The impact of an outcomes based remuneration scheme on performance in the financial sector

by

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ABSTRACT

This mini-dissertation investigates the influence that an outcome-based remuneration scheme can have on productivity in the financial sector. It focuses on four dimensions that were used to determine if productivity levels could be affected; all of these four dimensions could be linked back to the performance of the employee and employer. The four dimensions were units produced, overtime, absenteeism and till cash up which speaks to the quality of transactions that were processed.

When these four dimensions were tested statistically the results tended to suggest that there is a positive association with productivity and an outcome-based remuneration scheme. This simply means that an outcome-based remuneration scheme increases productivity levels in the workplace, more specifically in the financial sector; the literature review also supports this statement

The study also deals briefly with the advantages and disadvantages of a pay for performance scheme as well as when designing a pay for performance scheme what are the key design elements. It also briefly touches on the implementation of such a scheme, whether pay for performance is sustainable over a period of time and what are the most common types of pay for performance schemes.

Key terms: absenteeism, outcome-based remuneration, productivity, financial sector.

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Today's business environment is characterised by continuous and rapid change as a result of fast changing technologies, ever increasing changes in customer demand and the growing levels of intense global competition (Ireland & Webb, 2009). This change has brought about increased competition in the workplace. Companies are now competing at levels never before experienced in the corporate world. One aspect that can give companies the competitive edge in terms of increasing productivity is to move employees from a 100% fixed salary scheme to a pay for performance (outcome-based remuneration) scheme. In a rapidly changing and highly competitive business environment, many organisations look to their employees to improve productivity.

The use of performance pay schemes by employers has been shown to increase workers' productivity, effort and earnings (Lazear, 2000; Paarsch & Shearer 2000; Parent, 1999). The focus has shifted in recent years from rigid salary scales, compulsory insurance and uniform benefits to pay for performance, pay for talent and productivity based incentives. The trend today is to regard all employee remuneration and benefits as rewards rather than benefits or entitlements and to align these with performance business results (Armstrong & Brown 2006). The largest overhead cost of any company is its salary bill. The cost is influenced by, amongst others, market trends and demands, staff retention policies, benefit options and employee requirements (Morton, 2012). From research conducted it became evident that companies are faced with increasing salary costs every year with little or no change in productivity levels. Due to this very reason companies are seeking better ways to remunerate employees to stimulate productivity as well as to create better overall job satisfaction in the workplace. A popular instrument to increase productivity and create a better working environment for the employee is to use an outcome-based performance scheme.

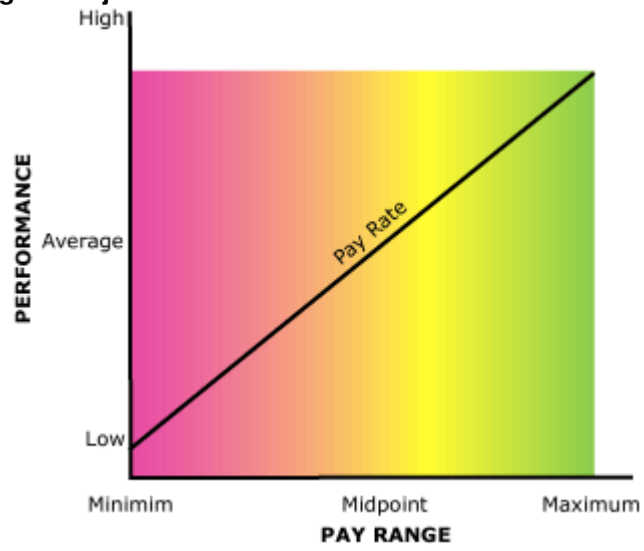
Performance related pay may stimulate labour productivity for two reasons. First, in situations of asymmetric information about workers' abilities or effort a Pay Related Performance scheme can be used to induce workers to exert the right amount of effort (Prendergast, 1999) and Lazear (2004). Second, when hiring new workers, piece rates can be used as a screening mechanism to encourage only the most able workers to apply (Lazear, 1986). Recent empirical studies found evidence in support of performance related pay increasing productivity, although the size of the effect differs substantially.

Payment schemes are seen as more closely aligning the interests of workers and firms. The critical characteristic of linking effort and pay allows a more complete optimization by workers than is possible with time rates (Heywood & Wei, 2006). In the extreme, workers paid piece rates or commissions equate the marginal cost of effort with the marginal value added (Lazear, 1995). The infra-marginal effort brought forth by the piece rate generates worker earnings above the cost of effort. While this generates the maximum surplus for workers, workers paid time rates stop short of the optimal effort, failing to produce units that generate value added greater than effort. Thus, many studies confirm that those on piece rates increase effort and earn more than otherwise-equivalent workers on time rates (Ewing 1996; Lazear 2000; Oettinger 2001; Parent, 1999). All else equal, the ability to optimize more fully should make workers more satisfied. Therefore, not only do pay for performance schemes stimulate productivity but it can also increase job satisfaction in the workplace.

Outcome-based remuneration (OBR) is by no means a new concept. It can be traced as far back when the great pyramids in Egypt were built. The ancient Egyptians had to 'encourage' their workers to build the great pyramids and, unwittingly, they utilized performance management systems to do so. Their system revolved around whipping those workers who did not perform as required, to achieve their goals. This worked effectively for them as evidenced by the splendid pyramids that they built. Important to note: slavery in those times provided nominally free labour governed by expectations on both sides. This may not be the way OBR is understood today but the concept is still the same, which is to increase levels of productivity by a performance management system.

Outcome-based remuneration also known as performance-based pay or performance-related pay or pay for performance is defined as follows: Outcome-based remuneration programs offer financial incentives to workers who meet defined performance targets which tend to focus on quality, efficiency, or related areas. The main objective for the compensation strategy is to give the right rewards for the right employee behaviours. Compensation can be seen as an important motivating factor when trying to drive the right behaviour in employees which is to encourage employees to perform at their best. Rewarding employees who increase productivity or efficiency provides an incentive for other employees who want to achieve what the top employees are achieving. Rather than rewarding every employee with the same salary, outcome-based remuneration rewards the individual worker for extraordinary efforts.

Figure 1.1 – Graph depicting the objectives of an outcome-based remuneration scheme



The assumptions of an outcome-based remuneration system are:

- Money motivates people to work harder
- Increased motivation will increase performance
- Fair measurement of work performance is possible (Hunt, 2010)

This chapter presents the nature and scope of this study and more specifically aims to:

- Explain the problem on which the study is based and provide a reason for undertaking the study.
- Present the primary and secondary objectives of the study.
- Describe the scope of the study.
- Provide a summary of the research methodology used in this study.
- Present the limitations to the study.

1.2 PROBLEM STATEMENT

The financial services industry is a complex environment. It is highly regulated, constantly under pressure to deliver profit and growth with customer needs and expectations consistently evolving. The years 2008 and 2009 saw unprecedented turmoil and change in the global banking and financial services sector leaving financial institutions to find ways to bring efficiencies within their business (Visalli, 2011)

Increasing productivity within the workplace is normally the crux of efficiencies being brought into the workplace. From the above, it can be seen that an outcome-based remuneration scheme can help drive up productivity levels within an organisation; this can release some of the pressures that financial institutions currently experience.

The research that was conducted will enable leadership within financial institutions to ascertain whether outcome-based remuneration schemes can be used in the financial institution sector to increase levels of productivity. In summary the purpose of this study was to determine what impact does outcome-based remuneration has on productivity in a particular or specific business unit within a financial institution. It introduces a system to measure outcome-based remuneration per employee based on activities done by the employee. The study simply investigated whether an OBR scheme increases productivity in the workplace.

In view of the above problem statement, the research objectives can now be determined for this study.

1.3 RESEARCH OBJECTIVES

The following primary and secondary objectives were set for this study:

1.3.1 Primary objective

The primary objective of the study includes:

- Assessing productivity levels once on an OBR scheme resulting into better performance by both employee and employer

1.3.2 Secondary objective

The following secondary objectives were devised as a means to address the primary objective:

- Improvement of productivity/performance
    - Increased units produced per an employee resulting into shorter queues for customers
    - Whether there is a significant change in absenteeism
    - Whether there is a significant change in overtime – this relates to employees performing their duties when it's needed and not having to wait after normal operating times to do the activities.
    - Satisfied customers by looking at the quality of the transaction (shortages and surpluses).

1.4 SCOPE OF THE STUDY

This section describes the field of study, industry demarcation and the geographical demarcation.

1.4.1 Field of study

The field of this study falls within the subject of outcome-based remuneration in existing businesses.

1.4.2 Industry demarcation

This study is limited to financial institutions in South Africa and more specifically those financial institutions with core business in retail banking. The concept of an OBR scheme will be tested within three branches of a particular financial institution in South Africa.

1.4.3 Geographical demarcation

The area of operation for each branch that took part in the study is indicated in figure 1.1.

Figure 1.2: Branches of the financial institution

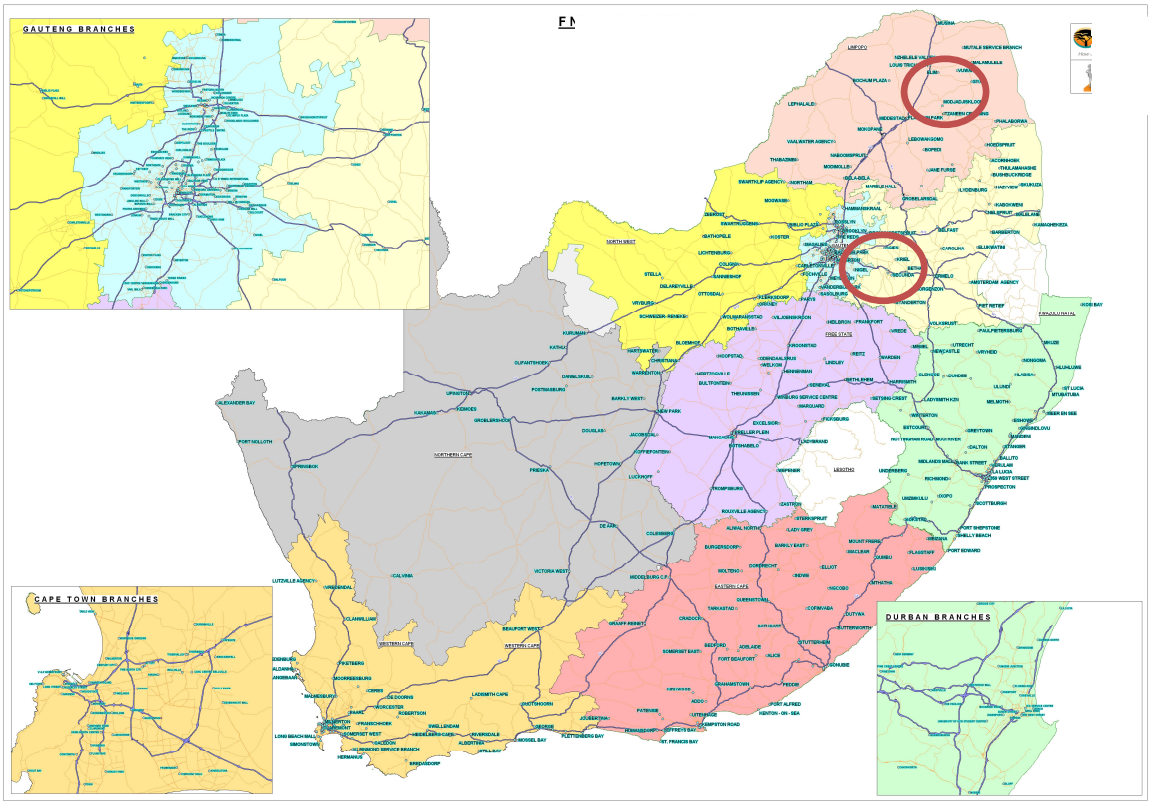


Figure 1.2 shows all branches from a specific financial institution in South Africa. The study only consisted of three branches, two branches from Gauteng and one branch from Limpopo was selected. The reason for this selection was that all three branches had different dynamics with respect to employees, customers, environment and business needs which gave a fair representation of the population. The red circles on the graph represent the areas from which the branches were chosen from.

1.5 RESEARCH METHODOLOGY

This study was conducted in two phases. Phase one consisted of a literature review and phase two consisted of empirical research.

1.5.1 Literature review

The literature review for this study focused on the different aspects of an outcome-based remuneration scheme from designing to implementation as well as how one can measure productivity in the workplace. More specifically it focused on:

- What is pay for performance?
- The effect of pay for performance on productivity
- Key design elements for a pay for performance scheme
- Implementation of pay for performance scheme
- Is pay for performance sustainable?

The literature review consisted mainly of an analysis of secondary sources such as books, journal articles, dissertations, papers and internet sources such as websites. The literature review aided in acquiring a thorough understanding of the problem that is being investigated, assisted in preparing a suitable empirical research methodology.

1.5.2 Empirical research

Empirical research primarily deals with the means of data collection and the use of data (Riley et al., 2007:18).

The types of analyses that were used was time series plots as well as an one way analysis of variance, to determine if there were any significant trends during different time periods.

1.5.3 Study population

The study population was used to test the hypothesis of the study which was to investigate whether an OBR scheme increases productivity in the workplace which would result into better performance for both the employee and employers. The study population consisted of three branches of a particular financial institution within that branch population. The study population consisted of all employees within a specific role from those branches. The population was selected by means of a non-probability sampling technique, purposive sampling. Purposive sampling simply means due to a researcher's experience he/she selects a sample that is representative of the relevant population.

1.5.3.1 Collection of data

The actual gathering of the data was done by means of the following procedure:

- Data was collected from the company's internal database. All the data is stored on sequel databases. This is where the data mining took place in order to clean the data and make it available to the various programmes to do the analysis. The data collected helped to achieve the primary and secondary objectives. Permission was granted from senior management to use the systems to attain the data.

1.5.4 Data analysis

The data analysis was performed on Microsoft Excel version 2007 as well as on SPSS version 19. SPSS is a statistical software package that one can use to perform various statistical analyses on (Field, 2009). North-West University Statistics Consultation Services undertook the task in performing the statistical analyses for this mini-dissertation.

1.6 LIMITATIONS OF THE STUDY

There was a cost constraint which only allowed the concept to be tested in three branches nationwide.

Information on this particular topic (pay for performance) focusing on specifically financial institutions is hard to come by; one should take note of this point while going through this mini-dissertation.

1.7 LAYOUT OF THE STUDY

The study consists of four chapters. Chapter 1 provides the introduction, problem statement, objectives and research methodology. In chapter 2 the relevant literature is discussed, while chapter 3 contains the empirical; research and results thereof. Chapter 4 is the final chapter and offers conclusions and recommendations.

1.8 SUMMARY

The mini-dissertation was primarily designed to test whether productivity levels changed on an outcome-based remuneration scheme versus being paid on a 100 percent fixed salary scheme.

CHAPTER 2

LITERATURE REVIEW

2.1 BACKGROUND ON REMUNERATION

Every employee exchanges their time to perform duties or tasks for their employer for which the employee will be compensated based on their doings. Compensation is the total amount of monetary or non monetary pay provided by the employer (Heathfield 2012). There are many different ways to compensate employees, for example, employees can be compensated by large bonuses, profit sharing, overtime pay, recognition rewards and checks. The definition of compensation from an outcome-based remuneration context is simply the money received by an employee from an employer as a salary or wages (Oxford dictionary, 2006). Companies all over the world are changing the way they remunerate (base pay to variable pay) and incentivise their employees. For example, Hewitt's Salary Increase Surveys from 1990 – 2009 showed that 20 years ago 35 percent of companies used individual performance pay and 35 profit used cash profit sharing but a decade later 45 profit of companies use individual performance as a basis for variable pay plans, and cash profit sharing has dropped to 28 profit (Hewitt, 2010). This shows that the trend to remunerate employees is heading in the direction based on individual performance.

This mini-dissertation focuses on compensating an employee through an outcome-based remuneration scheme, in which the employees' performance will determine their overall salary. Anecdotal and empirical evidence were used to determine the effects of performance related pay/outcome-based remuneration will have on an organisation.

2.2 WHY A PAY FOR PERFORMANCE SCHEME?

A cornerstone of the theory in personnel economics is that workers respond to incentives. Specifically, it is a given that paying on the basis of output will induce workers to supply more output (Lazear, 2000). There is anecdotal evidence that

suggests pay for performance schemes enhance productivity in a positive manner as well as it could have a hand in increasing job satisfaction.

2.2.1 Fixed Pay versus Pay for Performance

Pay for performance schemes remove subjectivity and favouritism out of the equation and payment would be made based on the employees' output. This is the crux of a pay for performance scheme; the majority of the time it is dependant only on output and the employee should have full control of the output, hence the employee can write his/her own paycheck at the end of every week or month. If one considers a fixed salary instead of a pay for performance salary there are occasions when employees get paid different salaries for doing the exact same job and this could result into a decrease in labour productivity. The following reasons why labour productivity could be negatively affected when one's salary is not based on output but the salary is fixed are given below:

- Larger remuneration gaps between employees result in lower levels of employee cohesion and therefore a decrease in the level of productivity
- If employees feel that they are getting paid less than their co-workers or their real remuneration is less than what they define as a fair remuneration package, labour productivity will decrease
- Variation in labour productivity necessitates a less dispersed employee-remuneration distribution (Van Zyl, 2010).

One of the most difficult things that employers have to deal with is motivating their employees. A motivated employee can make a big difference in the success of a company overall. If the company uses a fixed salary, it may be difficult to motivate the employee to perform above average very often. The employee knows what to expect on payday and might not have an incentive to work harder. When the employee is paid on commission or according to performance, this gives him a reason to work harder or sell more.

With these two types of pay structures fixed and pay for performance, it is also important to consider the limit that is placed on income. For salaried employees, they have a specific amount of income that they can make. This means that regardless of

what happens, someone is putting a limit on their pay. With performance-based pay or commission, the employee can determine exactly how much he earns. This gives the employee the freedom to decide how much and how hard he needs to work to meet his financial obligations.

On the other hand a risk-averse person might feel that the fixed option is a better option because of the safety that comes with that option. When an employee is paid on a fixed salary, it provides them with a safe and regular paycheck to count on, regardless of what happens. Sometimes, when a paycheck is based on performance, factors outside the employee's control can affect their performance. For example, if the employee is in retail sales, the market might be down for a particular month; when this happens, the employee may not be able to pay his bills.

Deciding which is a better form of salary (fixed or pay for performance) is quite difficult. There is no right answer to which is a better scheme due to their being a lot of dependencies on the culture and environment of the organisation as well as the individual. Although from the research one can see that pay for performance has its benefits.

2.2.2 Does Pay for Performance have an effect on productivity?

The majority of companies today are looking to increase their efficiencies in many areas which ultimately results in an increase in the levels of productivity. The economic definition of productivity is the rate at which goods and services having exchange value are brought forth or produced; from this, one can see the need to increase productivity levels. The primary motivation behind instituting a pay for performance scheme is to increase productivity.

In introducing a pay for performance scheme it might affect productivity for two reasons:

- It may extract the right amount of effort from workers – the incentive effect
- It may be used as a screening device to encourage only the most able workers to apply – the sorting effect (Marcel et al., 2009).

From all the research that was conducted these two points above have been the most popular when looking into the benefits of a pay for performance scheme. Lazear (2000) finds that half of the variable rate inducing an increase in productivity is due to the incentive effect while the other half is due to the sorting affect, that being the inflow of high-productivity workers. Similar incentive and sorting effects are found in Paarsch and Shearer (2000).

The theory below suggests the following about pay for performance schemes and productivity:

- A switch to pay for performance has a significant effect on the average levels of output per worker. This is in the range of a 44 percent gain
- The gain can be split into two components. About half of the increase in productivity results from the average worker producing more because of incentive effects. Some of the increase results from an ability to hire the most productive workers and possibly from a reduction in quits among the highest output workers
- The firm shares the gains in productivity with its workforce. A given worker receives about a 10 percent increase in pay as a result of the switch to piece rates
- Moving to pay for performance increases the variance in output. More ambitious workers have less incentive to differentiate themselves when hourly wages are paid than when pay for performance is used (Lazear, 2000).

From the literature above it clearly can be concluded that there is anecdotal evidence to support the fact that an outcome-based remuneration scheme can in fact have an effect on productivity levels at work.

2.3 ADVANTAGES OF A PAY FOR PERFORMANCE SCHEME

There are many advantages of a pay for performance scheme (Chamberlin et al., 2010). Below is a summary of the actual benefits of a pay for performance scheme:

- Attracting and retaining the best and brightest
- Motivating people at work more efficiently

- Obtaining the firm's strategic goals and objectives
- Recognizing a variety of employee contributions
- Encouraging people to help others achieve their goals and objectives
- No longer subjectivity, favouritism and entitlement on pay structures
- Pay for performance systems require that there be timely and effective evaluations of performance, resulting into better performance

The net effect of a good pay for performance compensation system should be the same for employees as it is for employers. One should expect the following benefits from a well designed scheme:

- Compensation increases and total compensation are based on overall contribution to the success of the firm, rather than one or two measures of success.
- The system creates a results-driven, performance culture, rather than a culture of entitlement.
- Employees and management know with clarity their job descriptions at each level; career progression opportunities within the firm; compensation upside; personal goals that they help to create; and performance reviews.
- Underperformers often choose to leave the firm on their own, and even when they don't, it is far easier to make a tough decision because it is based on objective information (Quila & Rice, 2010).

2.4 DISADVANTAGES OF A PAY FOR PERFORMANCE SCHEME

On the other side of the spectrum there are a few pitfalls with respect to pay for performance schemes such as;

- The plan is too complex. It includes too many measurement criteria, hard to understand measures, or difficult formulae for calculating pay for performance payouts
- The plan rewards behaviours that bring about unintended consequences. For example, the plan may reward someone for hitting a minimum number of charge hours without evaluating the profitability of the work that was

accomplished. In other words, billable hours may go up while profitability goes down

- Administrators of the plan are unable to obtain the data needed to track the measures, or individuals affected by the plan do not trust the sources of the data and/or the keepers of the data. Since the plan often includes a measure tied to behaviours, it may be difficult to "audit" whether the behaviours are actually occurring. Observation or self-tracking may be the only options to do so.
- Employees may focus on individual goals to the detriment of others, the team, or the firm. This requires a close look at whether the system can be manipulated, whether the plan includes criteria with unintended consequences, and whether the plan includes both independent and interdependent criteria.
- The firm is unwilling to commit to the training that is necessary for individuals to develop the needed competencies as outlined in the plan. Too often, firms have job descriptions that include needed competencies (some may have even developed detailed competency maps) but fail to assist employees in developing an individual development plan that outlines how, when and where they will learn these competencies.
- The firm gives only lip service to its core values, or owners (or others who evaluate performance) have differing views on what it looks like when someone is or is not living them. This requires the firm to not only identify its values, but to define them and to identify the specific behaviours in which people would be engaging if they were, in fact, living them (Quila & Rice, 2010).

2.5 KEY DESIGN ELEMENTS

Firstly, when designing a pay-for-performance plan, the key elements should reflect the organisational values of the company. For example, some companies may place particular emphasis upon seniority, while others may choose to focus on direct sales results when quantifying performance in order to issue cash bonuses. The employees' performance measures must be aligned to the company's goals and objectives. This will ensure that if the employee performs well this will have a direct

impact on the company's performance which results into both the employee and employer trying to achieve the same goals.

Once it is decided what performance measures are being used it must be clearly defined and agreed too. There must be up to three performance measures and no more than five (Zimbelman, 2009). This removes complexities from an employee trying to understand what they need to do to reach their goals resulting into payment. The next element deals with the amount to be paid: how much performance pay will be available if the criteria are met (Zimbelman, 2009). The next key element that one needs to consider is whether the incentive should be individually based or group based. There are advantages and disadvantages in both instances; therefore, it is recommended that a mixed approach is taken (Zimbelman, 2009).

The table below is a summary for three key elements that all pay for performance schemes should take into consideration when designing the scheme.

Table 2.1: Key Design Elements

Key Elements	Explanations
• Individual versus Group	Choosing between incentivizing at an individual level or group level
• Paying the right amount	Right amount of effort = right amount of payment
• Selecting High Impact Performance Measures	Performance measures must be aligned to company's objectives and goals

(Rosenthal et al., 2007)

2.6 POINTS TO REMEMBER

There are various points to remember whilst on an outcome-based remuneration scheme. If these points are considered and adhered to they could help improve the chances of a successful outcome-based remuneration scheme.

2.6.1 Effectiveness of the scheme

Although the popularity of variable pay is widespread, there are some sub-optimal practices that prevent it from being effective. For example, some organisations utilize too many metrics to determine eligibility and payouts. One does not want the incentive plan to replace effectiveness in management. Another issue is that while variable pay can save more money than base pay increases, it still needs to be funded. The basic points of creating an effective incentive plan include conducting due diligence, and modelling the plan to determine how it should be financed. Payouts also should be tied closely to performance if employees still receive their bonus regardless of how the company is doing, and then it becomes an entitlement. We almost want to share success and failure with employees. The measures should also be more objective than subjective. All too often, companies allow managers to decide who gets what, which can lead to someone getting a bonus mainly because they are likeable (Hewitt, 2010).

2.6.2 Use base pay as a guide

Variable pay should also not be gauged by the employee's base pay. The reason for this is where an employee's pay exceeded his job title's range by R5,000. His calculated bonus was R10,000, so the company decided to reduce it by half, since his base pay was above range. However, the same company does not boost a bonus when the employee's pay is below range. So in essence, the organisation punished that employee for his performance. Care should be taken not to send out the wrong messages to employees. A win-win situation for both employer and employee must be created (Hewitt, 2010).

2.6.3 Frequent communication

Communications should be updated on a quarterly basis at least, when using a variable pay plan to reward performance. Employees always need to know how their doing this will help them achieve their goals which will make the transition from fixed to variable more smooth. If progress can be seen it makes it much easier to buy in to the scheme. In addition change management could be vital in the communication of

a pay for performance scheme as employees will need to change their mindsets from a 100 percent fixed salary to a salary based on their own individual performance. Change management skills could help employees through this transition (Hewitt, 2010).

2.6.4 Set reachable goals

Incentive plans need to be aligned with business goals. So, to start, companies should list out exactly what these goals are. However, the goals should not be too much of a stretch for the particular employee or employee group, because that will demotivate them. On the other hand, the goals should not be so easy that payouts become an entitlement. The number of goals should also be reasonable if there are too many, it's not only difficult for employees to meet all of them and reach their reward levels, but it also can be awkward for companies to manage complicated plans. The right set of goals will go far in creating the right incentive pay for performance plan for your organisation (Hewitt, 2010).

2.6.5 Validating the plan

Even when a variable pay plan is in place, one should continue to diagnose it and validate it on a regular basis; in other words, keep it on track to ensure its continued success. To start, one needs to set common goals with clear linkages. The key points to setting these goals include making them:

- controllable
- relevant to the business
- as few as possible

Various case studies have demonstrated how having too many goals and levels in a variable pay plan can make it confusing for both the administrators and the participants, and render it essentially ineffective (Hewitt, 2010).

2.6.6 Clear Evaluation Criteria

Capturing the different aspects of performance is critical to the employee evaluation process. Evaluation criteria need to be clearly articulated for employees, as well as aligned with employees' jobs. It would be hard to blame employees for not performing as employers would like when they might not know what they are being measured against, or worse, if the criteria are unattainable within their role. Increasing the number of formal reviews can also have a positive impact. It is vitally important to try and get the employees KPAs aligned to the scheme. Those KPAs should be the drivers of how they will be measured in order to get paid. Most organisations have one performance review cycle and, relative to no reviews, this provides a significant increase in employee perceptions (Shahidir, 2010).

2.6.7 Simpler System Design

For pay for performance design to really work, employees must understand the pay for performance system. This is most easily done when the system is simple, rather than complex. As in many other areas, the implication may be that somewhat less optimal design that is simpler (and therefore easier to implement and understand) will have more impact than a perfect but complex design. To the extent that organisations are redesigning their programs for improvements, they should at the same time take advantage of the opportunity to simplify any complexities.

This is particularly critical given that currently, less than one-third of employees rate their company's pay for performance programs as easy to understand. In terms of prioritization, the highest return will come from simplifying the link between performance and pay for employees, simplifying the pay package and simplifying performance management activities. In summary the simpler the design principles of the scheme the more easily it is for one to understand resulting into more successful buy-in (Shahidir, 2010).

2.6.8 Involve employees in design

Finally, when it comes to pay for performance design, companies shouldn't be afraid to involve employees. After all, as indicated earlier, the majority of employees believe in pay for performance and want to see more of it. Their input is most valuable when employees have some say about performance evaluation criteria. This does not imply that employees need to be continuously involved in criteria setting, or that they retain any ultimate authority over criteria. Nor does it need to mean that all employees are involved. In fact, some organisations have had much success involving a representative committee of employees in the criteria-setting process and making that involvement public within the organisation. This allows the employee to feel that their opinions are taken into consideration which will make the scheme to be accepted more easily. Also many employees feel that senior managers who design the scheme don't really know the ins and outs of their job; this will bring back a sense of belonging to the employee (Shahidir, 2010).

2.7 IMPLEMENTATION

As the saying goes: a poor strategy implemented well stands a better chance to succeed than an awesome strategy that is implemented badly. In saying that though great implementation simply cannot compensate for a poor strategy. One has to be cognisant of the fact that to ensure competitive advantage a company will need both a good strategy and good implementation of that strategy. All in all it can be seen from the above the importance of implementation.

Implementation is often neglected even though it can ultimately make or break any design decision. Implementation in this case refers to making individual pay decisions and communicating about pay and the pay system. An in-depth look at the effect design and implementation each has on employee fairness perceptions found that in terms of relative importance, pay system design accounts for roughly 40% of the impact, while implementation contributes the remaining 60%. This leaves organisations with several implications (Shahidir, 2010).

2.7.1 Communication strategy

How an employer communicates about its pay for performance system is more important than the actual design. A communication strategy simply is that it articulates, explains and promotes a vision and a set of well-defined goals. It creates a consistent, unified “voice” that links diverse activities and goals in a way that appeals to your partners or stakeholders (Steyn, 2003). Design still accounts for a significant amount, but if organisations don’t incorporate and execute on a well planned implementation and communications strategy, they will miss the mark. Interestingly, when organisations reflect on how they spend time and effort across the year, the amount consumed by the pay plan design process itself usually accounts for the lion’s share, implying an opportunity and need to shift time to implementation and communication efforts.

Because of the relative importance of implementation, for organisations that don’t have the budget to invest in redesign initiatives, there is still much to be gained from improving implementation. These efforts virtually always are less costly than redesign, and this step alone will get organisations more than halfway toward success (Shahidir, 2010).

A major part of implementation is how organisations choose to communicate about pay for performance programs. Improving employee understanding of how base pay and bonus payouts are determined provides the greatest bump in employee pay perceptions. Increasing employees’ understanding of how performance management impacts pay is the second biggest area of opportunity. When employees have a firm understanding of these two key components of the pay for performance system, they are more likely to do what they can to increase their own pay, leading to a corresponding increase in effort and performance. For an organisation that is low on resources, these ultimately will be the communications to prioritize.

2.7.2 Best source of communication

The most important thing for organisations to realize is to not to try and do this huge task alone. Rather use your resources available to them by means of direct line

managers. Communications are most effective when the right source covers the right topic at the right time. Typically, the compensation function is suited to topics that are most technical in nature, while business leaders are most suited to communicating topics that relate to an organization's strategy or performance and how that might affect employee pay.

But the most critical and often most underused resources are employees' direct managers. Manager pay communications are three times as effective as those coming from the compensation function. After all, the direct manager is closest to an employee's work and is the author of performance evaluations that ultimately determine pay. Employees can relate better to their direct line manager that they see every day instead of someone from a "head office" type environment. This also keeps the employee comfortable and he can be more open to his direct line manager, ensuring the right questions are asked. The goal shouldn't be to turn managers into compensation experts, but rather to ensure that they feel prepared, sense accountability and see the value of making differentiated pay decisions and communicating about them with their direct reports (Shahidir, 2010).

Specifically, the greatest impact in employee pay perceptions will come from the one thing managers should be able to do well, which is to clearly explain to a direct report the reasoning behind the performance rating that they assigned to him or her.

Managers can also make a significant impact by helping employees understand how pay can increase over time. Managers shouldn't promise employees raises or salaries in the future, but should instead give employees a broader picture of how pay is determined at the organisation and how individual performance fits into the equation. By working with managers, the compensation function can not only stretch its reach, but also make a much greater impact on employees than it would have been able to do alone.

2.8 SUSTAINING PAY FOR PERFORMANCE OVER TIME

Sustainability in business is often an element hard to achieve. The purpose of sustainability is simply to generate a maximum increase in company, consumer, and

employee value by embracing opportunities and managing risks derived from environmental and social developments. Being able to sustain a compensation scheme over time is by no means and easy task. There are various factors one has to be cognisant off.

Design elements are often one-time changes, but there are several things organisations can do to further implementation efforts to make a pay for performance approach successful over time. For many organisations, implementing pay for performance is a transition process, rather than an instantaneous change. The length of transition can depend on factors such as organisational readiness, culture, implementation plan and the context of change (Shahidir, 2010).

Companies for which the concept of pay for performance is relatively new, or that are undergoing a significant redesign, should consider repetitive messaging and communication efforts. The larger the change in design or philosophy, the more comprehensive the communication messaging needs to be. Multiple psychological research studies show that people absorb information best when it is presented to them in small chunks or pieces over time. While it might be tempting to produce a new glossy, 100-page brochure about the pay for performance design, employees will rarely consult this information because it is overwhelming. But employees will absorb smaller, more “digestible” pieces of information over time, especially when the information is timed to relevant external activities (Shahidir, 2010).

There are various methods one can use to get the message across such as:

- urgent communications by emails;
- screen savers;
- web-based intranet; and
- face-to-face meetings.

Human resource business partners and industrial relations business partners are also vital for sustaining a pay for performance scheme simply because in the corporate world an HR/IR function is seen to be on the employee’s side the majority of the time. If communication comes through these functions employees will feel

comfortable that all “checks and balances” were done and it is in the best interest of the employee (Shahidir, 2010).

It’s important that the compensation function measure the effectiveness of its pay for performance approach over time. This is the only way to know whether the elements of pay for performance are taking hold, whether the design and implementation elements are working, and most importantly, whether the company is seeing effects on performance and retention.

2.9.1 WHAT ARE THE MOST COMMON TYPES OF PERFORMANCE PAY?

It is difficult to clearly distinguish one type of performance related pay. These can be defined as:

- Piecework: a price is paid for each unit of output. This is the oldest form of performance pay and is still used in some local government direct service organisations (DSOs).
- Payment by results: bonus earnings depend on measured qualities or values of output for individuals or groups, usually based on work studied time units; this covers a range of bonus schemes and still forms the main method of performance pay for manual workers.
- Organisation-wide incentives: bonus earnings or pay levels based on measured quantities or values for the whole establishment; this is frequently the basis of contract price or tender-led schemes in local government DSOs.
- Merit pay: bonus earnings or pay levels usually based on general assessment of an employee's contributions to performance; this is an earlier, less structured form of IPRP (see below).
- Individual performance related pay (IPRP): bonus earnings or pay levels based on the assessment or appraisal of an employee's (or team's) performance against previously set objectives, usually part of a performance management system. This is a fairly recent development, particularly in the public sector and has grown sharply in use since the 1980s.

- Profit related pay: bonus or share options based on the organisation's profit performance; this is widespread in the private sector, where share options are often important for senior managers. Profit related pay is now fairly common in local government DSOs.
- Commission: percentage payments on sales or turnover, paid on an individual or group basis; common in sales, retailing and other branches of distribution.
- Payment by time and output: the distinction between payment by time and output has long been blurred. Although both systems still exist in their pure forms, a wide variety has been developed, incorporating elements of both.
- Measured day work: is one of the more important examples of a composite system. This occurs in a number of forms, but they all share the characteristics of pay linked on a single or stepped basis with measured output (OECD, 2005).

2.10 SUMMARY

The literature review focused mainly on the effect that a pay for performance scheme will have on productivity in the workplace. From the literature above it was evident that productivity can be stimulated by means of an outcome-based remuneration scheme, meaning that an outcome-based remuneration scheme can increase levels of productivity in the workplace. There are various advantages and disadvantages of a pay for performance scheme but the advantages definitely outweighed the disadvantages. Thereafter the actual key design elements of a pay for performance scheme were reviewed as well as the implementation of a pay for performance scheme. Lastly pay for performance can be sustainable over time but the different checks and balances have to be put in place as discussed above.

CHAPTER 3

MODEL METHODOLOGY AND EMPIRICAL RESULTS

3.1 OBJECTIVE

The outcome based remuneration (OBR) Scheme seeks to empower tellers to earn more by positively affecting their own:

- Speed of delivery,
- Quality of their transactions.

This will result in better customer service for the business by means of shorter queuing times resulting into a more satisfied customer. These two drivers were chosen as it will directly impact the company's strategic objectives if the targets were met. Therefore this model now aligns to the company's strategic objectives, which allows everyone to "fight the same fight".

3.2 MODEL EXPLAINED

The focus of this project was based on bank tellers' compensation packages. Performance related pay cannot be determined unless there is a measuring system in place to assess output. Therefore a discussion on the methodology follows.

The very first question that pops up is that, if this model is driven by volumes then surely it will be advantageous to tellers in branches which will have higher volumes than others. Based on the capacity model a branch is only allocated a teller if they achieve a certain amount of volumes, meaning that if a branch has higher volumes they will also have more tellers, the volumes **per teller** should be roughly the same throughout all branches. Therefore this will not be an unfair advantage to branches with low volumes.

In this model the salary will be split up into fixed pay and variable pay.

- Fixed pay – Guaranteed amount of money that a teller will receive at the end of the month. Basic conditions of employment will guide one on the amount of pay that should be fixed.
- Variable pay – This is the amount that is determined by the employee dependent on the factors that the business wants to drive. How much variable pay a teller gets will be determined by a teller's efficiency and quality. In this way we are able to test the teller accuracy and speed per transaction which should result in a good quality (accuracy) fast (speed) transaction.

3.3 DESIGN PRINCIPLES

OBR Salary = Fixed Pay + Variable Pay

Fixed Pay = X percentage of the employee's current salary as guided by the Basic Conditions of Employment Act (Act no. 75 of 1997; Section 35) (SA, 1997) (X% of Current Salary).

Variable Pay

- **Accuracy** – The higher the transaction quality, the greater the OBR variable pay. The irrecoverable were scaled fairly and broken up into percentiles to determine the range of the Accuracy reward system.

- **Speed** – The higher transaction volumes processed, the greater the OBR variable pay.

The model principles were designed to be extremely easy to understand as not to confuse the employee and as from our literature review we noted that a complex model will have a higher probability of failing from an implementation point of view compared to an easier model to implement.

A teller now knows exactly what they will be measured on and can now focus on achieving those targets to ensure a greater reward. From the literature review above it is critical that an employee knows what targets need to be reached as to make the playing fields fair.

3.4 PROOF OF CONCEPT

This model was piloted as a proof of concept to see whether the selected drivers or measures drove the right types of behaviour as well as to understand if such a scheme will actually be worthwhile for the company.
Branches have been selected to pilot the scheme under the following considerations:

- All affected tellers will be informed and educated on the scheme
- Tellers will have access to a daily management information system to view their OBR salary

The reason for those specific branches chosen was that they represented the population of branches within the company, which allows one to extrapolate the findings over the other branches.
Pilot period timeline started 1 July 2011 until 31 December 2011, a total of 6 months.

3.5 MEASURE METHODOLOGY AND DATA

From the primary and secondary objectives stated in chapter 1, there are two main objectives that this dissertation is trying to answer. Firstly: Is there any difference with productivity levels of an employee based on the method of remuneration being paid; that being a 100% fixed salary versus being part of an outcome-based salary where your salary has a fixed portion as well as a variable portion and the variable portion is dependent on the employee's productivity. Secondly, are there different behaviours in terms of job satisfaction that one can derive from being on an OBR scheme versus being paid a 100% fixed salary?

Basically the analysis will be done to see whether there were any significant differences between the periods before the pilot, once on the pilot and then after the pilot:

- Before the pilot – Salary = 100% fixed
- Pilot – Salary = OBR Salary
- After the pilot – Salary = 100% fixed

Data that was used were for the period 1 July 2010 until and including 30 June 2012, a sum of two years' data was used for the analysis. The period is specified below:

- Before the pilot – Period = 1 July 2010 up to and including 30 June 2011 (month 1 – 12)
- Pilot – Period = 1 July 2011 up to and including 31 December 2012 (month 13 – 18)
- After the pilot – Period = 1 January 2012 up to and including 30 June 2011 (month 19 – 24)

The different variables that will be used to see if there was any significant change for the analysis are:

- **Number of volumes per head per month**: This talks to productivity and addresses shorter queues resulting in satisfied customers.
- **Number of overtime hours per month**: This talks to efficiencies which can result into better performance for the company; therefore, addressing both employee and employer performance.
- **Number of sick days**: This talks to efficiencies and could also be translated in job satisfaction which can result into better performance for the company therefore addressing both employee and employer performance.
- **Irrecoverable amount per month,** this refers to service levels and addresses the quality of the transaction performed.

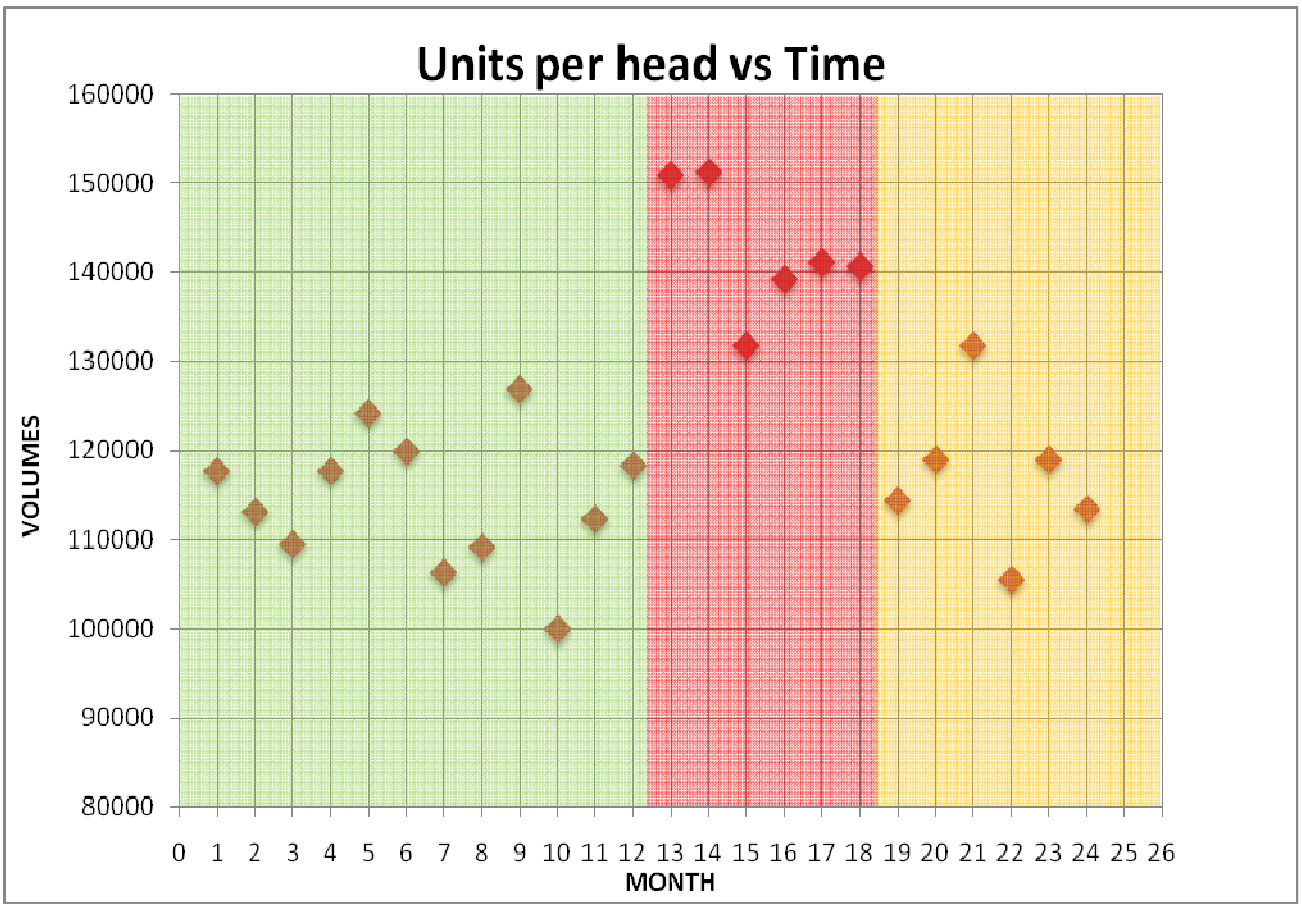
3.5 STATISTICAL ANALYSIS

The techniques used for the statistical analysis are time series plot which is used to study patterns in the values of a numerical variable over time. Each value is plotted as a point in two dimensions with the time period on the horizontal x axis and the variable of interest on the y axis (Levine, 2008). A one-way Analysis of Variance which examines the association between nominal predictor variables and a continuous outcome variable are also done. The predictor variables are sometimes called "factors" or "independent variables." The outcome variable may be also referred to as the "dependent variable." The ANOVA model is a univariate model, in that interest is in how the predictors affect a single outcome variable (Levine, 2008).

3.5.1 Time Series Plots

3.5.1.1 Units produced per head

Figure 3.1: Units produced per head versus Time



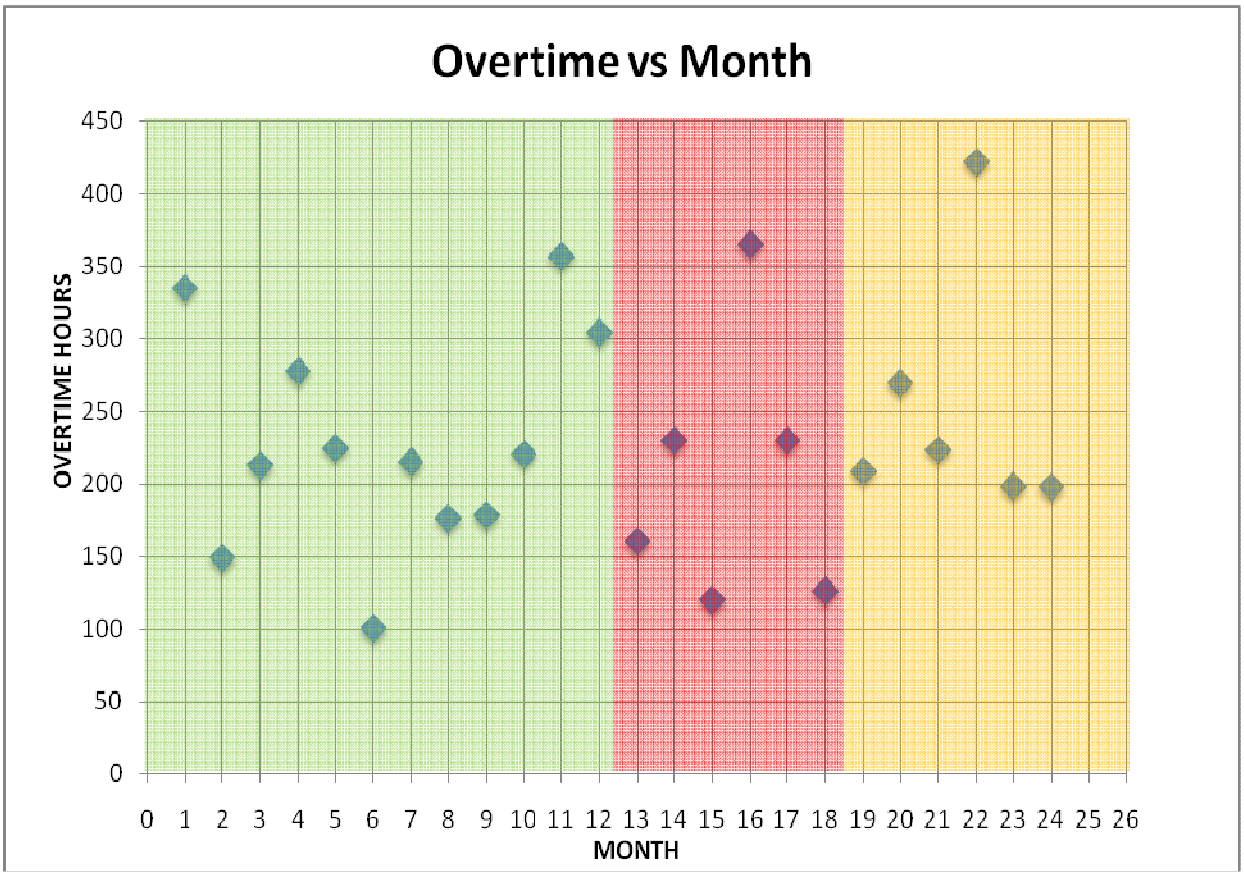
Key for graph

	Period = Before Pilot (1 July 2010 – 30 June 2011)
	Period = Pilot (1 July 2011 – 31 December 2011)
	Period = After Pilot (1 January 2012 – 30 June 2012)

Interpretation: A definite improvement in units produced per an employee during the pilot phase, also to note once the pilot concluded a decrease in the number of units produced by an employee returning back to the state before the pilot started.

3.5.1.2 Overtime hours per month

Figure 3.2: Overtime versus Time



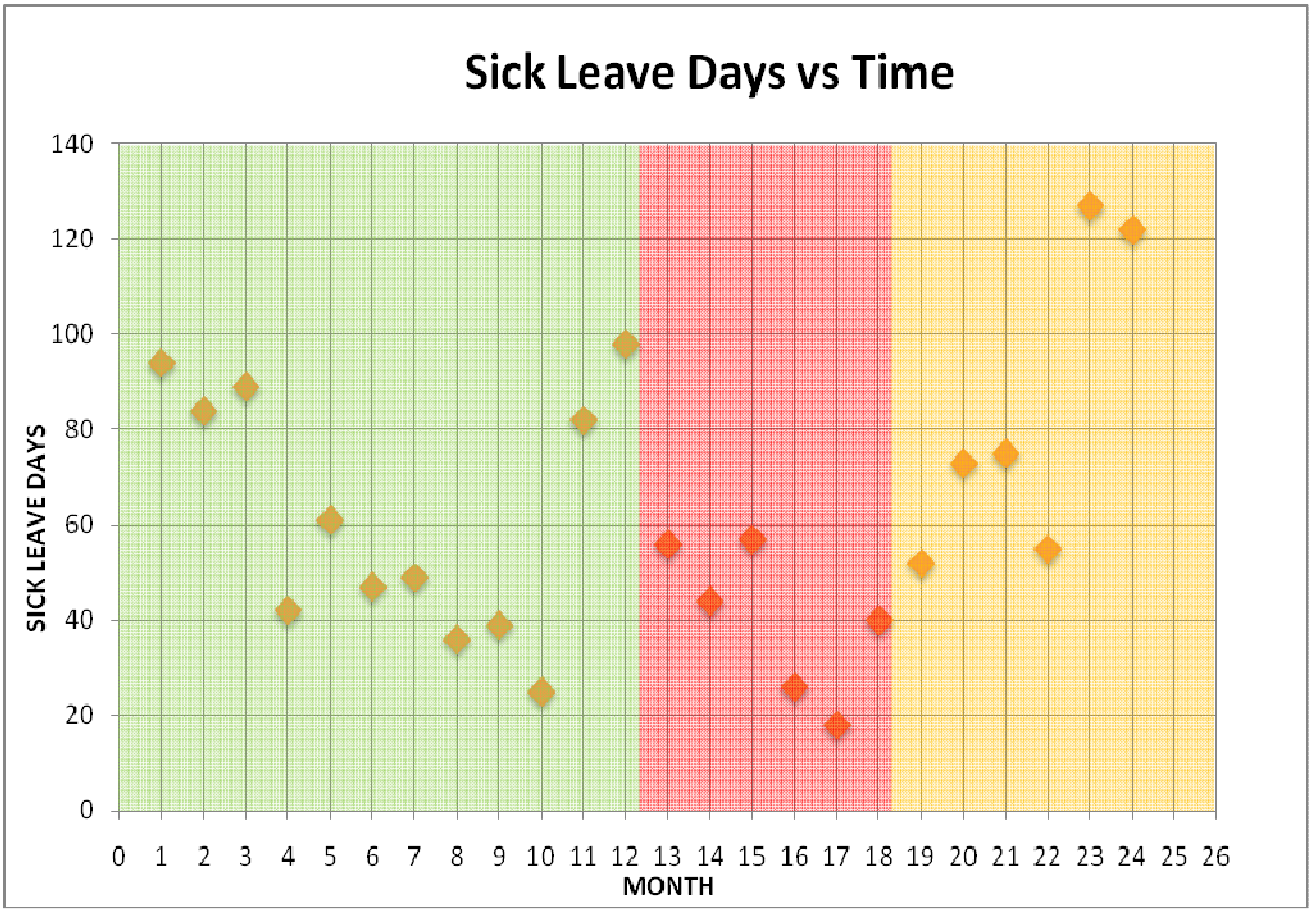
Key for graph

- Period = Before Pilot (1 July 2010 – 30 June 2011)
- Period = Pilot (1 July 2011 – 31 December 2011)
- Period = After Pilot (1 January 2012 – 30 June 2012)

Interpretation: From the time series plot it can be seen that on average overtime did decrease but it was not a significant decrease. Over the three defined periods above the data seems to suggest that there was no real significant change in overtime between the periods.

3.5.1.3 Sick leave days per month

Figure 3.3: Sick Leave Days versus Time



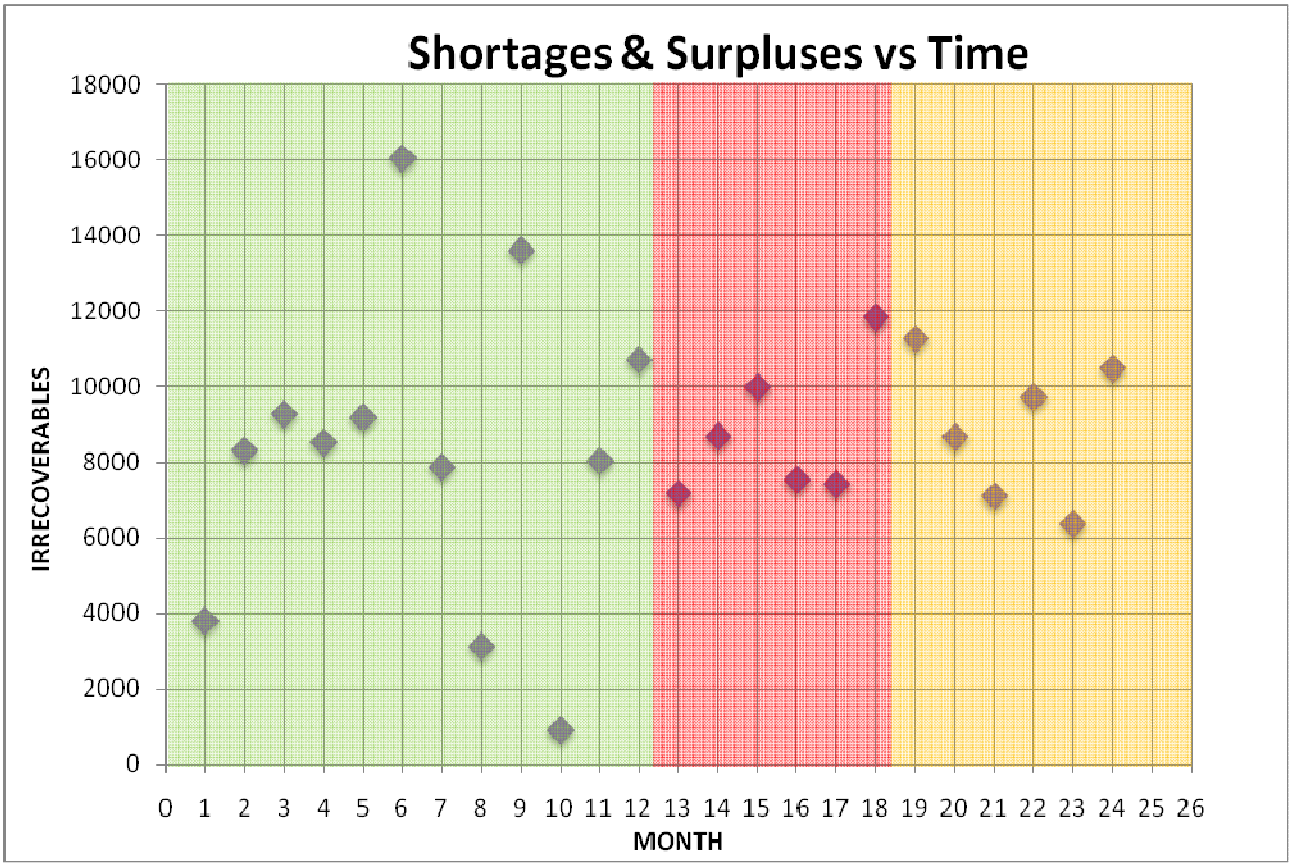
Key for graph

	Period = Before Pilot (1 July 2010 – 30 June 2011)
	Period = Pilot (1 July 2011 – 31 December 2011)
	Period = After Pilot (1 January 2012 – 30 June 2012)

Interpretation: On average there was a definite decrease in the number of sick days taken during the pilot period. After the pilot the trend of sick days increased, returning back to the state before the pilot begun.

3.5.1.4 Irrecoverable per month

Figure 3.4: Shortages and Surpluses versus Time



Key for graph

	Period = Before Pilot (1 July 2010 – 30 June 2011)
	Period = Pilot (1 July 2011 – 31 December 2011)
	Period = After Pilot (1 January 2012 – 30 June 2012)

Interpretation: From the graph above it seems as if there was no effect on the shortages and surpluses meaning that even though the number of units increased the quality of the transactions stayed the same. It was not a situation where quality will suffer due to working at a faster pace. If anything the shortages and surpluses were less volatile in the pilot period compared to before the pilot had started.

3.5.2 One-way analysis of variance

Figure 3.5: Descriptive statistics – Anova

Descriptive							
		N	Mean	Std. Deviation	p values	Effect sizes	
						Before Pilot with	Pilot with
Units per head	Before Pilot	12	114560.93	7700.557	0.00		
	Pilot	6	142457.62	7451.105		3.62	
	After Pilot	6	117151.45	8698.821		0.30	2.91
	Total	24	122182.73	14178.427			
Overtime	Before Pilot	12	228.77	76.486	0.612		
	Pilot	6	204.90	91.966		0.26	
	After Pilot	6	252.86	86.669		0.28	0.52
	Total	24	228.82	81.052			
Sick Leave Days	Before Pilot	12	62.17	25.764	0.03		
	Pilot	6	40.17	15.753		0.85	
	After Pilot	6	84.00	32.741		0.67	1.34
	Total	24	62.13	29.242			
Shortages_Surpluses	Before Pilot	12	8270.55	4241.846	0.912		
	Pilot	6	8759.52	1833.833		0.12	
	After Pilot	6	8925.53	1922.772		0.15	0.09
	Total	24	8556.54	3198.311			

Figure 3.6: Test of Homogeneity of Variances – Anova

Test of Homogeneity of Variances				
	Levene Statistic	df1	df2	Sig.
Units per head	.023	2	21	.977
Overtime	.090	2	21	.914
Sick Leave Days	3.065	2	21	.068
Shortages_Surpluses	1.311	2	21	.291

Figure 3.7: Anova Table

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Units per head	Between Groups	3315412433.607	2	1657706216.803	26.610	.000
	Within Groups	1308226638.369	21	62296506.589		
	Total	4623639071.976	23			
Overtime	Between Groups	6900.083	2	3450.042	.502	.612
	Within Groups	144197.320	21	6866.539		
	Total	151097.403	23			
Sick Leave Days	Between Groups	5764.125	2	2882.063	4.353	.026
	Within Groups	13902.500	21	662.024		
	Total	19666.625	23			
Shortages_Surpluses	Between Groups	2045607.044	2	1022803.522	.092	.912
	Within Groups	233225853.854	21	11105993.041		
	Total	235271460.898	23			

Figure 3.8: Robust Test - Anova

Robust Tests of Equality of Means					
		Statistica	df1	df2	Sig.
Units per head	Welch	27.292	2	10.567	.000
Overtime	Welch	.406	2	10.069	.677
Sick Leave Days	Welch	5.124	2	11.106	.027
Shortages_Surpluses	Welch	.097	2	13.390	.908
Post Hoc Tests					

Figure 3.9: Multiple Comparisons – Anova

Multiple Comparisons								
Dependent Variable				Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Units per head	Games-Howell	Before Pilot	Pilot	-27896.694*	3767.587	.000	-38157.38	-17636.01
			After Pilot	-2590.525	4189.645	.814	-14275.18	9094.13
		Pilot	Before Pilot	27896.694*	3767.587	.000	17636.01	38157.38
			After Pilot	25306.169*	4675.975	.001	12438.15	38174.19
		After Pilot	Before Pilot	2590.525	4189.645	.814	-9094.13	14275.18
			Pilot	-25306.169*	4675.975	.001	-38174.19	-12438.15
Overtime	Games-Howell	Before Pilot	Pilot	23.865	43.556	.850	-98.82	146.55
			After Pilot	-24.093	41.706	.835	-140.47	92.28
		Pilot	Before Pilot	-23.865	43.556	.850	-146.55	98.82
			After Pilot	-47.958	51.590	.635	-189.46	93.55
		After Pilot	Before Pilot	24.093	41.706	.835	-92.28	140.47
			Pilot	47.958	51.590	.635	-93.55	189.46
Sick Leave Days	Games-Howell	Before Pilot	Pilot	22.000	9.832	.097	-3.53	47.53
			After Pilot	-21.833	15.296	.372	-65.30	21.63
		Pilot	Before Pilot	-22.000	9.832	.097	-47.53	3.53
			After Pilot	-43.833*	14.833	.048	-87.23	-.44
		After Pilot	Before Pilot	21.833	15.296	.372	-21.63	65.30

			Pilot	43.833*	14.833	.048	.44	87.23
Shortages_Surpluses	Games-Howell	Before Pilot	Pilot	-488.972	1435.245	.938	-4195.17	3217.23
			After Pilot	-654.978	1454.515	.895	-4408.89	3098.93
		Pilot	Before Pilot	488.972	1435.245	.938	-3217.23	4195.17
			After Pilot	-166.007	1084.742	.987	-3140.70	2808.69
		After Pilot	Before Pilot	654.978	1454.515	.895	-3098.93	4408.89
			Pilot	166.007	1084.742	.987	-2808.69	3140.70
*. The mean difference is significant at the 0.05 level.								

Homogeneous Subsets

Figure 3.10: Homogeneous Subsets – Units per Head

Units per head				
Status		N	Subset for alpha = 0.05	
			1	2
Tukey Ba,b	Before Pilot	12	114560.93	
	After Pilot	6	117151.45	
	Pilot	6		142457.62

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 7.200.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Figure 3.11: Homogeneous Subsets – Overtime

Overtime			
Status		N	Subset for alpha = 0.05
			1
Tukey Ba,b	Pilot	6	204.90
	Before Pilot	12	228.77
	After Pilot	6	252.86

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 7.200.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Figure 3.12: Homogeneous Subsets – Sick Leave Days

Sick Leave Days				
Status		N	Subset for alpha = 0.05	
			1	2
Tukey Ba,b	Pilot	6	40.17	
	Before Pilot	12	62.17	62.17
	After Pilot	6		84.00

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 7.200.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Figure 3.13: Homogeneous Subsets – Shortages_Surpluses

Shortages_Surpluses			
Status		N	Subset for alpha = 0.05
			1
Tukey Ba,b	Before Pilot	12	8270.55
	Pilot	6	8759.52
	After Pilot	6	8925.53

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 7.200.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

MEAN PLOTS

Figure 3.14: Mean Plot – Units per head

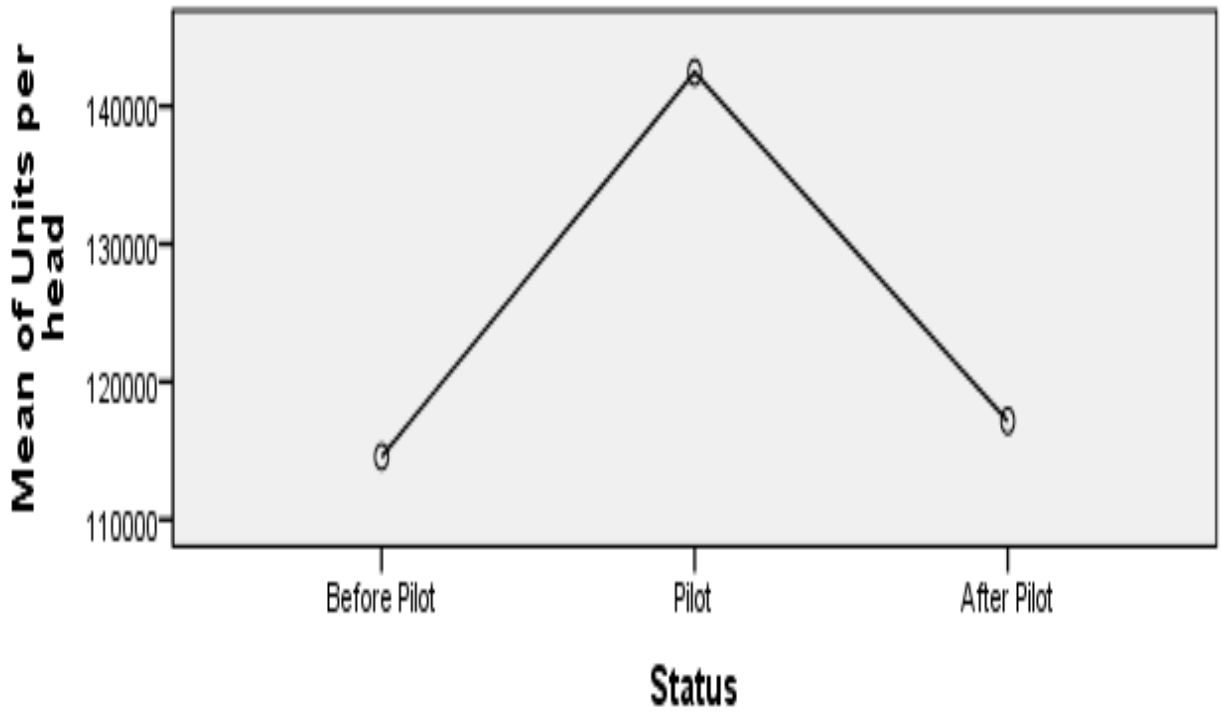


Figure 3.15: Mean Plot – Overtime

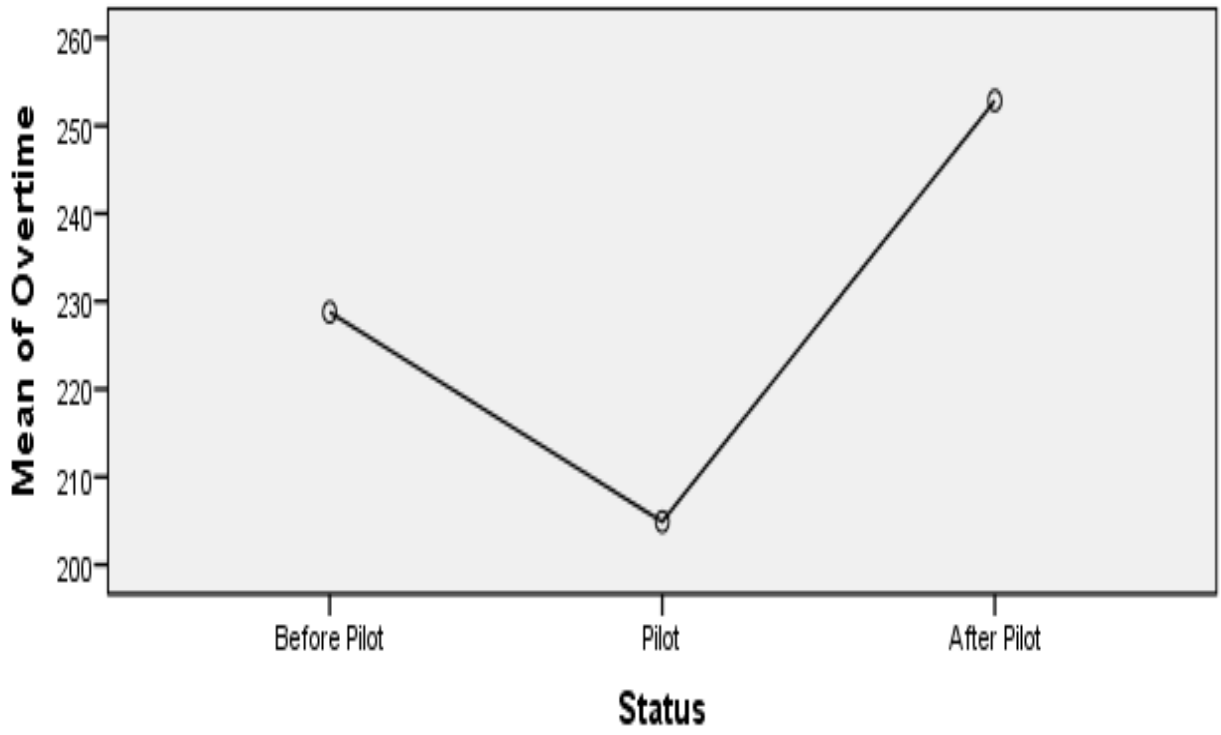


Figure 3.16: Mean Plot – Sick Leave Days

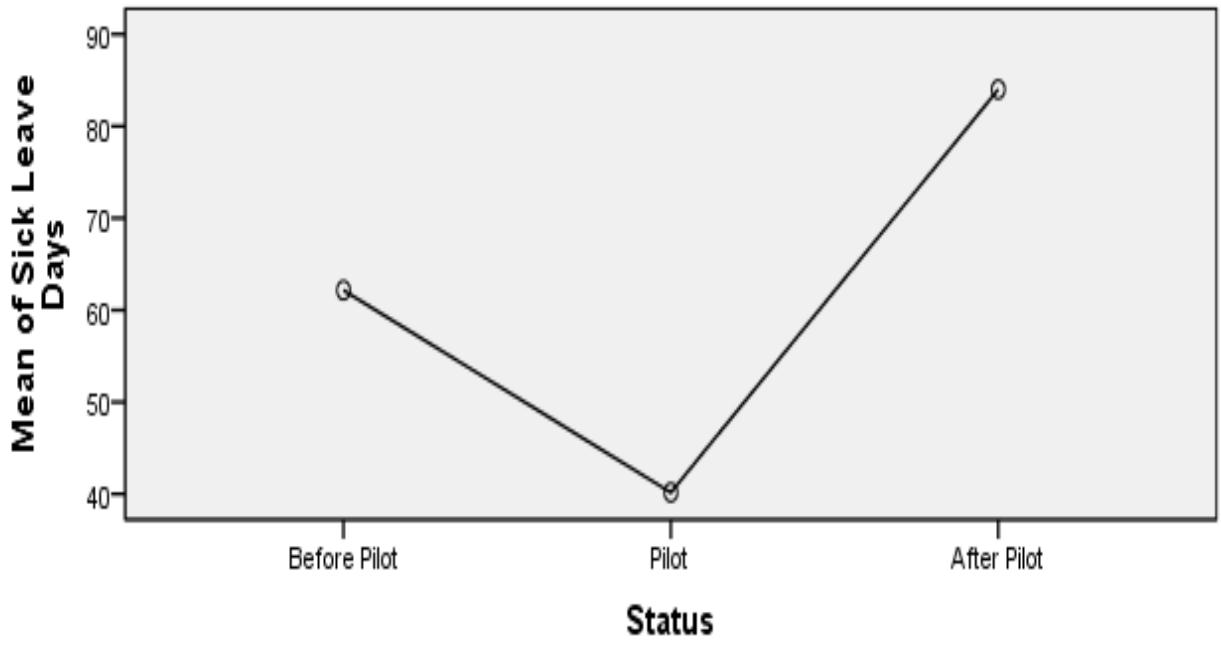
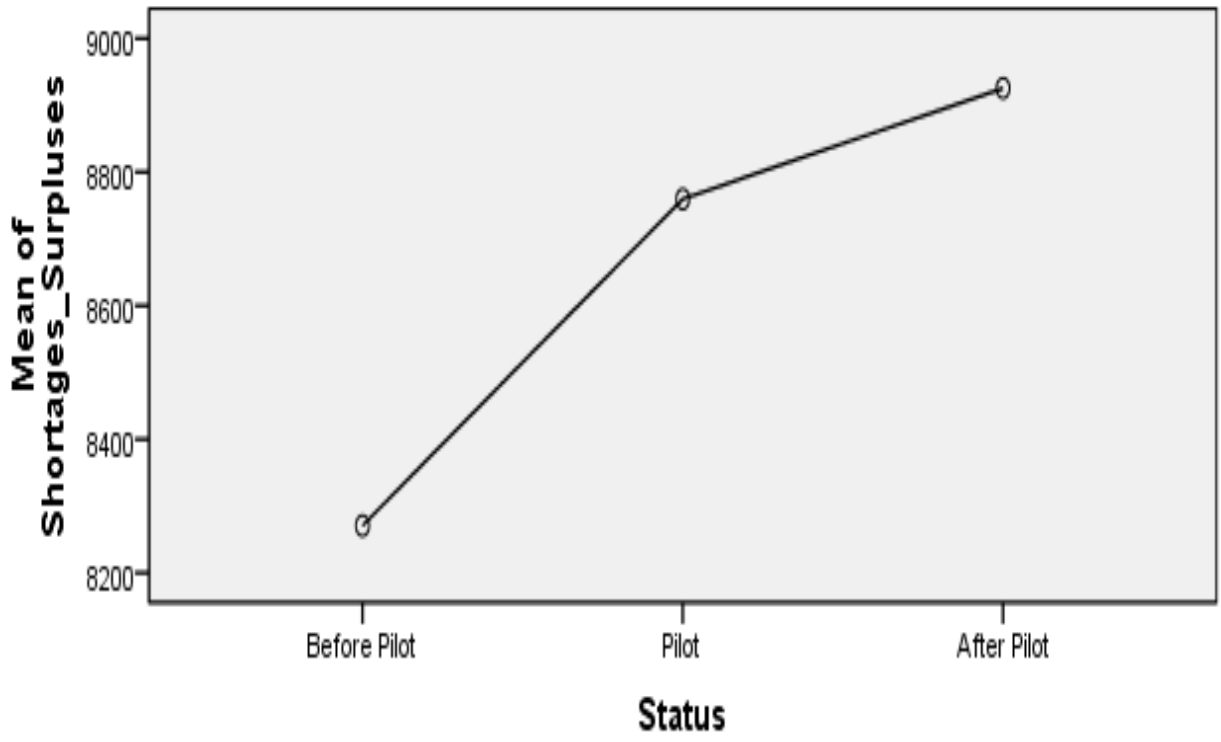


Figure 3.17: Mean Plot – Shortages_Surpluses



NPar Tests

Figure 3.18: NPar Tests – Descriptive Statistics

Descriptive Statistics					
	N	Mean	Std. Deviation	Minimum	Maximum
Units per head	24	122182.73	14178.427	99874	151231
Overtime	24	228.82	81.052	100	421
Sick Leave Days	24	62.13	29.242	18	127
Shortages_Surpluses	24	8556.54	3198.311	896	16041
Status	24	1.75	.847	1	3

Kruskal-Wallis Test

Figure 3.19: Kruskal-Wallis Tests – Ranks

Ranks			
Status		N	Mean Rank
Units per head	Before Pilot	12	8.92
	Pilot	6	21.33
	After Pilot	6	10.83
	Total	24	
Overtime	Before Pilot	12	12.58
	Pilot	6	11.00
	After Pilot	6	13.83
	Total	24	
Sick Leave Days	Before Pilot	12	12.67
	Pilot	6	7.50
	After Pilot	6	17.17
	Total	24	
Shortages_Surpluses	Before Pilot	12	12.17
	Pilot	6	12.50
	After Pilot	6	13.17
	Total	24	

Figure 3.20: Kruskal-Wallis Tests – Test Statistics

Test Statistica,b				
	Units per head	Overtime	Sick Leave Days	Shortages_Surpluses
Chi-Square	12.778	.485	5.620	.080
df	2	2	2	2
Asymp. Sig.	.002	.785	.060	.961

a. Kruskal-Wallis Test

b. Grouping Variable: Status

Figure 3.21: Kruskal-Wallis Tests – Effect Size

	Units per head	Overtime	Sick Leave Days	Shortages_Surpluses
Effect Size	0.56	0.02	0.24	0.00

(Levine, 2008)

3.5.3 Interpretation

To use the one way ANOVA test, certain assumptions of the data had to be made which are as follows:

- Randomness and independence
- Normality
- Homogeneity of variance (Levine, 2008).

Step 1: State the hypothesis

H0 = μ1=μ2=μ3=μ4

H1 = Not all means are equal

Step 2: Calculate test statistic

Level of significance test statistic used is α = 0.05

Step 3: Determine Critical Value

Units per head = 0.00

Overtime = 0.612

Sick Leave Days = 0.03

Shortages and Surpluses = 0.912

Step 4: Decision based on:

Reject H0 : sig – F < α

Do not reject H0 : sig – F ≥ α

Critical values for variables are as follows:

Units per head = 0.00 < 0.05

Overtime = 0.612 > 0.05

Sick Leave Days = 0.03 < 0.05

Shortages and Surpluses = 0.912 > 0.05

Step 5: Conclusion

Units per head = reject H0

Overtime = do not reject H0

Sick Leave Days = reject H0

Shortages and Surpluses = do not reject H0

In summary from the one-way analysis of variance it can be seen that Units per head and sick leave days are the only two variables which are statistically significant in influencing or causing an effect on the dependent variable, time. The two other variables, overtime and shortages_surpluses are not statistically significant in causing an effect on the dependent variable, time. Also from the images of the mean plots of the variables it can be seen that there are differences between each time period for all the variables but there are only statistically significant differences for the units per head as well as for the sick leave days.

From the homogenous subsets analysis more specifically the Turkey–Kramer Procedure (Toothaker, 1993) allows one to make comparisons between the different pairs of groups.

It can be seen that for the variable, units per head the groupings of before pilot and after pilot is significantly different than to the grouping of the pilot. Similarly the

variable, sick leave days, follows more or less the same trend. Concerning the variables, overtime and shortages_surplus it can be seen that there is no significant difference between the groupings of before pilot, after pilot and pilot.

Another interesting fact from the Kruskal-Wallis Test is that if one looks at the effect size of the variables keeping in mind that it should be interpreted as follows from the table below less than 0.1 = small effect, between 0.1 & 0.3 = medium effect and greater than 0.5 = large effect (Levine, 2008):

Table 3.1: Kruskal-Wallis Tests – Effect Size

	small size	medium size	large size
abs(r)	0.1	0.3	0.5

Therefore, from the analysis, units per head have a large effect, sick leave days have between a medium and a small effect and overtime and shortages_surpluses has a small effect. This statistic helps us to confirm the actual effect each variable has on the time period variable.

3.6 SUMMARY

The aim of chapter three was to see whether the primary objective of the mini-dissertation could be proved using statistics. In order to do this, the secondary objectives needed to be tested. The table below is a summarised view to see whether the secondary objectives of the mini-dissertation were achieved or not.

Table 3.2: Summary of Objectives

Secondary Objectives	Status
Quality of transactions (shortages_surpluses)	Neutral – remained the same, no change in the quality of transactions performed
Units produces per head	Positive – increased units per head, a direct translation to increase of productivity
Change in absenteeism	Positive – decrease in absenteeism, speaks to efficiencies in the company
Change in overtime	Neutral – remained the same, speaks to efficiencies in the company

From the above table one can conclude that there is empirical evidence to suggest that an outcome-based remuneration scheme does have an effect on productivity levels in the workplace. More specifically, the data seems to suggest that the scheme enhances productivity in the workplace.

CHAPTER 4

CONCLUSION AND RECOMMENDATIONS

4.1 INTRODUCTION

The theory in Chapter 2 reveals that an outcome-based remuneration scheme does in fact increase average levels of output in the workplace, more specifically in a financial institution. There is without a doubt a significant positive change in productivity levels when an outcome-based remuneration scheme is introduced compared to a 100 percent fixed salary based system. There was also a significant change in absenteeism; absenteeism decreased when the outcome-based remuneration scheme was introduced, many can argue that the reason for this is that employees felt that they could write their own paycheck making them feel in control of their destiny. The other two factors of overtime and shortages and surpluses had no significant change during the period when outcome-based remuneration was introduced versus a 100 percent fixed salary base. Even though there was no statistically significant decrease in overtime, overtime did in fact decrease which shows one that the right amount of energy levels were used at the right time; meaning that there was less of a need for employees to work overtime as they managed to get most of their work done during normal operating times. Shortages and surpluses spoke to the quality of transaction the customer received, it is always necessary to make sure that if one wants to achieve higher productivity levels this should not come by the expense of quality; for this reason shortages and surpluses were introduced. From the results it is evident that the quality of transactions remained the same during the outcome-based remuneration period versus the period when salaries remained 100 percent fixed.

There are various other benefits that one noticed from this pilot such as capacity management fixed itself, employees now worked at a faster speed to do their daily tasks which had a direct impact on contract workers. Contract workers decreased by quite a substantial amount; this obviously resulted in better performance in terms of cost for the company. The non-quantifiable benefits were also quite significant; due

to this outcome remuneration scheme being introduced in a service industry, their remuneration was directly affected by customers. Employees started to work during busy periods of the day as they realised the more they do the more reward they got. This helped move queues much faster which resulted in better customer service. The outcome-based remuneration scheme created a more competitive working environment, some might argue that this could be detrimental to the organisation as team work gets neglected, but it actually fostered a spirit of winning which from the empirical evidence it was quite evident that productivity levels increased significantly.

From the literature review one can see both the advantages and disadvantages of an outcome-based remuneration scheme and why many chose an outcome-based remuneration scheme to a fixed salary scheme. Also it briefly touches on key aspects that will make a success out of an outcome-based remuneration scheme such as: what are the key design elements that one needs to consider when designing a reward scheme of this nature as well as the correct way to implement such a scheme.

In conclusion this mini-dissertation set out to determine if there was any impact of an outcome-based remuneration scheme on productivity in the financial sector. The theory and the data seem to suggest that there is definitely a positive impact on productivity due to an outcome-based remuneration scheme which results in a better performing company.

4.2 RECOMMENDATIONS GOING FORWARD

As this was a proof of concept piloted to only three branches due to financial constraints one should maybe look into doing a more in-depth pilot across the population and maybe instead of doing a six-month pilot a one-year pilot might give more interesting results. Therefore, the results from this pilot should be used cautiously and not be taken out of context.

From the initial investigation of outcome-based remuneration, one can see that there is not a whole lot of theory on this specific subject relating to financial institutions. From this study it is clear that there were so many benefits resulting from an

outcome-based remuneration scheme that it is worth it to do more research into this particular topic. The research that needs to be conducted should also test the hypothesis of, an outcome-based remuneration scheme impacting job satisfaction as this type of unquantifiable benefit could be much greater than all the quantifiable benefits that a scheme like this could bring.

Lastly from the conclusion above, if one does choose to implement an outcome-based remuneration scheme to a 100 percent fixed base pay they should consider all the topics in chapter 2. Otherwise, if a company has a great model but neglects the soft issues such as change management, for example, the chances are that the model will not be successful. All of the issues discussed should be considered to make the experience of outcome-based remuneration successful.

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