, performance management, reward systems, leadership, and motivation. The framework is used as a conceptual lens that structures inquiry and supports the interpretation of empirical findings. It outlines the theoretical constructs relevant to understanding alignment - such as leadership style, motivational drivers, perceived fairness of rewards, and contextual influences - without positing statistical relationships among them.

Empirically, the study draws on semi-structured interviews with managers (agents) and directors (principals) from a multinational FMCG company. The interviews explored participants' perceptions of alignment, areas of divergence, and the mechanisms they consider most effective in fostering convergence between managerial behaviour and organizational goals. The interviews were analysed through thematic coding and cross-case comparison to identify patterns, convergences, and discrepancies in the experiences of principals and agents.

This qualitative design allows the theoretical model to be both informed by the literature and enriched by empirical insights, ensuring coherence between the conceptual foundation and the methodological choices.

4.1 Method

The primary data collection method for this single-case study consists of semi-structured interviews conducted with managers and directors from the FMCG organization analysed. This approach is appropriate for exploring complex and context-dependent phenomena such as managerial alignment, as it allows for in-depth understanding, real-time clarification, and adaptation to participants' experiences.

In line with an interpretivist and relativist ontology, the study adopts a constructivist epistemology, considering knowledge as context-bound and co-constructed through interaction rather than as something objectively given. The researcher therefore acts not as a neutral observer but as an active participant in meaning-making, which is particularly suitable for examining behavioural and organizational phenomena such as leadership, motivation, and agency (Sekaran & Bougie, 2016).

To address the research question, the sampling strategy was purposive, targeting individuals who could offer direct and relevant insight into the performance and reward mechanisms in use. Managers were considered as “agents”, experiencing these systems in their daily work, while directors represented the “principal” perspective responsible for defining goals, allocating resources, and deploying alignment mechanisms. It was essential to capture both perspectives to identify areas of alignment or misalignment and to assess the effectiveness of existing systems.

The final sample consisted of seven participants: two directors and five managers from different functions and generational backgrounds. This composition ensured a balanced representation of strategic and operational viewpoints across hierarchies and business areas, enabling a nuanced understanding of how performance and reward practices are interpreted across organizational roles. Data analysis proceeded in three phases: (1) individual interpretation of each interview through the lens of the conceptual framework; (2) cross-case comparison to identify convergences and divergences between principals and agents; and (3) thematic synthesis integrating performance management, reward practices, leadership styles, and individual and contextual influences. This iterative process allowed alignment to be understood not as the effect of a single tool, but as an emergent property of the interaction among multiple behavioural and contextual dimensions (Boyatzis, 1998).

Table n. 1 - Data source

Participant Code	Role	Functional Area	Generation	Interview Length
D1	Director (Principal)	Sales	Generation X	50 minutes
D2	Director (Principal)	Category & Portfolio	Generation X	1h10 minutes
M1	Manager (Agent)	Category	Millennial	40 minutes
M2	Manager (Agent)	Trade marketing	Millennial	57 minutes
M3	Manager (Agent)	Finance	Millennial	1h05 minutes
M4	Manager (Agent)	Category	Generation X	43 minutes
M5	Manager (Agent)	Category	Millennial	55 minutes

Source: our elaboration

To ensure methodological rigour and enhance the credibility of the findings, the interviews were conducted by two independent interviewers. This choice helped minimize individual bias during data collection, allowed for cross-validation of interpretations, and ensured consistency in how questions were posed across participants. All interviews were audio-recorded with participants' consent and subsequently transcribed verbatim to preserve the accuracy and richness of the original narratives. Transcripts were reviewed jointly by the two interviewers to clarify ambiguities, confirm shared interpretations, and ensure that the coding process reflected the data rather than the researchers' assumptions. This multi-step approach strengthened the dependability, confirmability, and transparency of the qualitative analysis.

5. Findings

5.1. Performance Management and Goal Alignment

Across all interviews, both directors and managers consistently identify the goal-setting process as the cornerstone of alignment between individual behaviour and organizational objectives. Directors describe cascaded objectives as *"clear, structured, and intentionally linked to strategy"* (D1), while managers generally confirm that expectations are well communicated. As one manager notes, *"I always know what is expected from me and how my goals relate to business priorities"* (M1). The Personal Development Plan (PDP) is perceived as a central mechanism for operationalizing this alignment, combining functional business goals with broader developmental objectives organized in the 70-20-10 framework.

However, the perspectives diverge when it comes to the effort-reward link. While directors emphasise the coherence of the system, several managers express doubts about their individual influence on outcomes that are tied to broader corporate results. *"Sometimes it's hard to see how my individual contribution actually influences the bonus,"* explains M2, and others echo the feeling that rewards do not always reflect the effort invested, especially in areas where performance is highly interdependent. Additionally, although goal clarity is generally appreciated, some perceive gaps in specific components of the PDP. As M2 comments, *"I'm not always sure what my mentor's role is supposed to be; it depends on their agenda."*

Feedback practices also emerge as a relevant area for improvement. While managers acknowledge that feedback is frequent and integrated into daily routines - *"We talk every day about progress,"* says M4 - they also underline an imbalance in its tone. As M3 notes, *"We always hear what needs to be corrected, but rarely what went well."* This suggests that the existing performance management system would benefit from a stronger emphasis on recognition to reinforce motivation.

5.2. Reward Systems and Motivational Fit

The analysis reveals a generally positive perception of the company's total reward system, particularly due to its ability to adapt to generational, personal, and career-stage differences. Managers consistently appreciate the possibility of receiving rewards that resonate with their dominant motivational drivers. For example, career development emerges as the strongest motivator mentioned by all managers, with M1 stating: *"For me, the biggest reward is growing professionally."* Work-life balance is highly valued by M1, M2, and M4, while meaningful work plays a significant role for M1 and M3.

Directors emphasise the strategic value of tailoring rewards, with D2 describing the system as "flexible and responsive to different talent needs." This alignment between system design and individual motivation supports both intrinsic and extrinsic drivers and appears effective in reducing agency tensions. At the same time, concerns regarding fairness persist. As M5 explains, *"Sometimes the reward doesn't reflect differences in effort or competencies compared to others."* This sentiment highlights the importance of maintaining strong calibration and benchmarking practices to ensure that the system remains equitable.

Another recurring challenge concerns the visibility of individual contribution in reward outcomes. Because many KPIs rely on cross-functional collaboration, managers feel that their efforts are diluted when results depend on decisions made in other departments. *"My performance depends on what other functions decide,"* says M1, illustrating how interdependence may weaken the motivational impact of variable pay.

5.3. Leadership Style and Autonomy

Leadership style plays a decisive role in shaping the effectiveness of performance and reward systems. Both directors and managers describe the prevailing leadership culture as trust-based, empowering, and development-oriented, which aligns with the principles of performance leadership and stewardship theory. As M3 explains, *"My manager gives me freedom, and that motivates me much more than controls."* Directors confirm this intention, with D1 stating, *"Our goal is to enable people, not micromanage them."*

However, execution is not uniform across all teams. Some managers note inconsistencies in how leadership principles are applied, with M4 observing that *"It really depends on who your leader is; some embody empowerment, others still rely on command-and-control."* These discrepancies suggest that leadership functioning as a relational substitute for formal governance is effective only when consistently enacted. Furthermore, while feedback is frequent, managers identify the lack of positive reinforcement as a missed opportunity for motivation and recognition. This is particularly relevant because recognition emerged earlier as a key driver of engagement.

5.4. Contextual Influences and Industry Fit

The FMCG context, characterized by rapid cycles, continuous adaptation, and high interdependence, shapes how alignment mechanisms function in practice. Both directors and managers recognize that the company's performance management and reward systems are broadly aligned with industry characteristics, particularly through structured objective cascading, high managerial autonomy, and a strong emphasis on development. These features support operational clarity and individual ownership—critical attributes in a fast-paced, performance-driven environment.

Nevertheless, persistent tensions reveal a partial misalignment between system design and industry demands. The most prominent concern relates to the rigidity of KPIs, which remain fixed throughout the year despite rapid shifts in market conditions. As M2 notes, *"The business changes quickly, but KPIs stay the same."* This lack of agility limits the ability of the system to fully capture dynamic priorities such as innovation, sustainability, and digital transformation.

Cross-functional collaboration, a hallmark of FMCG organizations, presents another challenge. While cascaded objectives encourage collaboration at a strategic level, the absence of specific reward mechanisms for joint performance reduces the perceived value of collaborative behaviour. This dynamic contributes to the previously noted difficulties in establishing a clear effort-reward link. Additionally, while the company uses digital tools to document and review performance data, interviews suggest that real-time analytics or automated insights are still lacking, limiting the responsiveness and efficiency of performance reviews.

6. Conclusion and limitations

The researchers' investigation aimed at addressing and exploring one of the deepest and most structurally intrinsic challenges in corporate settings: the persistent misalignment of interests between those who control resources and those who are delegated to manage them. Known as the "agency problem", this phenomenon is critical not only from a theoretical governance perspective but also from a practical managerial standpoint, as it has direct implications on organizational performance, employee engagement, investment decisions with effects on the broader development of equity and debt markets, and in turn on countries' competitiveness. The article begins by examining the literature on mitigating agency costs, focusing on both corporate governance structures and impact of motivation on performance and reward management mechanisms. This highlights the need for these systems to coexist, complement, and align, given the strong human element in agency relationships. From a governance perspective, aligning interests between principals (investors) and agents (managers) can occur through reconnecting cash flow and governance rights, protected legally for shareholders (e.g., voting rights) and bondholders (e.g., asset repossession rights). However, the effectiveness of this solution depends on both the legal provisions and enforcement quality in different jurisdictions. In cases where these mechanisms are

ineffective, concentrated ownership becomes an alternative, though it creates another agency problem between majority and minority investors, making it suboptimal without proper protections for minority shareholders. Furthermore, various board structures, meant to bridge the gap between investors and managers, have been studied. The limitations of corporate governance mechanisms have led research to explore complementary performance and reward management solutions. These aim to align agents' performance with corporate goals. However, the analysis of literature concerning these latter mechanisms for mitigating agency costs also revealed several limitations, mostly related to divergent views on the motivational impact of financial and non-financial incentives, as well as ongoing debates regarding the effectiveness of formal performance management systems, which, if overly rigid or complex, risk becoming bureaucratic and losing their practical value. Additional concerns arise around the feasibility of performance leadership models, which largely depend on the presence - or the development - of specific leadership qualities. Furthermore, the effectiveness of performance and reward structures is highly contextual, influenced by a broad set of internal and external factors that must align with one another to create a coherent and integrated system (Armstrong & Taylor, 2023). The scope of this article is intentionally limited to the FMCG industry, driven by its global market size and academic and professional interest in this dynamic sector. Additionally, these mechanisms lack universal applicability and must be examined within the specific organizational and sectoral context. The effectiveness of such mechanisms and of the choice between formal and informal performance management, total reward systems and appropriate leadership style on agency costs reduction, depend upon their coherence with individual-level moderators (predominant motivational levers, preferred reward types, growth and development orientation, risk tolerance and time horizon) and with contextual moderators (corporate and national culture, and FMCG specificities), all identified through an extensive literature review and the critiques raised within it. The framework guiding the interpretation of the research findings posits that coherence across industry and cultural context, people, systems, and strategic intent helps mitigate agency costs. The methodology adopted is an exploratory qualitative case study, utilizing semi-structured interviews in line with a constructivist epistemological orientation and relativist ontological stance. This approach enabled an in-depth understanding of how alignment mechanisms are perceived and experienced by both directors (principals) and managers (agents), representing both sides of the agency relationship. The findings suggest that alignment between individual and company goals is strongest when financial and non-financial rewards are tailored to managers' primary motivators, such as career growth and work-life balance, facilitated by the company's seniority willingness matrix. Ensuring perceived fairness in compensation, through both internal and external benchmarking, and reinforcing the effort-reward link causality are also crucial. While the effort-reward link was generally viewed positively, vulnerabilities were identified, particularly concerning managers' limited influence over corporate KPIs tied to variable pay. Managers expressed concerns, especially when outcomes

depend on team or cross-functional collaboration, and when recognition, especially positive feedback, is inconsistent.

These findings highlight a pressing need to rethink and enhance current performance and reward systems within FMCG organizations, moving beyond traditional evaluation metrics toward more human-centered, development-driven approaches. Implementing structured feedback practices, fostering regular career development conversations, and increasing the visibility of individual contributions to collective success are critical steps.

However, achieving these goals requires a tangible investment in organizational resources and tools specifically designed to support continuous performance dialogue and transparent goal-setting frameworks. This shift cannot rely solely on HR initiatives—it demands a deep managerial awareness of the strategic value of performance management as a driver of engagement, agility, and long-term business sustainability.

Many managers still lack adequate training to effectively coach, motivate, and evaluate their teams within these evolving paradigms. Therefore, targeted development programs are essential to build managerial capabilities not just in performance assessment, but in leading with empathy, enabling growth, and aligning individual aspirations with organizational objectives. Embracing this cultural and structural transformation remains one of the most significant leadership challenges in the FMCG sector today.

Beyond their managerial relevance, these findings also contribute to theory by clarifying how the components of the conceptual framework interact to mitigate agency costs.

First, the results refine performance management theory, showing that alignment depends not only on goal-setting structures but on the relational quality of feedback, an aspect underexplored in existing agency-alignment literature.

Second, the study advances reward-system theory by demonstrating that both financial and non-financial rewards generate alignment only when they resonate with dominant motivational drivers, enriching debates on intrinsic-extrinsic complementarities.

Third, the findings support and extend stewardship and performance-leadership theory, highlighting that trust-based leadership functions as an informal governance mechanism where formal controls are limited.

Fourth, the study offers theoretical insight into individual-level moderators, revealing how motivational orientation and reward preferences shape perceptions of fairness and effort-reward linkage.

Finally, the research strengthens contextualized agency theory by showing how the FMCG environment - characterized by speed, cross-functional interdependence, and operational volatility - conditions the effectiveness of performance and reward mechanisms, pointing to the need for more adaptive and context-sensitive alignment models.

This research was conducted using a qualitative approach, which makes it difficult to generalize the findings. Although some of the gaps identified in existing literature have been addressed, further analyses are needed to complement this

study. Indeed, the scope should be broadened by including companies of varying sizes and sectors to gain a more comprehensive understanding of the situation. Additionally, the findings of this primarily exploratory research would benefit from being supported by quantitative analyses.

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