IMPLEMENTING PRODUCTIVITY GAINSHARING TO INFLUENCE THE PERFORMANCE OF VALUE DRIVERS EMPLOYED BY EVA

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OPSOMMING

Waardeskepping is die sleutel tot korporatiewe uitnemendheid. As 'n onderneming dit nie het nie, is daar waarskynlik 'n gebrek aan toewyding en deelname onder werknemers om produktiwiteit te verbeter. Suid-Afrikaanse ondernemings staar uitdagings in die gesig om innovasie rakende produktiwiteitsverbetering onder werknemers aan te wakker. Studies het bevind dat aansporingskemas werkers noop om harder en beter te werk, en om bestaande tegnologie beter te gebruik om produktiwiteit te verhoog. Die doel van die studie is om te evalueer of winsdeling 'n oplossing kan wees vir produktiwiteitsuitdagings.

Die empiriese data is ingesamel met behulp van vraelyste wat aan bestuurders van Eskort Bpk. beskikbaar gestel is. Die navorsing het bevind dat winsdeling werknemers sal aanspoor om effektiewe deelname aan probleemoplossing of produktiwiteit inisiatiewe in die onderneming te verbeter. Die meerderheid respondente was van mening dat winsdeling die onderneming sal bevoordeel om kliëntebehoeftes te vervul, spanwerk aan te wakker, eienaarskap te inisieer, gespaarde-koste vir produktiwiteitsverbeteringsprosesse te deel, organisasieleer sal stimuleer, kommunikasie tussen bestuur en werknemers sal verbeter, werknemers sal aanmoedig om voorstelle te maak om produktiwiteit te verbeter, en winsgrens te verhoog en koste te verlaag.

Die studie het onomwonde bevind dat geld 'n primêre aandrywer vir motivering is vir sekere werknemers. Voorts, gebaseer op die resultate van die empiriese studie, het die navorser tot die gevolgtrekking gekom dat gemotiveerde werknemers meer produktief sal wees en 'n positiewe invloed het op die waardedrywers wat deur EWT (ekonomiese waarde toegevoeg) metodologie gebruik word. EWT is 'n waardegebaseerde prestasiemaatstaf, 'n beleggingsbesluitnemingsinstrument en ook 'n prestasiemetingsmeganisme wat die totale aandeelhouerswaarde wat geskep is, aandui.

Lys van sleutelbegrippe: Winsdeling, EWT (ekonomiese waarde toegevoeg), motivering, prestasie, produktiwiteit.

ABSTRACT

The creation of shareholder wealth has become the key of corporate success. A setback in achieving this is a lack of commitment and participation in productivity initiatives at shop floor level in South Africa and companies are faced with competitive challenges of promoting innovativeness relating to productivity improvement amongst employees. It has increasingly been recognized that by introducing a carefully crafted incentive scheme, it may be possible to induce workers to work both harder and smarter and use existing technologies in new and better ways that enhance their productivity. The purpose of the study is to evaluate to what extend gainsharing can be a solution to the predicament.

The empirical data used during the study was based on questionnaires that were administered amongst managers of Eskort Ltd. The research established that gainsharing would induce employees to effectively participate in problem solving or productivity improvement initiatives in the company. The majority of participants feel that gainsharing will benefit the company to deliver on client requirements; help enhance teamwork; create a feeling of ownership; share a portion of saved-cost for productivity improvement purposes; stimulate organization learning; improve communication between management and employees; stimulate employees to make suggestions on ways to improve productivity; and increase profit and reduce costs.

The study clearly illustrates that money can be the primary drive for motivation to certain employees within the company. Further more based on the results of the empirical study the researcher came to the conclusion that motivated employees will be more productive and as a result have a positive influence on the value drivers employed by the EVA methodology. EVA is a value based performance measure, an investment decision tool and also a performance measure indicating the absolute amount of shareholder value created.

List of key terms: Gainsharing, Economic Value Added (EVA), motivation, performance, productivity.

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LIST OF ABBREVIATIONS

CEO – Chief executive officer

EBIT – Earnings before interest and tax

EP – Economic profit

EPS – Earnings per share

EVA – Economic value added

NOA - Net operating assets

NOPAT – Net operating profit after tax

OED - Oxford English Dictionary

R&D – Research and development

ROCE - Return on capital employed

ROE – Return on Equity

ROI – Return on investment

RONA – Return on net assets

WACC – Weighted average cost of capital

CHAPTER 1

NATURE, SCOPE AND ORGANISATION OF THE STUDY

1.1 INTRODUCTION

This chapter is an introduction of the entire study. It outlines the need for companies to improve productivity, what impact productivity improvements could have on economic value added (EVA,) and how these resulting gains can be shared with employees. This chapter also discusses the author's awareness about the problem, field of research, research goals, an overview of the research methodology and the division of the chapters.

Whether companies use return on investment, return on capital employed, economic value added, or some other value-based metric as the high-level financial objective, they have two basic strategies for driving financial performance: growth and productivity (Chase *et al.*, 2006:39). EVA is frequently regarded as a single, simple measure that gives a real picture of shareholder wealth creation. It motivates managers to create shareholder value and maximize economic profit because it is a basis for management compensation.

In recent years, increasing recognition has been given throughout the world to the fact that productivity is the key to prosperity. Productivity governs the creation of wealth and cost-competitiveness. To be successful in today's competitive business arena, organisations find themselves turning to employees for creative suggestions and ideas of ways of doing things better. The concept of continuous improvement, urging everyone in the organisation to think and implement small,

incremental and logical improvements, has become a way of life and a business necessity. The only source of sustainable economic progress is from productivity improvements.

It is increasingly recognized in industries that by introducing carefully crafted group incentive compensation systems like gainsharing, it may be possible to induce South African workers to work both harder and smarter and to use existing technologies in new and better ways that enhance productivity. Generally, group incentive schemes provide for the payment of bonus either equally or proportionately to individuals within a group or team. The bonus is related to the output achieved by the group in relation to defined targets or to the time saved on jobs.

Gainsharing refers to a category of incentive systems that involves a group of employees in the productivity improvement efforts and shares the resulting gains with the group based on its overall performance improvement. Better use of inputs such as labour, capital, material and energy can create productivity and profitability gains. Gainsharing plans share these gains with employees according to a predetermined formula that reflects the productivity or profitability improvement over historical levels.

This study evaluates management attitudes towards gainsharing as a strategic tool for productivity improvement and what impact it had on the value drivers employed by EVA.

1.2 PROBLEM STATEMENT

According to Basso and Leonardo (2001:255), productivity is the basis for the creation of competitive advantage. A company creates competitive advantage when the value of its sales in the long term is higher than the total cost. When the market evaluates a company, it takes its long-term productivity generating capacity into account. Thus competitive advantage and the creation of value for shareholders are supported by productivity.

If productivity supports the creation of value for shareholders the question arises what the impact is of a productivity gainsharing plan on the value drivers employed by the EVA methodology.

1.3 FIELD OF RESEARCH

The empirical research will be conducted within Eskort Limited. Eskort continuously faces pressure to maximize shareholder value through innovation, productivity and efficiency.

Eskort was founded in 1917 and named the Farmer's Co-operative Bacon Factory Limited. The first bacon curing factory was built on the banks of the Bushman's River in Estcourt, Natal. In 1998 Eskort Bacon Co-operative converted to a limited company controlled by suppliers and shareholders. Since 1917, Eskort has developed into a well known and appreciated brand name in South Africa. Eskort products are distributed nationally through various distribution centres, retail and wholesale.

Eskort is recognized as a major leader in the development of a stable South African pig industry. The Eskort range of products extends to over 100 lines and includes bacon, sausages, ham and processed meat.

1.4 RESEARCH GOALS

The study aims to evaluate management attitudes towards gainsharing as a strategic tool for productivity improvement. The objectives of this study are as follows:

- To present a comprehensive framework for EVA, productivity and gainsharing;
- To explore the suitability of gainsharing as an appropriate monetary reward;
- To ascertain the perceptions of management with regard to implementing the gainsharing program;
- To ascertain reasons for implementing a gainsharing program;
- To evaluate if these reasons have been met by the company's scheme currently in place; and
- To evaluate the impact on the value drivers employed by EVA when implementing productivity gainsharing.

1.5 METHOD OF STUDY

The research methods that will be used within the research are the following:

1.5.1 Literature study

The literature study will focus on the following:

- EVA
- Productivity and productivity improvement
- Gainsharing plans

1.5.2 Empirical study

This study is quantitative in nature and questionnaires were administered amongst managers of Eskort Ltd. Empirical data was based on a single company and the sampling plan was dictated by the willingness of managers who participated in the study. A total of 32 managers were identified within the company, but the findings were much broader in its application.

The following is the structure of the research method used:

Research instrument: A questionnaire was designed to elicit data from management about attitudes towards gainsharing.

Pre-testing the questionnaire: Copies of the preliminary questionnaire were circulated among academics in the discipline, as well as to a statistician, to ensure validity and reliability of the instrument. A pilot study was also conducted to ensure that the questionnaire elicits the required data to be collected.

Sampling technique: Due to the relatively small size of the sampling frame in this study, it was decided to send out questionnaires to all managers of the company. Twenty seven managers returned the completed questionnaires.

Administration of the questionnaire: The covering letter (see Annexure A), intended to ensure that the respondents were informed of the nature and the purpose of the research, accompanied the questionnaires. The questionnaires were emailed to all managers. Questionnaires were completed by hand and participants returned the completed questionnaires to the PA.

Statistical testing: The necessary analyses were conducted and during this process the relevant tests and interpretation of results were performed on the data.

1.6 OUTLINE OF THE DISSERTATION

CHAPTER 1: INTRODUCTION

In this chapter the aim is to set the context of why the specific research topic has been chosen as well as to formulated the problem statement. The research goals and the research method are also given.

CHAPTER 2: ECONOMIC VALUE ADDED

The aim is to provide a theoretical background to EVA.

CHAPTER 3: PRODUCTIVITY AND PRODUCTIVITY IMPROVEMENT

The aim is to provide a theoretical background to productivity and productivity improvement.

CHAPTER 4: PRODUCTIVITY GAINSHARING

The aim is to provide a theoretical background to productivity gainsharing plans.

CHAPTER 5: RESEARCH METHODOLOGY

In this chapter the research design, research instrument, the procedure followed in collecting data, the pre-testing and the administration of the questionnaire and the statistical testing are discussed.

CHAPTER 6: CONCLUSION AND RECOMMEDATIONS

In the last chapter a summary of the research is provided. Specific findings and conclusions derived from the research are discussed in detail.

1.7 CHAPTER SUMMARY

The creation of shareholder wealth should be the mantra of executives today. Coupled with that, there seems to be a low understanding of how the value creation process can be kickstarted. Therefore, the question asked in this chapter was what the impact of a productivity gainsharing plan is on the value drivers employed by the EVA methodology. This chapter also outlined the research field, research goals, the method of the study as well as the outline of the dissertation. In the next chapter EVA will be defined and discussed.

CHAPTER 2
DEFINING "ECONOMIC VALUE ADDED"

2.1 INTRODUCTION

In the last decade, while firms have become more focused on value creation, new mechanisms for measuring value were created. One mechanism that seems to have made the most impact is Economic Value Added (EVA), which measures the surplus value (in rand) created by a firm in its existing environment.

The main, traditional performance measures are: ROI, ROE, RONA, EPS and PIE.

Martin and Petty (2000) point the following problems with these metrics:

- The accounting profits and the cash flow are not equal, and it is cash flow that is important for the creation of value for shareholders;
- Accounting figures do not reflect the risk of operations, neither does it consider the opportunity cost of equity and the value of money over time; and
- Accounting practices vary from one company to the next.

This chapter will define EVA and discuss the calculations of EVA. There will also be an explanation of equity equivalents: the adjustments made to Net Operating Profits after Tax (NOPAT) and capital to reflect the true economic value of the company. The importance of EVA will be discussed as well as the advantages and limitations of EVA and how the results obtained from EVA can be improved. Finally, this chapter will look at the creation of value and the value drivers attached to EVA.

2.2 DEFINING EVA

Economic Value Added (EVA) is an adaptation of residual income that has recently been adopted by many companies. When residual income or EVA is used to measure performance, the objective is to maximize the total amount of EVA, not to maximize ROI (Garrison, Noreen & Brewer, 2006:562).

EVA is the operating profit less the cost of all the capital used to produce these profits (Young & O'Byrne, 2001:438). It can be affected positively by an increase in operating profit without the need for an increase in the capital employed, and by the use of new capital in projects that yield higher rates than total cost of capital. It can be negatively affected if the managers accept projects that yield less than the total cost of capital; and if the managers fail to accept projects that yield more than the capital cost.

EVA is a value based performance measure, an investment decision tool and also a performance measure indicating the absolute amount of shareholder value created. It is the product of the "excess return" made on an investment and the capital invested in that investment. EVA is the Net Operating Profit after Tax (NOPAT) minus an appropriate charge for the opportunity cost of all capital invested in an enterprise or project. It is an estimate of true economic profit, or an amount by which earnings, in any given period, exceed or fall short of the cost of capital used to produce profits (Stewart, 1990:10).

EVA is different from most other performance measures because it includes a charge against profit for the cost of all the capital: debt and equity capital. EVA is much more than just a performance measure; it is a framework for complete financial management and an incentive compensation system, which guides the firm's decision-makers (Ehrbar, 1998:7).

The capital charge in EVA is basically opportunity cost. Opportunity cost is the return investors could expect to get by investing money in a portfolio of other stocks and bonds of comparable risk. Investors have forgone this return by owning securities of the firm in question. The capital charge embodies the fundamental principle that the company has to produce a minimum, competitive return on all capital invested – equity as well as debt. Until a firm returns a profit larger than the cost of capital it operates at a loss and instead of creating wealth, destroys it. The enterprise thus returns less to the economy than it devours in resources (Ehrbar, 1998:21).

EVA has begun to receive wide publicity and is starting to be the prime performance measure in companies. By the 1990s, the creation of shareholder value had become the ultimate economic purpose of a company. Firms began to focus on building, operating and harvesting new business and/or products that would provide a greater return than the firm's cost of capital, thus ensuring maximization of shareholder value (Sparling & Turvey, 2003:255). EVA is a strategy formulation and a financial performance management tool that helps companies make a return greater than the firm's cost of capital. Firms use EVA to track its financial position and to guide management decisions regarding resource allocation, capital budgeting and acquisition analysis.

2.3 CALCULATION OF EVA

The three basic inputs needed for the calculation of EVA, as outlined in its definition, is the **return on capital invested** on investments, **the cost of capital** for those investments and the **capital invested** in them.

EVA is, according to Ameels *et al.* (2002:15), the most straightforward descendant of residual income and is, according to Starovic *et al.* (2004:12), a refined version of the economic profit (EP) approach.

Economic profits are also known as residual income, and is the accounting profits of an organisation less a charge for the capital utilized (Starovic *et al.*, 2004:11). EP can be calculated as follows:

EP = Operating profits after tax – capital charge

EVA is based on EP. The difference is that within EVA, adjustments are made to the capital base or to the operating profits. According to Starovic *et al.* (2004:12), there are three reasons why the adjustments are made to the EP numbers:

- Non-cash base bookkeeping (for example, depreciation) that needs to distort the true "cash" profitability of the organisation;
- The fundamental accounting concept of carefulness. This has the impact that there is a systematic conservative bias affecting the application of reporting numbers; and
- A term referred to as "successful efforts accounting". Organisations write off costs associated with unsuccessful investments. This write-off understates the "true" capital of the organisation and also has an impact on the reported profits with once-off gains or losses.

The relation between EVA and financial measures can be depicted as follows:

EVA = Cash flow from Operations + Accruals + After tax interest + Capital charge + Accounting adjustments

Earnings

Operating profits

Economic profits

Economic value added (EVA)

(Source: Martin & Petty, 2000:87)

EVA = NOPAT – (Kc x Capital)

Where:

NOPAT = Net Operating Profit after Tax = Sales – Operating expenses (Including Depreciation) – Taxes

Capital = Common equity + Equity equivalents + Debt + Preferred Stock + Minority interest

or

= Adjusted current assets – Non bearing current liabilities + Net fixed assets

Kc = Cost of Capital

(Source: Arneels *et al.*, 2002:16)

Since the quality of assets needs to be evaluated, the market value of only those assets needs to be estimated. The book value of assets, as a proxy for the market value of capital invested in assets, can be used when determining the

value of capital (Kramer & Pushner, 1997:48). The book value, however, is a number that reflects not just the accounting choices made in the current period, but also accounting decisions made over time on how to depreciate assets, value inventory and deal with acquisitions.

Ameels *et al.* (2002:16) present the following formula for EVA calculation:
EVA = NOPAT – C x TC
Where: NOPAT is the Net Operating Profit after Income Tax; C is the capital percentage cost, and TC the total capital.

Since the total capital cost used for the EVA calculation corresponds to WACC (Weighted Average Cost of Capital), the EVA formula can be rewritten as follows:
EVA = NOPAT – WACC x TC

And therefore: EVA = EBIT x (1-t) – WACC x TC
Where: EBIT is the operating profit and t the income tax rate.

2.4 EQUITY EQUIVALENTS

According to Stern *et al.* (2001:31), some adjustments need to be made for the determination of real economic value added to eliminate various accounting distortions. The five most common adjustments are:

- Research and Development (R&D) costs
- Advertising and promotion
- Staff training and development
- Taxes and Reserves
- Depreciation

R&D is properly considered as an investment that will bring future returns to the firm. In EVA practice, R&D is included in the firm's balance sheet and amortized over the period of years during which these research outlays are expected to

have an impact. Only the yearly amortization charge is included as a cost item. This EVA treatment is the same for staff training and development.

For advertising and promotion expenses in consumer goods companies, the EVA treatment is the same as with R&D above. Although they have a shorter life span than R&D, these outlays are also an investment that builds long-term proprietary value in the form of new products and trademarks.

Taxes, in EVA calculations, show up only in the year in which they are paid. The accounting custom is to deduct them in the year in which they were deferred. Of course such taxes are a debt that has to be paid in the future, thus accountants' deduction of this future obligation may well be commendably conservative, but the practice distorts the company's operating results for any one year. Limiting the tax deduction to the amount that was actually paid gives a far more realistic view of the year's cost. The same considerations apply to the reserves that accountants set up, as a reserve to pay the cost of fulfilling warranty obligations. If the reserve is too large, it will artificially depress earnings; if it is too modest, it will inflate earnings. One can get an accurate picture only by listing the actual disbursements for warranties during the year.

Depreciation creates another accounting distortion. From a tax point of view, a firm likes accelerated depreciation as it reduces taxes by squeezing more costs into fewer years. Straight-line depreciation is adequate for many firms as it reflects actual obsolescence reasonably well, but it creates distortion for firms with a lot of heavy, long-lasting equipment by making durable old equipment seem cheaper than new equipment that may be more efficient. EVA uses sinking fund depreciation to solve this problem. When using sinking fund depreciation the annual charge does not vary from year to year, but the return of principle is small in the early years and dominates in later years, as is the case with a mortgage, reflecting the actual decline in the economic value of the plant and equipment

toward the end of its lifetime. The adjustment is reflected by steeply declining asset values on the balance sheet in later years (Stern *et al.,* 2001:35).

2.5 IMPORTANCE OF EVA

EVA is important because when accompanied by cash accounting, it properly measures all three ways in which a company can create wealth: by raising the efficiency of the current operations, by achieving profitable growth and by paring uneconomic activities in which the immediate exit proceeds more than make up for the subsequent cash flow forgone (Stewart, 1990:16).

Traditional performance measures are unable to describe the company's true business results and sometimes lead to wrong business decisions. The EVA concept is easy to understand and easy to use. The managers can make it transparent to all employees in a short time. On the other hand, an EVA calculation is simple, since only main data contained in income statements and balance sheets are needed.

The EVA concept integrated in a company's decision making process improves its business performance because managers that have deeper knowledge about capital and capital cost are able to make better decisions. On the other hand, it eliminates the distortions that plague conventional accounting. Standard accounting, for example, penalize managers or increased spending on innovations and brand building. It makes it hard to jettison poorly performing assets and restructure. It causes aggressive financing to make poor investments look like winners and distorts true performance in many other ways. EVA removes the most destructive of these distortions so that managers can make better assessments of the impact that their actions have on true economic profits (Ehrbar, 1998:55).

2.6 ADVANTAGES AND DISADVANTAGES OF EVA

EVA is frequently regarded as a single, simple measure that gives a real picture of shareholder wealth creation. It motivates managers to create shareholder value and maximize economic profit, because it is a basis for management compensation. Managers will think like owners when they are paid like owners (Lovata & Costigan, 2002:220). Managers also have to identify with successes and failures of the firm.

There are practical advantages that value-based measurement systems can offer. An EVA system helps managers to (Roztocki & Needy, 1998:5):

- Make better investment decisions;
- Identify improvement opportunities; and to
- Consider long-term and short-term benefits for the company.

Like other performance measures, such as return on investment (ROI), EVA on its own, is inadequate when assessing a firm's progress in achieving its strategic goals and in measuring divisional performance. Other more forward-looking measures, often non-financial in nature should be included in regular performance reports to provide early warning signs of problem areas (Wood, 2000:51).

A criticism of EVA is that it does not account for real options embedded in investment decisions. EVA neglects the growth opportunities of a firm by concentrating on assets in place and is therefore a short-term performance measure (Johnson & Soenen, 2003:365).

2.7 HOW TO IMPROVE EVA

There are countless individual actions in a firm that employees can perform to create value, but eventually all of them fall in one of three categories captured by

EVA: return on capital (r), cost of capital (c), and capital invested. EVA is improved when operating efficiency is enhanced, when value-enhancing investments are undertaken and when capital is withdrawn from unrewarding activities.

More specifically, EVA will improve if (Shadbolt, 2001:118):

- The rate of return (r) earned on the existing capital base improves, in other words current capital is used to earn more profit;
- New capital is invested in any project that earns a rate of return greater than its cost of capital (c); or
- Capital is diverted or liquidated from business activities which do not cover the cost of capital (where $r < c$).

Management should set the framework for managing value creation. This includes an information system that allows for the analysis of daily business decisions and its impact on EVA, and an evaluation of investments and disposals based on EVA impact. Management also has to make the decision for strategic investments that are necessary in the long run but would have a negative impact on the short-term EVA.

According to Rappaport (1998:121), productivity is the basis for the creation of competitive advantage. A company creates competitive advantage when the value of its sales in the long term is higher than the total cost. When the market evaluates a company, it takes its long-term productivity generating capacity into account. Thus competitive advantage and the creation of value for shareholders are supported by productivity.

Therefore, EVA can be increased through the following four means:

- Improve the return on existing capital through higher prices or margins, more volume or lower costs;

- Through rationalizing, liquidating, or curtailing investments in operations that can not generate returns greater than the cost of capital. This might be through divestitures or through withdrawing from unprofitable markets;
- Profitable growth through investing capital where increased profits will cover the cost of additional capital. Investments in working capital and production capacity may be required to facilitate increased sales, new products or new markets; and
- Through reducing the cost of capital but maintaining the financial flexibility necessary to support the business strategy through the prudent use of debt, risk management, and other financial products.

2.8 VALUE DRIVERS

Value drivers are those inputs in the value map of an organisation that will have an impact on the value of the organisation. According to Knight (1998:167), value drivers are the operating factors with the biggest influence on operational and financial results. Value drivers play a critical role in the understanding of the impact of management's current actions on the current and future EVA of the organisation (De Waal, 2005:32). Employees need to understand how value is created within the organisation. By creating connections for each staff member between his or her specific role in the organisation and how value is created within the organisation, education of staff members will be enhanced.

According to Knight (1998:168), the understanding of value drivers is helpful, but the real value only realizes when management uses the value drivers in decision-making and the organisational processes. Organisations base its decisions too often on short-term quarterly financial information. This information only provides information on how the company performed previously.

There are two types of drivers: financial and non-financial. Financial drivers consist of historical data that appraises performance after the event has occurred. For this reason, it is considered lagging indicators (Young & O'Byrne, 2001:272). By breaking down shareholder value into various value drivers of the organisation, management will start to have internal perspective of the organisation and where value is created that is consistent to the external investor perspective.

2.9.1 Financial drivers

Young and O'Byrne (2001:272) view financial drivers as the underlying components that are used to calculate the metric (in their viewpoint the underlying components to calculate EVA). Organisations should focus on seven value driver groups:

- Sales growth
- Operating profit margin
- Income tax rate
- Working capital investment
- Fixed capital investment
- Cost of capital
- Forecasted growth rate

Each and every business unit cannot influence all of these measures, and therefore the specific driver applicable for a business unit should be used as measure and strategy setting. Companies should reward the employees that have an impact on specific input. It is therefore not required to have a metric at the lowest level, but to use a measure a manager can influence that have a positive impact on the overall metric of the organisation. Although financial indicators, such as asset turnover, are value driver indicators, it provides us with historical information only. They are therefore lagging indicators of value (Young & O'Byrne, 2001:278).

2.9.2 Non-financial drivers

The second group of value drivers is what is referred to as non-financial or leading indicators of value. Leading indicators of value are current achievements that have a considerable positive impact on the long-term value of the organisation. These are measurable and can also be communicated easily. Typical examples are production efficiencies, productivity, customer retention rates and customer satisfaction rates, quality, training of employees, satisfaction of employees, product innovation, market share and process innovation. The improvement or achievement of such indicators will normally have a positive benefit to value creation in the long term. According to Rappaport (1998:128), the process of identifying leading indicators of value requires a proper understanding of customers, products, and markets and other sources of information to understand the total business environment of the organisation. To identify the leading indicators of value is difficult, but a challenging, rewarding and revealing exercise. Leading indicators of value are those that provide us with forward-looking information.

The disadvantage of non-financial indicators is that they are difficult to measure and vary from industry to industry. With the objective of maximizing the creation of value in the long term, companies need to use financial and non-financial indicators, and the choice of indicators must be related to the company's strategy.

CHAPTER 3
PRODUCTIVITY AND PRODUCTIVITY IMPROVEMENT

3.1 INTRODUCTION

According to Bendix (2001:490), South Africa ranks second to last on the global competitiveness register. This is attributable to ineffective use and development of human resources and to a lack of productivity by those in employment.

The trouble with many companies today is that a significant portion of the manufacturing assets operate well below its true capabilities. Often plant managers faithfully watch utilization rates, and they can even be overheard boasting about production utilization. Yet, manufacturers that concentrate so heavily on utilization make a mistake by not focusing equal attention on throughput and acceptance rates.

Whether companies use economic value added (EVA), return on investment (ROI), return on capital employed (ROCE), or some other value-based metric as a high-level financial objective, there are two basic strategies for driving financial performance: revenue growth and productivity. The revenue growth strategy focuses on developing new sources of revenue and profitability whereas the productivity strategy features the efficient execution of operational activities in support of existing customers. Productivity strategies focus on cost reduction and efficiency (Chase *et al.,* 2006:28).

Employees should also share in the benefits of increased productivity and this could be part of a reward system. Asset productivity drives EVA, which is what the market uses to determine shareholder value. As mentioned earlier, the main objective of this research is to determine the impact on the value drivers employed by EVA's methodology when implementing productivity gainsharing.

This chapter will define productivity and discuss the measurement of productivity. Finally, this chapter will look at the factors affecting productivity.

3.2 DEFINING PRODUCTIVITY

In its broadest sense, productivity refers to the efficient utilization of resources including people, machine and money. These resources are necessary for the organisation to grow and prosper. Productivity has been defined as a measure of production, with the ratio of output to input as the numerical measurement. More recently, the concept of productivity has been expanded to cover aspects of quality management and organisational structure.

Jones (1990:144) describes productivity as the difference between inputs (the resources used in making a product and providing a service) and outputs (the product or service itself). This description leads to difficulties in depicting the relationship quantitatively.

Al-Darrab (2000:98) uses a healthcare environment and gives a definition of a productivity index, which provides the manpower productivity level. It is determined by dividing the earned man-hours (EMH) by the worked man-hours (WMH).

Al-Darrab (2000:99) refers to two types of productivity:
Type 1 productivity, defined as labour productivity, is very specific to the type of service provided and does not allow for easy comparison across different services. An example of this would be to try and compare the number of visits per hour for primary care physicians to the number of procedures performed by a surgeon.

Type 2 or multi-factor productivity, is a more generic form that transforms all outputs into a common unit of measure, making comparisons across services effective. Historically, productivity has been measured accurately in manufacturing environments and, in general, poorly in service-related fields due to the difficulties in measuring outputs and inputs of which work content varies widely (Al-Darrab, 2000:99).

Productivity is similar in many ways to the concept of quality – everyone strives to improve it, but most have difficulty defining it. It is used as an indicator of performance and as a criterion in decision-making at numerous organisational levels. Productivity enhancement is frequently referenced, at least in broad terms, in managers' training manuals and is often included in managerial performance appraisal guidelines. Productivity maximization is also featured as a goal in the strategic plans of many organisations. In its most general application productivity is a performance measure and can be defined as the effective use of resources to achieve operational goals (Reynolds, 1998:22).

Productivity can also be expressed as a partial factor or a multiple partial-factor statistic by selecting at least one of the listed variables (goods, services, labour, materials, energy and capital) from both the numerator (goods, services) and denominator (labour, materials, energy, capital). Partial-factor productivity statistics, however, may not be good indicators of overall performance, since it serves only as measures of isolated aspects of the operation. Problems arise when managers interpret partial-factor productivity measures as indicators of overall performance without considering the effects of related variables. Nevertheless, partial-factor productivity is often used as a surrogate for profitability, since it seems logical that the optimal use of labour, materials, energy or capital would result in increased profits. Effective treatment of any one of those, however, does not ensure improved overall performance. Some partial-factor productivity statistics can be meaningful indicators of which operational performance areas require attention, most commonly labour management.

Poorly formulated or misunderstood measures, however, can be damaging and, if relied on as the primary indicator of performance, can even be disastrous (Reynolds, 1998:23).

The productivity levels of those employed in the labour market will eventually affect total employment. The reason for this is the relationship between productivity and economic prosperity. The more productive the workforce, the greater will be the economic benefits enjoyed by the country as a whole (Bendix, 2000:482). Furthermore, a reputation for productivity encourages investment both locally and from external sources.

3.3 MEASURING PRODUCTIVITY

Productivity is a common measure of how well a country, industry or business unit is using its resources (or factors of production). Since operations management focuses on making the best use of the resources available to a firm, productivity measurement is fundamental to understanding operations-related performance (Chase *et al.,* 2006:39).

To increase productivity one wants to make the ratio of outputs to inputs as large as practical. Productivity is what is called a relative measure. In other words, to be meaningful, it needs to be compared with something else (Chase *et al.,* 2006:39).

Productivity comparisons can be made in two ways. First, a company can compare itself with similar operations within its industry, or it can use industry data when such data are available. Another approach is to measure productivity over time within the same operation. Here, productivity is compared in one time period with that of the next.

According to Chase *et al.* (2006:40), productivity may be expressed in the following ways:

$$\text{Partial measure} = \frac{\text{Output}}{\text{Labour}} \text{ or } \frac{\text{Output}}{\text{Capital}} \text{ or } \frac{\text{Output}}{\text{Materials}} \text{ or } \frac{\text{Output}}{\text{Energy}}$$

$$\text{Multifactor measure} = \frac{\text{Output}}{\text{Labour + Capital + Energy}} \text{ or } \frac{\text{Output}}{\text{Labour+Capital+Materials}}$$

$$\text{Total measure} = \frac{\text{Output}}{\text{Inputs}} \text{ or } \frac{\text{Goods and services produced}}{\text{All resources used}}$$

Concerning the ratio of output to a single input, there is a **partial productivity** measure. Looking at the ratio of output to a group of inputs (but not all inputs), a **multifactor productivity** measure exists. To express the ratio of all outputs to all inputs, use a **total factor** measure of productivity to describe the productivity of an entire organisation or even a nation (Chase *et al.*, 2006:39).

Traditionally, productivity measures have been categorized as either partial productivity measures or total productivity measures. Partial productivity measures present the ratio of one output to one input or some portion of inputs whereas total productivity compares all outputs to all inputs. Total productivity measures are more difficult to implement at the firm or work group level than at more aggregate levels, such as national levels (Gupta, 1995:32).

Productivity in itself is a simple concept: the amount of output produced per unit of input. In general, it is easy to talk about productivity, but very difficult to measure and manage. It has been said that productivity is not everything; however, in the long run it is almost everything. When one thinks about it, this concept is applicable to almost all types of organisations and institutions. A company needs to have its products or services delivered on time, every time, at the best price with the quality of the product or service always being the same.

Productivity is also often measured in financial terms – that is, as the relationship of the cost of production versus sales revenue generated. Given that the labour cost is a substantial portion of production cost, Clark (1997:60) considers it to be more useful to measure productivity in terms of the number of labourers involved in producing a certain number of units in a given time period.

There is a clear sub-set of tools associated with productivity and performance measurement. In productivity improvement programs, measurement may be important as:

- Part of the investigation and diagnosis stage;
- A means of comparing alternative approaches; and
- A means of benchmarking current performance (so that it may be compared with future performance or with current performance elsewhere) (McKee, 2003:138).

Measuring, as a means of benchmarking, again offers a motivating factor – especially where benchmarked performance can be set against known performance in a true comparator organisation. The range of measurement approaches and measurement tools is quite wide. As with other productivity tools, the choice of an appropriate tool depends on the nature, scale, level and phase of the investigation (McKee, 2003:138).

Productivity as an aggregate statistic can be expressed in terms of the following equation:
Total productivity = goods + services/ (labour + materials + energy + capitals (Reynolds, 1998:22). This is simply an extension of the basic industrial model that defines productivity as output divided by input (Reynolds, 1998:22). For most purposes, a better, more meaningful measure is an aggregate, total-factor productivity statistic expressed as:

Productivity = revi / (mati + lci + doei + (mi or mf)i + alii

Where:

revi = revenue for period i

mati = material cost for period i

lci = labour cost for period i

doei = direct operating expenses for period i

(mi or mf)i = apportioned minimum investment or management fee for period i

alii = amortized leasehold improvements for period i

(Reynolds, 1998:29)

In practice, the aggregate, total-factor statistic is a true indicator of performance. A number greater than one, indicates that outputs (sales) exceed inputs (costs); more to the point, it indicates positive performance. Aggregate and multi-factor measures are robust, meaningful measures for analyzing actual operational productivity (Reynolds, 1998:30).

Appropriate measurement and analysis can serve managers in various ways. Properly conceived and applied measures enable managers to evaluate the relationships between productivity and management policies. They serve as a barometer for monitoring the effectiveness of operational changes such as new production methods, integration of work teams, and implementation of new technology (Reynolds, 1998:31).

Productivity can be measured using monetary values. If monetary values of different outputs or inputs are compared over a time period, the impact of inflation must be eliminated from the relevant prices and costs. This adjustment to eliminate the impact of inflation is called deflation, and the monetary values which excluded the effect of inflation are called deflated or constant values. For example, if prices rose by 5% from last year (the base year) then one must divide

the current year prices by 1.05 to deflate values to base year prices. On the other hand, one could multiply (weight) the number of units produced in the current year by the respective base year values or prices. Either method renders measures in constant values that are comparable from the current period to the base period.

It is difficult to create a model that comprises productivity factors that are not readily quantified. An additional complication in computing productivity is the industry's reliance on casual, often poorly trained workers to fill in for absent regular employees. Productivity measures often sidestep these difficulties by including only those elements that can be quantified (Clark, 1997:67).

Typically, productivity is measured in terms of output per labour hour. However, this measurement does not ensure that the firm will make money (for example, when extra output is not sold but accumulates as inventory). To test whether productivity has increased, ask these questions: Has the action taken increased throughput? Has it decreased inventory? Has it decreased operational expenses? This leads us to a new definition: Productivity is all the actions that bring a company closer to its goals (Chase *et al.*, 2006:723).

3.4 FACTORS AFFECTING PRODUCTIVITY

With a given set of working conditions and equipment, the amount of work done in a day depends on the ability of the worker and the speed at which he/she works. The fatigue resulting from a given level of activity depends on factors such as:

- Hours of work – the length of the working day and the weekly working hours;
- Number, location and length of rest periods;
- Working conditions such as lighting, heating, ventilation and noise; and

- The work itself (Payne-Palacio & Theis, 2001:447).

The amount of reserve energy brought to the job varies with individuals. Some workers can maintain a fairly even tempo throughout the day, whereas others tire rather quickly and need to rest periodically to recoup nervous and physical energy. Short rest periods appropriately scheduled tend to reduce fatigue and lessen time taken by employees for personal needs (Payne-Palacio & Theis, 2001:447).

One of the goals of human engineering is the prevention of fatigue. Managers may find that the fatigue or tiredness of some workers, with resultant drop in energy, enthusiasm and production output is due to external factors beyond control, such as irregularities in the home situation, extraordinary physical exertion away from the job, or a nutritionally inadequate food intake. However, in the organisation, while the workers are on the job, there are unlimited opportunities to study causes of fatigue and possibilities to correct the problem (Payne-Palacio & Theis, 2001:446). Long periods of standing have been typically associated with significant amounts of fatigue and body discomfort at the end of a workday. A hypothesized reason for the increased discomfort and overall body fatigue associated with prolonged standing conditions is reduced blood circulation in the lower legs and static muscle fatigue (Zander *et al.,* 2004:280).

The length of a work shift can also influence the productivity of a worker as explained in the following section:

The following hours of work are specified in the Basic Conditions of Employment Act 75 of 1997):

- 45 hours in any week;
- nine hours in any day if the employee works for five days or less in a week; or
- eight hours in any day if the employee works more than five days a week.

According to Jones (1990:150), informal strategies aimed at encouraging and supporting productivity improvement can be implemented. A climate must be created for employees of an organisation to stimulate awareness of the importance of productivity. This can be achieved through the communication channels of the organisation, such as in-house journals, posters, notices and memoranda. It can also form part of the production process for new employees as well as on-the-job training programs. The aim of this communication is not simply to provide information, but to create an environment conducive to productivity, that is based on trust and co-operation. It is not simply a question of asking employees to work harder, but to work more intelligently and creatively.

Quite clearly, length of service, employee loyalty and possible experience curve economics can be important when employees are asked to increase their productivity by working smarter. Employees who have worked for the organisation over a period of time are much more likely to generate good ideas and adopt new working practices, as long as they feel safe about their future employment.

Employees should also share in the benefits of increased productivity and this could be part of a reward system. Managers and supervisors must pay attention to employees who work well and give due praise. Recognition and a sense of achievement will greatly enhance the motivation to work productively. Where productivity has been placed high on the agenda, feedback on the levels of productivity achieved on a weekly basis may also contribute to maintaining interest and generating enthusiasm for improved performance. The "publication" of such information can also be accompanied by a workplace meeting to discuss the issue. This can also be helped by the adoption of a "no harm" policy. That is, if an employee comes up with an idea that may not be particularly productive, but which can do no harm (Jones, 1990:150).

People are the key factors in improving productivity. If productivity is to be improved, the nature of both the people and the organisation in which they work must be understood. People are the highest order of resources and, as such, are responsible for controlling and utilizing all other resources. If the source of improving the productivity position of an organisation is directly traceable to people, the achievement of a better bottom line of productivity must be everybody's business (Payne-Palacio & Theis, 2001:444).

According to Bendix (2001:491), the productivity problem in South Africa has many probable causes. Firstly, the historic and still existing inequities in the South African workplace militated against joint productive input. This was further exacerbated by unaccommodating organisational structures and practices resulting in employee dissatisfaction and disinterest. Secondly, insufficient education and training and high labour turnover has, as a natural result, a decrease in labour productivity. The reference to training includes managerial training. Lastly, and perhaps most importantly, South Africa appears to suffer from an almost universal absence of a proper work ethic.

Increased productivity means motivation, dignity and greater personal participation in the design and performance of work in the organisation. It means developing individuals whose lives can be productive in the fullest sense. An integrated quality of work life approach to management can help to raise productivity (Payne-Palacio & Theis, 2001:444).

The characteristic of a certain leadership style that is more effective in increasing productivity is as follows:

- General supervision, rather than close, detailed supervision of employees;
- More time devoted to supervisory activities than on doing production work;
- Much attention to planning of work and special tasks;
- A willingness to permit employees to participate in the decision-making process; and

- An approach to the job situation that is described as being employee-centered.

Productivity appears to be maximized when a unity of purpose and a feeling of ownership exist among employees (Payne-Palacio & Theis, 2001:445).

Work design can also influence productivity. The overall objectives of work design are to increase productivity and employee satisfaction. The specific objectives are to improve the content of the job, to provide a safe and healthy work environment and to design a staff of fit people, an optimum work environment and effective and efficient work methods (Payne-Palacio & Theis, 2001:445).

The ideal is to increase volumes and at the same time to prevent costs from rising or, even better still, decrease costs. Brynjolfsson and Lorin (1998:1) ask the question: Where does productivity growth come from? They continue by answering that by definition, it does not come from working harder – that may increase output, but also increase labour input. Similarly, using more capital or other factors does not necessarily increase productivity. Productivity comes from working smarter. Productivity is related to inputs in general that should contribute towards higher productivity outputs:

- Adopting new technologies and new techniques for production;
- The rate of investment in a country or a business usually leads to growth;
- Education – investing in people. Globally, the countries where the education is of a higher level are growing faster;
- Innovation and invention create those breakthroughs that enable growth; and
- Creating a motivational climate that supports productivity improvements.

Companies that attain higher operating asset effectiveness performance do so by instituting operational best practices in uptime, capacity utilization, process

control, process stability, maintenance, process flow, quality assurance, planning and scheduling and quality management practices. This ensures that productivity is at the highest possible level and that the output is the maximum saleable possible. Importantly, the top companies have instituted specific plant management processes, personnel skills and metrics to drive high productivity levels. They are able to drive insight into the root causes for problems and to quickly launch corrective actions.

Productivity is engendered by a positive work ethic, sound organisational relationships and relevant education and training (Bendix, 2001:482).

CHAPTER 4
GAINSHARING

4.1 INTRODUCTION

Your people are your most valuable asset that must be nurtured and looked after, because without people the innovation will no longer exist and the company will fade away (McLean, 2004:84).

The question is therefore: Are people motivated at all by the material awards given to them, or are they driven by pure ambition and willingness to work long hours in achieving their goals and ambitions? Is gainsharing a motivator to increase work performance and productivity?

4.2 MOTIVATION

The Oxford English Dictionary (OED) describes 'motivation' as enthusiasm and the dictionary defines 'enthusiasm' as intense enjoyment, interest or approval.

Robbins (2004:131) states that motivation is the process that accounts, for an individual's intensity, direction and persistence of effort towards attaining a goal. Daft (2004:309) refers to motivation as forces either within or external to a person that arouses enthusiasm and persistence to pursue a certain course of action.

According to Bateman and Snell (2004:398), motivation refers to forces that energize, direct and sustain a person's efforts. A highly motivated person will work harder towards achieving performance-related goals and, with adequate ability and understanding of the job, such a person will be highly productive.

Motivation plays a very important role in the new, democratic South Africa. One of Human Resources' challenges is how to attract, retain, motivate and develop individuals with talent.

For a manager there is not a wrong or right answer. The best action to take as a manager depends on a balance of both types of rewards – nature and extrinsic (Grobler *et al.*, 2003:108).

According to Patton (1999:101), one often hears that "money does not motivate people to perform well", or that monetary compensation is ranked low on the list of things that motivate people. Patton continues and states that motivation is based on the concepts of behavioural psychology, ergo behavioural management. According to a survey done by Aon Consulting in 1998, a pay cheque may be ranked 11th by employees who were asked to ranked it among other motivating factors that may be a reason for staying at the company. It is most unlikely that any of the surveyed employees would continue to work at the respective companies if not offered a pay cheque. What one finds is that employees want all the positive things: money, recognition, open communication, ability to challenge the status quo, opportunity for personal growth and all the other soft issues within a working environment (Patton, 1999:102).

Patton (1999:102) states that the survey revealed that it was more meaningful to employees to be recognized by the boss' boss than the direct supervisor or the Chief Executive Officer. The employees assumed that their immediate supervisor should recognize their contribution on a daily basis, and that the CEO had no idea what they did. But they felt their boss' boss could influence future opportunities for increases and promotions.

Patton (1999:103) concludes by saying that monetary rewards are sacred. Employees deserve a piece of the pie. Employees think that it is a right to receive financial reward for doing something that makes the company a lot of money. It is

ludicrous to think that money does not motivate people. The fact is, money is an important element, along with other important elements with which employees expect to be recognized and rewarded.

According to Gage (2003:12), many companies are searching for ways to achieve higher level of performance. Managers often believe that money is the primary motivator for every employee. A primary limitation with money linked to performance reviews are that it only occurs once a year. Achievements and progress need to be rewarded frequently throughout the year. A key to a successful incentive plan is to find out what motivates a company's employees and to set up an incentive plan that will cater for the various motivational aspects of the employees working for the organisation (Gage, 2003:12).

One must make sure that whatever rewards a manager gives, matches the efforts of the individual team and that idea or effort contributed to the bottom line. It is important that a manager knows how much his team has contributed and how successful the team was to the overall success of the organisation (Gage, 2003:12).

According to Meudell & Rodham (1998:128), various motivation theories and methods can be used to motivate employees. These methods can be money, goal setting, participation in decision making and job design. Meudell and Rodham (1998:128) carry on by saying that there is a case to be made that motivation is dependent on a wide variety of variables which could include age, gender, career stage, socio-economic circumstances and even national culture.

Meudell and Rodham (1998:130) state that according to research conducted in a study to find out if money is everything, it was interesting to note that money appeared to be very significantly correlated with motivation to work and working harder. In addition, included in the top five items that motivate employees were

money-related categories such as bonuses, promotion prospects and fringe benefits. Least significant in the study was job satisfaction.

It is increasingly recognized in industry that by introducing carefully crafted group incentive compensation systems like gainsharing, it may be possible to induce South African workers to work both harder and smarter and to use existing technologies in new and better ways that enhance productivity.

The development of an appropriate organisational reward system is probably one of the strongest motivational factors. This can influence both job satisfaction and employee motivation. The reward system affects job satisfaction by making the employee more comfortable and contented as a result of the rewards received. The reward system influences motivation primarily through the perceived value of the rewards and their contingency on performance.

4.3 DEFINING GAINSHARING

Gainsharing refers to a category of incentive systems that involves a group of employees in the productivity improvement efforts and shares the resulting gains with the group based on its overall performance improvement. Better use of inputs such as labour, capital, materials and energy can create productivity and profitability gains. Gainsharing plans share these gains with employees according to a predetermined formula that reflects the productivity or profitability improvement over historical levels.

Gainsharing is a formula-based company-wide program that provides for employees to share in the financial gains made by a company as a result of its improved performance (Armstrong & Murlis, 2004:297). Gainsharing may particularly be appropriate when teams carry out interdependent tasks and have to operate flexibly in a just-in-time or cellular manufacturing environment. These

requirements may be prejudiced by incentive schemes, which emphasize the link between individual pay and performance. Gainsharing incentive schemes are most effective if based on a system of measured work where targets and standards are agreed by a team, which is provided with the control information it needs to monitor its own performance. As a result, productivity is a proper tool for the payment of such schemes and was defined earlier in this study.

Gainsharing is a process whereby employees are involved in performance improvements and share with the organisation in the financial benefits of these improvements. It is a method of working in groups to identify ways of improving performance. Gainsharing is also about improving productivity and attracting and retaining the kind of people one wants working in one's company (Duncan & Gross, 1998:3). Creating a working environment that encourages worker participation and also provides the opportunity for linking improved performance to improved compensation is one way to create the kind of workplace that will attract motivated risk-takers and team-workers. Gainsharing is not a single type of incentive program but rather an umbrella for a family of aggregate pay-for-performance approach that links financial rewards to improvements in the performance of the entire unit (Welbourne & Gomez-Mejia, 1995a:1). These programs are "custom designed" in each company and tend to be variants of four traditional forms of gainsharing programs. These are the Scanlon program, the Rucker program, Improshare and Value Added. There are however, many variations on these programs based on added value and other performance measures (Nicholson, 2003:27).

Gainsharing offers companies the opportunity to improve plant performance and boost productivity while reducing costs attributed to poor quality, for example waste, spoilage, rejects, and customer returns. Gainsharing is not an individual, piecework system. It is a group incentive, pay for performance wage system – a group bonus in which the entire factory workforce share as a result of improving productivity above a certain level and decreasing rejects and reworks. Moreover,

while productivity gain is the object, the output must be a good product; rejects and customer returns are deducted from the output levels. Over a five year period, the productivity gains should be close to 100 percent and the costs of rejects and rework greatly reduced (Imberman, 1995:20).

4.4 THE BASIC GAINSHARING PLANS

Profit sharing is generally tied to the company's overall performance, whereas gainsharing focuses on the company's most vital performance metrics. Payments come out of increased revenue or reduction in costs. Profit sharing typically runs on a quarterly or annual cycle, whereas gainsharing generally cycles on a monthly basis. As a result, more frequent performance discussions take place; with the added benefit that mediocre or poor performance is addresses sooner.

A successful gainsharing program relies on two factors, namely formula and training. A sound formula based on careful examination of the company's past performance is the level from which gain is measured and payout is made. There is no one-size-fits-all gainsharing plan; each program is custom made to fit an individual company's needs. Not only are productivity and quality factored into the formula, but other costs such as cost of workers' compensation or the reduction in order-to-shipment lead times can also be added. And in order for the program to work, all levels of the workforce must be educated about their respective roles in gainsharing through proper training methods (Imberman, 1995:35).

The foundation of successful gainsharing plans is employee involvement, cooperation, good communication, and mutual respect between all employees.

Nowadays, many actual gainsharing plans have evolved to be hybrids of the Scanlon, Rucker, Improshare, and Profit sharing basic plans. Often custom-

tailored plans are simply referred to as gainsharing plans, because it is too different and cannot be identified as any particular basic plan. Ultimately, the "correct" gainsharing plan is the one that labour and management feel is fair, fosters a sense of identity with the organisation, and improves productivity and profitability of the organisation.

The basic gainsharing plans are as follows:

- **The Scanlon program:** This program utilizes a fairly simple formula and this tends to be one of its advantages, because it is easily calculated, administered and understood by employees (Johnson, 1993:8). The concept behind the Scanlon formula is that the financial increases due to labour productivity should be shared with employees. The formula seeks to secure a stable and historical ratio representing productivity, which is usually measured as the ratio of labour costs to revenues, net sales, or sales value of production. The simple calculation is often referred to as the 'single ratio'. The formula may also be modified by including other costs such as materials, overhead, rejects, and more. Gains in productivity that result from an increase in production or cost savings are shared with the workers when the observed ratio is less than the historic ratio (Miller & Schuster, 1987:46).

- **The Rucker program:** This program utilizes a different ratio to calculate value added gain. According to Welbourne and Gomez-Mejia (1995b:3), the Rucker program pays a bonus when a value-added gain is realized. The Rucker program is similar to a single ratio of the Scanlon program in that the numerator (the labour cost) is the same. However, the Rucker program attempts to account for an increased value of sales (due to market factors, inflation, and more, not attributed to efforts made by employees) and the cost of materials and supplies due to factors in the

external environment, as well as unrelated factors to worker efforts (Vandenberg, 1999:11).

- **Improshare:** This is the proprietary program based on an established standard that defines the expected hours required to produce an acceptable level of output (Kaufman, 1992:31). The standard is derived from work measurement. A saving resulting from increased output is shared between the organisation and employees by means of a pre-established formula.

- **Value added:** This is calculated by deducting expenditure on materials and other purchased services from the income derived from sales of the product (Kirkman, 2000:25). It is the wealth created by the people in the business. A manufacturing business buys materials, components, fuel and various services. The combined contribution of management and employees converts these into products, which can be sold for more than the cost of material (Armstrong & Murlis, 2001:400). In doing so, the business 'adds value' through its process of production. Increases in value added are shared between employees and the company. Murdis (2000:400) contends that the employees' share is between 40 and 50 percent.

4.5 COMPENSATION AND COMPANY PERFORMANCE

Gainsharing helps align individual employees' goals and organisational goals. When installed and managed properly, gainsharing plans heighten the employees' sense of identity with an organisation, explain how work contributes to the attainment of organisational objectives and share the gains equitably with employees.

As organisations continue to face mounting competitive pressures, they seek to do more with less and to do it with better quality. Gerhard, Minkoff & Oslen (1994:2) are of the view that goals for sales volume, profit, innovation and quality are raised, employment growth is often tightly controlled and in many cases, substantial cuts are made in the employment of human resources through the power of compensation. Compensation plays a major role in the effort to manage human resources better. It plays a key role, because it is at the heart of the employment relationship, being of critical importance to both employees and employers.

Abosch (1998:22) suggests that team and small group incentives have attracted considerable attention in recent years as one salient component of total quality management (TQM) initiative. Team-pay systems amplify messages on the importance of teamwork, the value of group problem solving and the need for teams to take responsibility for managing the processes controlled. Team pay reinforces skills development in these areas. Bolster *et al.* (1996:19) insist that almost all companies using team pay have encountered administrative complexities, difficulty in isolating contributions of the individual teams within the context of a larger work unit and resistance from employees who want to hold the individual merit systems known throughout their working lives.

Harris (2002:5) believes that the following are the key principles to ensure effective compensation for value creation:

- Ownership should be rewarded based on absolute performance, and not performance relative against an internal budget. Thus managers are no longer awarded for negotiation skills during budget times, or penalized for stretched targets. The measure is what shareholders expect.
- Incentives should reward long-term sustainable value creation.
- The rewards for ownership should be unlimited.
- Incentives should include the downside risk, but also the upside opportunity – it is critical to penalize when value is destroyed, and to

reward appropriately when value is created, otherwise there will be no ownership mentality.

Gainsharing has a simple, but essential purpose: to involve staff in helping to improve the company. Gainsharing is used in more than a quarter of Fortune 1000 companies, as well as many smaller firms and public sector organisations. In 1991, a study by the U.S. General Accounting office of 76 companies found that with gainsharing, the average company improved productivity by 17 percent in the first year (Imberman, 1995:7). Another study done for the American Management Association found that companies with successful plans had ancillary benefits, as well. Besides improving productivity and quality, on-time deliveries rose to almost 100 percent. In addition, employee grievances dropped by 84 percent and absenteeism decreased by 61 percent.

Hanlon and Taylor (1991: 55-66) discuss the relationship between gainsharing and organisational development in terms of the performance factors that include work design, structure, and employment relationships as follows:

Work design: The fact that gainsharing has an immediate focus on the way in which work is done creates incentives to work smarter rather than merely harder. 'Working smarter' involves overcoming obstacles to performance, which typically include the way in which work is organised and managed, and the way in which performance is monitored and reported.

The key to smart performance is to capture key interdependencies within performance units, by structuring it around products, customers, projects or mini-enterprises (Sekaran, 1992:28). In this way, functional relationships such as product development, marketing and sales can be incorporated in common measures of performance and exposed to shared incentives.

Structure: De-layering of structure is a common phenomenon in contemporary organisations which recognize that the multiple control gates and sluggish information flows associated with tall structures are ill-suited to the turbulent competitive environment faced.

A flat, loose, enabling structure provides the ideal context for gainsharing (Kirkman, 2000:31). Kirkman concurred that gainsharing is an incentive for high involvement in an organisation's performance by employees and for strong identification with its strategic direction. It is difficult to see how that incentive could endure within a structure designed for unilateral information flows, functional specialization and separation and hierarchical control. A key feature of gainsharing is the encouragement it provides to employees to internalize organisational goals by participating in the development of performance targets aligned with those goals.

Employment relationships: It is important to recognize that gainsharing disrupts established patterns of relationships within organisations (Hanlon & Taylor, 1991:55). The reason is primarily that it alerts the distribution and use of power within the organisation. Gainsharing therefore redefines the context of management and rewards some sources of power over others, notably expertise and subordinate dependence. In so doing, it undermines other, more traditional sources of power, notable those arising from formal status and from the ability to reward and punish. It would seem that gainsharing prompts internalization of power within the workplace at the expense of power designed to modify behavior extrinsically.

Vandenberg (1999:26) insists that organisations must ensure that management, particularly front-line managers, buy into the gainsharing scheme. The reason for this is that managers serve as conduits of information, training and ideas and, if poorly disposed towards the scheme, are well placed to discourage participation. Beyond the financial incentive, gainsharing should be promoted to managers as

a means of extending the ability and role, rather than displacing it. Vandenberg emphasizes that a well-run scheme requires managers to become effective communicators and to become skilled in performance management. An important means of reinforcing the scheme is to ensure that managers' own performance requirements and incentives are consistent with it. Subsequent to this, the program will ensure that gainsharing delivers to client requirements.

In order for a gainsharing program that meets the minimum requirements for success to be in place, Vandenberg (1999:45) has suggested a few pointers in the effective management of a gainsharing program. They are as follows:

- A HR manager must ensure that the people who will be participating in the plan are influencing the performance measured by the gainsharing formula in a significant way by changes in the day-to-day behaviour. The main idea of the gainsharing is to motivate members to increase productivity through behavioural changes and working attitudes. If the increase in the performance measurement was due to external factors, then it would have defeated the purpose of having a gainsharing program.

- An effective manager must ensure that the gainsharing targets are challenging, but legitimate and attainable. In addition, the targets should be specific and challenging, but reasonable and justifiable given the historical performance, the business strategy and the competitive environment. If the gainsharing participants perceive the targets as impossible and are not motivated at all, the whole program will be a disaster.

- A manager must provide useful feedback as guidance to the gainsharing participants concerning how behaviour(s) need to change to realize gainsharing payouts. The feedback should be frequent, objective and

clearly based on the members' performance in relation to the gainsharing target.

- A manager must have an effective mechanism in place to allow gainsharing participants to initiate changes in work procedures and methods and/or requesting new or additional recourses such as new technology to improve performance and realize gains. Though a member must have a tight control of company's recourses, reasonable and justifiable requests for additional recourses and/or changes in working methods from gainsharing participants should be considered.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

Having perused the relevant literature as the main source of information to complete a conceptual framework for the areas of research in the second, third and fourth chapters, it is now fitting to focus on the thinking that guided the research methodology, the research design and research techniques that have been used in this study. Different approaches had to be critically considered before the researcher could make an informed decision about the suitability for the study, bearing in mind the purpose and objectives for the study, as well as the broad issues to be explored, as described in chapter one.

The chapter begins with the research site, thus briefly describing the company under which the research was conducted. The research site influenced the method and sampling techniques that were used to conduct this research. The remaining sections to be covered in this chapter include the methods used to collect data, the research instrument as well as the sampling techniques used by the researcher in conducting the study. Techniques for data collection that cover areas of the draft questionnaire, the pre-testing and administration of questionnaires are outlined. Study limitations, steps that were taken to avoid bias and the method for the analysis of data conclude this chapter.

5.2 RESEARCH SITE

In mid 1917, a group of nine people gathered in Estcourt, KwaZulu-Natal, to discuss the establishment of a Bacon curing factory in the area. By August 1917, the Farmer's Co-operative Bacon Factory Limited was founded and building commenced on the banks of the Bushman's River in Estcourt. The factory was officially opened on 6 June 1918 by General Louis Botha.

Eskort products are distributed nationally through twenty six distribution centres, which are then shipped to the many retail and wholesale outlets available. The Eskort range of products now extend to over 100 product lines and include Bacon, Sausages, Viennas, Polonies, Ham, and Cold Meat Loaves. Eskort enjoys a significant market leadership position in both bacon and sausages as read by the market researchers, A.C. Nielsen.

In 1992, the Eskort Co-operative celebrated 75 years of marketing quality products to the South African and international markets, as well as being recognized as a major leader in the development of a stable South African pig industry. In 1997, an automatic bacon slicer and packer were installed. Further significant acquisitions of technology and machinery continue to be made each year to provide modern production procedures that focus on quality products and leading food safety standards.

In 1998 Eskort Bacon Co-operative converted to a Limited company, controlled by supplier shareholders. Since 2000, the Eskort product portfolio has been extended into the Fresh Pork market with products such as Spare Ribs, Bacon Cherry Sticks, Marinated Rashers and Smoked Eisbein being marketed at the Eskort Butcheries situated in Heidelberg and Estcourt. Many of these products, including Gammons, are packed under the labels of South Africa's leading

retailers. Eskort also supplies Wimpy, the historic Mount Nelson hotel in Cape Town and produces a range of products endorsed by Weigh-Less.

Eskort is actively involved in social projects in local communities. The company supports the Shalom Children's Ministries in Heidelberg and, in Estcourt, the company supports the Bhekuzulu Self Sufficient Project that cares for HIV sufferers, orphans and displaced children in the Estcourt community. Eskort is also the proud sponsor of the Eskort Cavanaugh Marathon.

The staff complement at the factories in Estcourt and Heidelberg now exceeds 600 people.

Eskort started implementing Quantum Lean in both its plants in 2007. Quantum Lean is a system developed to improve efficiency and effectiveness of people and processes. The Quantum Lean program has different modules which begin at "green areas" that are implemented in all areas, where employees can see progress, and where targets and actions plans are displayed. It also has a module called 5S which focuses on:

- Sorting out your workplace and getting rid of things you don't need;
- Systemizing and organising your workplace by labelling and demarcation;
- Ensuring your workplace is clean and tidy;
- Setting a standard that can be maintained by all team members; and
- Maintaining your system.

Together with 5S are the 7 wastes. By eliminating these 7 wastes, processes will be streamlined and people will be more efficient. The 7 wastes are:

- Over production
- Inventory
- Motion
- Waiting
- Transportation

- Waste of the process
- Errors & defects

Efficiencies improved dramatically after implementation of Quantum Lean.

5.3 RESEARCH DESIGN

Research design is defined as a plan according to which the researcher obtains research participants (subjects) and collects information from them (Welman & Kruger, 2003:46). The identification of the purpose for the study, the setting up of items from the initial data, decision on the data collection process and validation of data were done during the conceptualization phase of the study.

5.3.1 Method of data collection

The range of various research methods that stretches across the quantitative-qualitative continuum provides the researcher with a choice that needs to be carefully deliberated in conjunction with a number of issues that are specific to the study's concern. After much consideration of such factors, which will be elaborated on below, the selection of the structured questionnaire instrument was deemed the most appropriate for this study. It was decided that a questionnaire would be administered amongst the managers of Eskort Ltd. The study was quantitative in nature. The advantage of a quantitative approach was based on the possibility of measuring the reactions of managers to a limited set of questions, thus facilitating comparisons and statistical aggregation of data.

Thirty managers where identified to participate in the study and the questionnaires were distributed by email. An allowance of seven working days was given for participants to complete questionnaires. Twenty-five completed

questionnaires were collected, and this represents an 83% response rate (see the percentage breakdown of respondents in table 3.1).

The sampling plan used was dictated by the willingness of managers who had to participate in the study. As much as management showed huge interest in the study, it became evident that the company was not keen to divulge information that might influence its competitive advantage. The reason for this is that the incentive scheme is still a sensitive issue in most companies in South Africa.

5.3.2 Research instrument

Questionnaires were designed to elicit data from management about their attitude toward gainsharing as a strategic tool to increase productivity and the impact thereof on EVA. The structured questionnaire included questions on the demographic profile of the respondents; their motivating drivers; the company's involvement in performance measurement and problem solving; the effect a gainsharing plan will have on EVA; management's perceptions toward the gain-sharing program; and ascertaining reasons for implementing gainsharing programs and comparing them with the company's scheme currently in place.

5.3.3 Sampling technique

As mentioned in section 3.3.1 of this study, a total of 30 managers were identified within the company. Due to the relatively small size of the sampling frame in this study, it was decided to send out questionnaires to all managers and, as a result, 26 managers completed the questionnaires. In order to make inferences from survey data, managers from different levels were listed. The list became the universe for the survey. This enabled the researcher to understand how the sampling frame of the management's population is represented. Table 3.1 below shows the breakdown in the number of managers who participated in the study and the respective percentages in relation to the level of management.

Table 5.1: Level of management that participated in the study

Level of management	Frequency	Percent
Top management	4	16
Middle management	15	60
Lower level/Supervisors	6	24
Total	26	100

The study was therefore designed as a cross-section of the general management population. This helped the researcher compare responses from various management levels within the company. The following section outlines the values and principles displayed by the researcher throughout the study process.

5.4 DATA COLLECTION

The preceding section of this chapter dealt mainly with the instrument and sampling techniques used in the study. Occasionally, where it was felt appropriate, some aspects of the actual research activities and the research site were illustrated. In this section the process of developing, pre-testing and administration of the questionnaire are described.

5.4.1 Draft questionnaire

In order to gain an insight and understanding of the area of research prior to writing a report, the problem statement was developed and the research proposal formulated. Various articles on gainsharing, productivity and EVA-related issues were used to collect data, and were expanded to the literature review. The questionnaire comprised the demographical details of participants; motivating drivers; performance measurement and problem solving; the effect a gainsharing plan will have on EVA; perceptions of a gainsharing program; and what would be the managers' main reasons for implementing a gainsharing program. The study focused on management attitudes towards gainsharing as a strategic tool for productivity improvement at Eskort Ltd.

5.4.2 Pre-testing the questionnaire

In order to detect any shortcomings in its design and administration, copies of preliminary questionnaires were circulated among academics in the discipline as well as a statistician, to ensure validity and reliability of the instrument. A pilot study amongst six colleagues was conducted to ensure that the questionnaire would be able to elicit the required data to be collected.

Few changes were made on the following areas:

- Corrections on the Likert scale, where "1" was wrongly coded as strongly agree and "5" strongly disagree; and
- Splitting some questions that appeared to be double-barreled.

5.4.3 Administration of the questionnaire

The questionnaires were distributed to all managers via email. The covering letter accompanied each questionnaire with the intention to ensure that the respondents were informed of the nature and the purpose of the research. Participants were asked to return the completed questionnaires to the PA. The questionnaire is attached as Annexure B.

5.5 STUDY LIMITATIONS

The study focused only on one company, but the findings were much broader in its application. A substantial amount of data was available as it pertains to the global world, and not specifically to South Africa.

5.6 STEPS TAKEN TO AVOID BIAS

In any survey, bias in sampling and interviewing can distort results. Two forms of bias are frequent and the researcher had to guard against them. These are:

5.6.1 Question bias

A draft questionnaire was developed to its final form. Particular attention was given to the sequence of questions, misunderstandings resulting from question wording and errors in recording due to poor questionnaire layout.

5.6.2 Subjectivity

Interpretation before recording the events was avoided. The researcher adopted a stance of neutrality with respect to the phenomenon under study.

5.7 METHOD FOR THE ANALYSIS OF DATA

Data analysis forms the real reason for the research effort, and therefore the method for data analysis was planned to be part of the research design. It serves to bring order, intelligible and logical patterns, and meaning to all the information that has been gathered (Murray & Lawrence, 2000:161). Data analysis will be covered in chapter six.

Questionnaires were designed in a way that the responses could be coded, and as a result, the first step was to capture data into a computer. Measurements were analyzed using statistical techniques. The purpose was to test the hypotheses by measuring the difference between variables. Analyses were carried out:

- by looking at frequency distribution tables and demographic items;
- by looking at central tendency and variability of appropriate demographic information and Likert items;
- by cross-tabulation of survey items and average factor scores; and
- by conducting appropriate statistical tests of study hypotheses.

Significant measurements were used to determine whether the correlation was obtained by chance or whether it could safely be inferred. The presentation of findings in this study is mainly narrative, supported by figures and tables, so as to express complicated relationships and to impart information simply. Depicting factual data in the form of categorical tables enabled different variables to be cross-tabulated and to be viewed quickly.

5.8 CONCLUSION

In this chapter, the rationale for selecting the quantitative methodology approach and for using a questionnaire as an appropriate research method has been explained. The design of the research, including the method of data collection, sampling techniques, study limitations and steps taken to avoid bias during the research process were discussed. The real world activities of gathering and the method for analyzing data concluded the deliberations.

Chapter six is dedicated to data analysis and the presentation of the empirical research results.

CHAPTER 6

DATA ANALYSIS, INTERPRETATION AND CONCLUSION

6.1 INTRODUCTION

In the previous chapter, the research methodology and techniques that were selected to design a questionnaire for this investigation were discussed and justified. It is opportune to present a detailed analysis of the findings emanating from 26 questionnaires that were administered to managers from Eskort Ltd.

This chapter is dedicated to the analysis of data and the interpretation of results. Findings are analyzed using numerical cross-tabulation. Responses from participants aimed at establishing, amongst other things, the suitability of gainsharing and the possible influence on EVA are interpreted.

6.2 RESEARCH SUBJECTS

The population of this study consisted of twenty six employees across three subgroups within Eskort Ltd. The number of employees within each subgroup was four of top management, 16 of middle management and six of lower level management. The characteristics of the three subgroups were as follows:

Table 6.1: Level of management

Subgroups	Frequency	Percent
Top management	4	15.4%
Middle management	16	61.5%
Lower level	6	23.1%
Total	26	100.0%

Table 6.2: Length of service

Years in service	Frequency	Percent
0-3	14	53.8%
4-7	6	23.1%
8-11	2	7.7%
12+	4	15.4%
Total	26	100.0%

The majority of employees within the sample size have been with Eskort for three years or less.

Table 6.3: Education

Qualification	Frequency	Percent
High school	6	23.1%
Certificate	6	23.1%
Diploma	6	23.1%
Degree	8	30.8%
Total	26	100.0%

The aim of this question was to determine the level of education. Twenty three percent of management's highest qualification is high school compared to 30.8% with a degree.

6.3 MOTIVATION

Table 6.4: Question 5 – What makes you work?

	Mean	Rank
a) I have a chance to compete with others	3.28	9
b) I want to keep my job	3.40	8
c) because of the prospects of promotion	3.88	5
d) to earn a salary	4.52	1
e) because of the way I am managed at the workplace	3.12	10
f) I enjoy the company's culture	3.96	4
g) I enjoy my current working conditions	4.20	2
h) I get job satisfaction	4.08	3
i) I am allowed to make my own decisions	3.84	6
j) because of job security	3.56	7
k) because of my bonus	2.68	11

It is quite clear from the statistics above that the ability to earn a salary is the main motivator why the respondents work. More than a third, 34.6% of the respondents agree and 61.5% strongly agree that they work to earn a salary. It is also clear that the current working conditions, job satisfaction, the company's

culture and the prospects of a promotion are ranked as strong motivators for the respondents to work. A chance to compete with others, the way they are managed and a bonus are not reasons why the respondents work.

Table 6.5: Question 6 – What makes you work harder?

	Mean	Rank
a) I have a chance to compete with others	2.92	10
b) I want to keep my job	3.36	9
c) I have the prospect of promotion	4.20	3
d) I have the ability to earn more money	4.38	1
e) I appreciate the way in which I am managed at the workplace	3.64	8
f) I enjoy the culture I am working in	3.88	5
g) I am satisfied with my current working conditions	3.84	6
h) I get the necessary job satisfaction	3.84	6
i) I can increase the ability to make my own decisions	4.00	4
j) I can increase my job security	3.80	7
k) I can earn a bigger bonus	4.36	2

The two predominant factors that will make the subjects work harder are the following: if they have the ability to earn more money and secondly, if they can earn a bigger bonus. It is therefore interesting to note that although they do not work to earn a bonus, they will work harder if they can earn a bonus. The prospect of a promotion, the ability to make own decisions and the working culture are also important motivators which could induce the subjects to work

harder. The ability to compete with others, the ability to keep the job and the way in which they are managed will not motivate them to work harder.

It is therefore clear that they will walk the extra mile if they can earn more money and a bigger bonus. To achieve this, employees will need to obtain job satisfaction and must have the ability to make their own decisions. These results give support to the need theory, because the need for achievement comes out strongly with the mere fact that the ability to earn a bigger bonus and higher salary goes hand in hand with achievement and the closing of big deals that will result in improving one's own performance goals. Therefore, a gainsharing plan where employees could earn a bonus based on productivity can be effective to increase productivity in the organisation.

Table 6.6: Question 7 – What do you enjoy most about your current job?

	Mean	Rank
a) The ability to achieve certain goals and		
opportunities	3.84	6
b) The autonomy and freedom of the job	3.80	7
c) The challenges the work entail	4.24	1
d) The company's reputation in the marketplace	4.00	2
e) The geographic location of the company	3.36	10
f) The people I work with	3.88	5
g) The job security	3.32	12
h) The money associated with the job	2.88	5
i) The opportunities for self-development	3.68	8
j) Pleasant office and working conditions	3.96	3
k) The performance feedback one obtains	3.36	11
l) The recognition from my manager for a job		
well done	3.48	9
m) The responsibility of the job	3.92	3
n) The sense of achievement	3.96	3
o) The ability to work with people	3.80	7
p) The ability to earn a bonus	2.88	5

It is evident from the above statistics that the challenges the work entail, the company's reputation, the pleasant working conditions, the responsibility of the job and the sense of achievement are the factors the respondents enjoy most about their current job. There is clearly a lack of performance feedback as well as recognition for a job well done. The geographic locations of the company and job security are also obstacles in increasing job enjoyment.

This question proves the fact that the company sees employees as its biggest asset and allows them to achieve long-term goals and objectives in an environment where they have the necessary autonomy and freedom to excel in their perspective roles.

Table 6.7: Question 8 – What don't you enjoy about your current job?

	Mean	Rank
a) The long hours	2.24	11
b) The way in which I am managed	2.52	7
c) The company's remuneration policy	3.40	2
d) The culture of the company	2.00	12
e) The lack of a bonus	3.36	3
f) The lack of opportunity for self-development	2.72	5
g) The lack of performance feedback from my direct manager	2.52	6
h) The lack of communication from management	2.72	5
i) The lack of career development and opportunity within the company	3.12	4
j) The lack of true leadership within my business unit	2.44	9
k) The lack of decision-making ability	2.48	8
l) The lack of supervision and support from direct manager	2.36	10
m) The lack of on-the-job training	2.56	6
n) The lack of recognition from my manager for a job well done	2.67	5
o) The lack of an incentive system where employees can share in the company gains	3.60	1

The three most important factors why the subjects do not enjoy their current jobs are the lack of an incentive system where employees can share in the company gains, the company's remuneration policy and the lack of a bonus. The lack of career development and opportunity within the company are considered a factor they do not enjoy about their current job.

The respondents are clearly motivated and driven by the need to earn a bigger and better salary and bonus. This need goes hand in hand with the need to achieve and to focus on improved performance. By being focused and constantly improving their performance year-in and your-out, they will earn more money and bigger bonuses.

Table 6.8: Question 18 – How well I am rewarded is directly linked to how well I perform

	Frequency	Percent
Strongly disagree	3	11.5
Disagree	10	38.5
Uncertain	2	7.7
Agree	7	26.9
Strongly agree	4	15.4
Total	26	100.0

There are mixed perceptions whether how well they are rewarded is directly linked to how well they perform. A total of 11.5% of the respondents strongly disagree and 38.5% of them disagree with the statement, which adds up to a total of 50%. On the other hand, 26.9% agree and 15.4% strongly agree with the statement and therefore a total of 42.3%.

Table 6.9: Question 26 – Managers will think like owners when they are paid like owners

	Frequency	Percent
Disagree	2	7.7
Uncertain	1	3.8
Agree	11	42.3
Strongly agree	12	46.2
Total	26	100.0

It is clear that most of the subjects have the same opinion that managers will think like owners when they are paid like owners. Only two of them disagree with the statement. Therefore, the respondents will initiate value creation initiatives when they are rewarded accordingly.

Table 6.10: Question 17 – Productivity within Eskort can be improved by a motivating climate

	Frequency	Percent
Uncertain	1	3.8
Agree	12	46.2
Strongly agree	13	50.0
Total	26	100.0

From the above table it is clear that, apart from one respondent who is uncertain, productivity within Eskort can be improved by a motivating climate. Therefore, with a motivating climate, the efficient utilization of resources can be increased, which are necessary for the organisation to grow and prosper.

Table 6.11 Question 23 – I can influence the productivity rate within Eskort

	Frequency	Percent
Disagree	1	3.8
Uncertain	3	11.5
Agree	16	61.5
Strongly agree	6	23.1
Total	26	100.0

From the above table, it is noted that except for one respondent who disagrees and three that are uncertain, 84.6% agree and strongly agree that they can influence the productivity rate within Eskort.

Therefore, it is apparent that money is a strong motivator because of the fact that the respondents do work to earn a salary. They have also indicated that an important factor why they do not enjoy their current job is because of a lack of a bonus. Furthermore, the respondents indicate that managers will think like owners if they are paid by owners. It was also clear that productivity can be improved by a motivating climate and most of the respondents indicate that they can influence productivity. Therefore, motivation can be improved by a bonus scheme in terms of a gainsharing program and as a result productivity will improve.

6.4 PERCEPTION OF A GAINSHARING PROGRAM

Table 6.12: Question 9 – Obstacles that might hinder the application of a gainsharing program in the company

	Mean	Rank
a) Employee resistance	2.36	2.000
b) Union resistance	3.32	3.000
c) Insufficient information about gainsharing	3.48	1.000
d) Unavailability of outside help	2.58	5.000
e) Not suitable for low level worker	3.04	4.000
f) Not suitable with the way we do things in the company (i.e. corporate culture)	2.13	6.000

Insufficient information about the gainsharing program seems to be a significant obstacle in inducing a gainsharing program in the company. A total of 57.7% of the respondents agree and strongly agree with the statement, indicating that most respondents would like to get more information about gainsharing. A total of 76.9% of the respondents strongly disagree and disagree with the statement that a gainsharing program is not suitable in the corporate culture. This implies that they are of the opinion that a gainsharing program is suitable with the way things are done in the company.

Table 6.13: Question 10 – Main reason for implementing the gainsharing program in the company

	Mean	Rank	Agree %	Strongly Agree %
a) to deliver on client requirements	3.80	7.000	57.7	19.2
b) to enhance teamwork	4.20	4.000	73.1	23.1
c) to create a feeling of ownership	4.24	3.000	61.5	30.8
d) to share a portion of the saved-cost for continuous productivity improvement purposes	4.52	1.000	46.2	50.0
e) to stimulate organisational learning	3.96	6.000	50.0	23.1
f) to improve communication between management and employees	4.00	5.000	61.5	19.2
g) to stimulate employees to make suggestions on ways to improve productivity	4.52	1.000	50.0	50.0
h) to satisfy managerial motives such as increased profitability and reduction in costs	4.44	2.000	38.5	53.8

From the above table, it is clear that most of the respondents strongly agree or agree with almost all the statements. The most important reasons why the respondents would like to implement the gainsharing program in the company is to share a portion of the saved cost for continuous productivity improvement purposes (96.2% strongly agree and agree); to stimulate productivity improvements (96.2% strongly agree and agree); to increase profitability and reduction in costs (92.3% strongly agree and agree) and to create a feeling of ownership (92.3% strongly agree and agree). Although delivering on client requirements is ranked lastly, 76.9% of the respondents agree and strongly agree that they want to implement gainsharing for that purpose.

These reasons are in line with the aims and objectives of gainsharing contained in the literature review. One of the aims of gainsharing is to share a significant proportion of performance gains with employees who have collectively contributed to improvement. Part of management's objective is to increase sales volume and profitability. If gainsharing can play a part in reaching this objective, management feels that his could be one of the reasons to implement it.

Table 6.14: Question 11- Current scheme is effective and helps the company

	Mean	Rank	Agree %	Strongly Agree %
a) to deliver on client requirements	2.72	2.000	30.8	3.8
b) to enhance teamwork	2.72	2.000	30.8	3.8
c) create a feeling of ownership	2.76	1.000	30.8	3.8
d) share a portion of the saved cost due to continuous productivity improvement	2.68	3.000	23.1	7.7
e) to stimulate organisational learning	2.72	2.000	19.2	3.8
f) to improve communication between management and employees	2.60	4.000	26.9	.0
g) to stimulate employees to make suggestions on ways to improve productivity	2.60	4.000	26.9	3.8
h) satisfy managerial motives such as increased profitability and reduction in costs	2.72	2.000	26.9	7.7

It is interesting to note that only 34.6% of the respondents agree and strongly agree that the scheme currently in place is effective in helping the company to deliver on client requirements, enhance teamwork, creating a feeling of

ownership and increase profitability. Only 38.7% of the respondents agree and strongly agree that the current scheme helps the company to improve productivity.

Table 6.15: Question 24 – There is an incentive scheme aimed at inducing employees to participate on problem solving or productivity improvement initiatives in the department

	Frequency	Percent
Strongly disagree	10	38.5
Disagree	8	30.8
Uncertain	3	11.5
Agree	4	15.4
Strongly agree	1	3.8
Total	26	100.0

From the table, it is evident that only 19.2% of the respondents agree and strongly agree that there is an incentive scheme in place aimed at inducing employees to participate in problem solving or productivity improvement initiatives.

Table 6.16: Question 25 – A gainsharing program would induce employees to effectively participate in problem solving or productivity improvement initiatives in the company

	Frequency	Percent
Disagree	1	3.8
Uncertain	1	3.8
Agree	15	57.7
Strongly agree	9	34.6
Total	26	100.0

From the above table, it is evident that 92.3% of the respondents agree and strongly agree that a gainsharing program would induce employees to effectively participate in problem solving or productivity improvement initiatives in the company. Therefore, according to the respondents, productivity can be improved by a gainsharing program.

The above answers indicate that the current scheme does not help the company to improve productivity. The respondents indicated that a gainsharing program will stimulate productivity; they are of the opinion that a gainsharing program is suitable with the way things are done in the company. Therefore, according to the respondents, productivity can be improved by a gainsharing program.

6.5 PRODUCTIVITY AND THE INFLUENCE ON EVA

Table 6.17: Question 22 – Productivity within Eskort is on its maximum level

	Frequency	Percent
Strongly disagree	12	46.2
Disagree	8	30.8
Uncertain	2	8.4
Agree	2	7.0
Strongly agree	2	7.7
Total	26	100.0

Only 7.7% of the respondents strongly agree that the productivity level within Eskort is on a maximum level, and only 7% of them agree with the statement. On the other hand, 46.2% strongly disagree and 30.8% disagree that productivity is on its maximum level. Therefore, it is evident that there are plenty room for improvement in terms of the productivity level within Eskort.

Table 6.18: Question 15 – Financial value drivers that will improve if productivity improves within Eskort

	Strongly Agree %	Agree %	Uncertain %	Disagree %	Strongly Disagree %
a) Sales growth	30.8	57.7	3.8	7.7	0.0
b) Operating profit margin	30.8	57.7	7.7	3.8	0.0
c) Income tax rate	7.7	23.1	30.8	7.7	30.8
d) Working capital investment	19.2	69.2	7.7	3.8	0.0
e) Fixed capital investment	15.4	42.3	19.2	15.4	7.7
f) Cost of capital	15.4	42.3	23.1	11.5	7.7

From the table above, it is clear that an increase in productivity could have a substantive impact on most of the financial value drivers. The main impact will be on sales growth, operating profit margin and the working capital investment.

Table 6.19: Question 16 – Non-financial drivers that will improve if productivity improves within Eskort

	Strongly Agree %	Agree %	Uncertain %	Disagree %	Strongly Disagree %
a) Production efficiencies	38.5	50.0	7.7	0.0	3.8
b) Customer satisfaction rates	26.9	42.3	23.1	7.7	0.0
c) Market share	30.8	42.3	19.2	3.8	3.8
d) Product quality	34.6	46.2	11.5	3.8	3.8
e) Satisfaction of employees	30.8	50.0	11.5	3.8	3.8
f) Product and process innovation	26.9	61.5	7.7	3.8	0.0

From the table above, it is obvious that 88.5% of the respondents agree and strongly agree that production efficiencies and product innovation will improve with an improvement of productivity. According to 80.8% of the respondents agree and strongly agree that the product quality and the satisfaction of employees will improve if productivity improves. There will also be a significant improvement in the market share and the customer satisfaction rate.

These value drivers are the operating factors with the biggest influence on operational and financial results and play a critical role in the understanding of the impact of management's current actions on the current and future EVA of the organisation. Management should use the value drivers in decision-making and in the organisational processes. Decisions should not only be based on short-term quarterly financial information, because it only provides information on how the company performed previously.

Table 6.20: Question 27 – EVA is a suitable mechanism to measure value creation

	Frequency	Percent
Disagree	1	3.8
Uncertain	4	15.4
Agree	13	50.0
Strongly agree	8	30.8
Total	26	100.0

Only 3.8% (representing one respondent) disagree that EVA is a suitable mechanism to measure value creation in Eskort. Therefore, the majority of the respondents are of the opinion that EVA is a suitable mechanism to measure value creation.

Therefore, according to the respondents, the productivity level within Eskort is not on its maximum level. This indicates that productivity can be improved in the

company. It was also clear that an improvement in productivity will have a substantial impact on both the financial and non-financial value drivers.

6.6 CONCLUSION AND RECOMMENDATIONS

Results from the study analysis reveals that 92.3% of the respondents agree that gainsharing would induce employees to effectively participate in problem solving or productivity improvement initiatives. Bearing in mind that the study evaluates management attitudes towards gainsharing as a tool for productivity improvement, the results indicate that managers have faith in the gainsharing program.

The majority of respondents feel that gainsharing will benefit the company, and this is shown by the large percentage response from managers' faith in a gainsharing program. The results also reveal that the respondents are of the opinion that a gainsharing program is suitable with the way things are done in the company. This indicates a good management perception of the gainsharing program.

Management believes strongly in gainsharing, particularly on critical issues relating to increased profitability and reduction in costs, to stimulate productivity improvements, to create a feeling of ownership and to deliver on client requirements. Therefore, numerous reasons exist why management would want to implement a gainsharing program.

The respondents indicated that the scheme currently in place, does not assist the company to deliver on client requirements, enhances teamwork, or create a feeling of ownership. They agree that the current scheme enables the company to improve communication between management and employees and, to a certain extent, satisfy motives such as increase profitability and reduction in cost.

The results from the study also reveal that both the financial and non-financial value drivers employed by EVA will improve with an increase of productivity within the company.

The company will have to become more and more focused on value creation to maintain the competitive advantage it currently enjoys. Management is of the opinion that EVA is a suitable mechanism to measure value creation and additional value can be created by an increase in productivity. Productivity, on the other hand, can be improved by implementing a gainsharing program.

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APPENDIX A

RESEARCH QUESTIONNAIRE:

GENERAL INSTRUCTIONS

Almost all the questions can be answered by **encircling** a number that appears on a scale to the right of the item.You are to choose the one number that best matches the description of how you feel about the item. For example, if you were asked how much you agree with the statement:

"I enjoy my work"

and you feel that you **agree**, you should circle the number under "Agree", like this:

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) I enjoy my work	1	2	3	(4)	5

QUESTIONS

1. Level of Management. Please indicate below.

Top management	Middle Management	Lower level Management/supervisor
1	2	3

2. Indicate the number of employees under your span of control. Please select one answer.

<10	10-20	21-30	31-40	41-50	51-60	>60

3. Length of service

0-3 years	4-7 years	8-11 years	12 years and over

4. Education

High School	Tertiary		
	Certificate	Diploma	Degree

5. What makes you work? I work because.....

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) I have a chance to compete with others	1	2	3	4	5
b) I want to keep my job	1	2	3	4	5
c) of the prospects of promotion	1	2	3	4	5
d) to earn a salary	1	2	3	4	5
e) of the way I am managed at the workplace	1	2	3	4	5
f) I enjoy the company's culture					

	1	2	3	4	5
g) I enjoy my current working conditions	1	2	3	4	5
h) I get job satisfaction	1	2	3	4	5
i) I am allowed to make my own decisions	1	2	3	4	5
j) of job security	1	2	3	4	5
k) of my bonus	1	2	3	4	5

6. What makes you work harder? I will work harder if.....

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) I have a chance to compete with others	1	2	3	4	5
b) I want to keep my job	1	2	3	4	5

c) I have the prospect of promotion	1	2	3	4	5
d) I have the ability to earn more money	1	2	3	4	5
e) I appreciate the way in which I am managed at the workplace	1	2	3	4	5
f) I enjoy the culture I am working in	1	2	3	4	5
g) I am satisfied with my current working conditions	1	2	3	4	5
h) I get the necessary job satisfaction	1	2	3	4	5
i) I can increase the ability to make my own decisions	1	2	3	4	5
j) I can increase my job security	1	2	3	4	5
k) I can earn a bigger bonus	1	2	3	4	5

7. What do you enjoy most about your current job?

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) The ability to achieve certain goals and opportunities	1	2	3	4	5
b) The autonomy and freedom of the job	1	2	3	4	5
c) The challenges the work entail	1	2	3	4	5
d) The company's reputation in the marketplace	1	2	3	4	5
e) The geographic location of the company	1	2	3	4	5
f) The people I work with	1	2	3	4	5
g) The job security	1	2	3	4	5
h) The money associated with the job					

	1	2	3	4	5
i) The opportunities for self-development	1	2	3	4	5
j) Pleasant office and working conditions	1	2	3	4	5
k) The performance feedback one obtains	1	2	3	4	5
l) The recognition from my manager for a job well done	1	2	3	4	5
m) The responsibility of the job	1	2	3	4	5
n) The sense of achievement	1	2	3	4	5
o) The ability to work with people	1	2	3	4	5
p) The ability to earn a bonus	1	2	3	4	5

8. What don't you enjoy about your current job?

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) The long hours	1	2	3	4	5
b) The way in which I am managed	1	2	3	4	5
c) The company's remuneration policy	1	2	3	4	5
d) The culture of the company	1	2	3	4	5
e) The lack of a bonus	1	2	3	4	5
f) The lack of opportunity for self-development	1	2	3	4	5
g) The lack of performance feedback from my direct manager	1	2	3	4	5
h) The lack of communication from					

management	1	2	3	4	5
i) The lack of career development and opportunity within the company	1	2	3	4	5
j) The lack of true leadership within my business unit	1	2	3	4	5
k) The lack of decision-making ability	1	2	3	4	5
l) The lack of supervision and support from direct manager	1	2	3	4	5
m) The lack of on-the-job training	1	2	3	4	5
n) The lack of recognition from my manager for a job well done	1	2	3	4	5
o) The lack of an incentive system where employees can share in the company gains	1	2	3	4	5

9. The following obstacles might hinder the application of a gainsharing program in the company

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Employee resistance	1	2	3	4	5
Union resistance	1	2	3	4	5
Insufficient information about gainsharing	1	2	3	4	5
Unavailability of outside help	1	2	3	4	5
Not suitable for low level workers	1	2	3	4	5
Not suitable with the way we do things in the company (i.e. corporate culture)	1	2	3	4	5

10. The main reasons why I would implement the gainsharing program in the company is...

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) to deliver on client requirements	1	2	3	4	5
b) to enhance teamwork	1	2	3	4	5
c) to create a feeling of ownership	1	2	3	4	5
d) to share a portion of the saved-cost for continuous productivity improvement purposes	1	2	3	4	5
e) to stimulate organisational learning	1	2	3	4	5
f) to improve communication between management and employees	1	2	3	4	5

g) to stimulate employees to make suggestions on ways to improve productivity	1	2	3	4	5
h) to satisfy managerial motives such as increasedprofitability and reduction in costs	1	2	3	4	5

11. The current incentive scheme in place is effective and helps the companty to...

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) deliver on client requirements	1	2	3	4	5
b) enhance teamwork	1	2	3	4	5
c) create a feeling of ownership	1	2	3	4	5

d) share a portion of the saved cost due to continuous productivity improvement	1	2	3	4	5
e) stimulate organisational learning	1	2	3	4	5
f) improve communication between management and employees	1	2	3	4	5
g) stimulate employees to make suggestions on ways to improve productivity	1	2	3	4	5
h) satisfy managerial motives such as increased profitability and reduction in costs	1	2	3	4	5

12. What are the core explicit business targets you would like to achieve?

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) Increase Earnings before interest and tax (EBIT)	1	2	3	4	5
b) Core Headline earnings target	1	2	3	4	5
c) Return on equity target	1	2	3	4	5
d) Cost to Income ratio	1	2	3	4	5
e) Market share growth	1	2	3	4	5
f) Focus on explicit shareholder value creation (increase return on investment)	1	2	3	4	5
g) Do better than budget	1	2	3	4	5

13. Which of the following information do you consider to measure the success of the business?

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) Earnings before interest and tax (EBIT)	1	2	3	4	5
b) Core Headline earnings	1	2	3	4	5
c) Return on equity	1	2	3	4	5
d) Return on investment	1	2	3	4	5
e) Cost to income ratio	1	2	3	4	5
f) Market share	1	2	3	4	5
g) Price earnings ratio	1	2	3	4	5

h) Sales data	1	2	3	4	5
i) Profit per product/customer	1	2	3	4	5
j) Economic Value Added (EVA)	1	2	3	4	5
k) Cash Flow Return on Investment (CFROI)	1	2	3	4	5

14. There are various viewpoints on the measurements and the use of it. Please rate how strongly you agree or disagree with the following statements.

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) The current information is skewed by accounting policies such as depreciation and do not reflect the true business activities	1	2	3	4	5

b) I am totally satisfied with the current level of information to base my decisions on	1	2	3	4	5
c) I can't manage the outcome of my measures due to external market conditions	1	2	3	4	5
d) I can't manage the outcome of my measures due to the impact other parties within the group has on my business unit	1	2	3	4	5
e) I believe that the ultimate measure should reflect the shareholder viewpoint	1	2	3	4	5
f) Measuring our sales performance and market share growth should be the core focus	1	2	3	4	5

g) Cost is our problem. We should just focus on the Cost to Income Ratio	1	2	3	4	5
h) There is a continuous conflict between short-term profit goals, and long-term investment opportunities	1	2	3	4	5
i) I fully understand how my decision impacts shareholder value	1	2	3	4	5

15. If productivity improves within Eskort, the following financial value drivers will improve:

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) Sales growth	1	2	3	4	5
b) Operating profit margin	1	2	3	4	5
c) Income tax rate	1	2	3	4	5
d) Working capital investment	1	2	3	4	5
e) Fixed capital investment	1	2	3	4	5
f) Cost of capital	1	2	3	4	5

16. If productivity improves within Eskort, the following non-financial value drivers will Improve:

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
a) Production efficiencies	1	2	3	4	5
b) Customer satisfaction rates	1	2	3	4	5
c) Market share	1	2	3	4	5
d) Product quality	1	2	3	4	5
e) Satisfaction of employees	1	2	3	4	5
f) Product and process innovation	1	2	3	4	5

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
17. Productivity within Eskort can be improved by a motivating climate	1	2	3	4	5
18. How well I am rewarded (my salary) is directly linked to how well I perform	1	2	3	4	5
19. I am satisfied with the way management handles pay administration	1	2	3	4	5
20. Employees receive incentives relating to the achievement of predetermined goals	1	2	3	4	5
21. Employees are encouraged to express production concerns on issues relating to Departmental performance aimed at uncovering solution to work problems	1	2	3	4	5

22. Productivity within Eskort is on its maximum level	1	2	3	4	5
23. I can influence the productivity rate within Eskort.	1	2	3	4	5
24. There is an incentive scheme/program aimed at inducing employees to participate in problem solving or productivity improvement initiatives in your department	1	2	3	4	5
25. A gainsharing program would induce employees to effectively participate in problem solving or productivity improvement initiatives in the company	1	2	3	4	5
26. Managers will think like owners when they are paid like owners	1	2	3	4	5
27. EVA is a suitable mechanism to measure value creation	1	2	3	4	5

APPENDIX B

COVERING LETTER

This questionnaire is conducted as part of a research study for a MBA fulfilment at the North-West University

Dear colleague

I am currently studying towards an MBA at the North-West University. My research theme is to evaluate management attitudes towards gainsharing as a strategic tool for productivity improvement and the impact thereof on economic value added (EVA) within Eskort Ltd. I would appreciate if you would assist me in completing the following questionnaire. Arnold Prinsloo (CEO of Eskort Ltd) has given me the approval to conduct this research.

Your answers will be treated as completely confidential. No one in this organisation will ever have access to your individual answers. The results of the questionnaire will be reported on a group basis.

The value of this project depends upon your being absolutely frank and honest when answering the questions.

Background

Gainsharing refers to a category of incentive systems that involves a group of employees in the productivity improvement efforts and the group shares the resulting gains based on its overall performance improvement. Better use of inputs such as labour, capital, raw-materials and energy can create improved productivity and profitability gains or shareholder value. EVA is a value based performance measure, an investment decision tool and also a performance measure indicating the absolute amount of shareholder value created.

Gainsharing plans share these gains with employees according to a predetermined formula that reflects the productivity or profitability improvement over historical levels.

Thank you in advance for your co-operation and assistance. I hope you find the questionnaire interesting and thought provoking.

Kind regards

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