

**Faculty of Technology Management And
Technopreneurship**

**STUDY ON THE EFFECT OF EMPLOYEES' INCENTIVES
SCHEME BENEFITS ON COMPANY'S PERFORMANCE**

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ABSTRACT

The paper aims at determining the link between incentive schemes and how it benefits the company performance and provide useful information to management on how best to choose the types of incentive schemes. To achieve this objective, this paper focused on the implementation of employees' incentives scheme at Ansell NP Sdn. Bhd. Two independent variables in incentives schemes were used i.e. the types of incentives scheme and the incentive program term. The findings were that incentive schemes have significant positive relation with company performance at Ansell NP Sdn. Bhd. This paper recommends that management must identify the types of incentive that best motivate the employees based on individual differences and needs; to balance material considerations with non-material reinforcement to maximize job quality and quantity and the management should seek and obtain feedback on how employees perceive incentives.

ABSTRAK

Kertas projek ini bertujuan untuk menentukan hubungan antara skim insentif pekerja dan bagaimana ia memberi faedah ke atas prestasi syarikat di samping memberikan maklumat yang berkaitan kepada pihak pengurusan mengenai cara terbaik untuk memilih jenis-jenis skim insentif pekerja. Bagi mencapai objektif ini, kertas projek telah memberi tumpuan mengenai pelaksanaan skim insentif pekerja di Ansell NP Sdn. Bhd. Dua pembolehubah bebas telah digunakan iaitu jenis-jenis skim insentif yang digunakan dan tempoh skim insentif dijalankan. Penemuan kajian mendapati bahawa skim insentif pekerja mempunyai hubungan positif yang signifikan dengan prestasi syarikat di Ansell NP Sdn. Bhd.. Kertas projek turut mencadangkan kepada pihak pengurusan supaya mengenal pasti jenis-jenis skim insentif pekerja yang terbaik bagi memotivasikan pekerja berdasarkan perbezaan individu dan keperluan;. Pengurusan juga perlu untuk mengimbangi pertimbangan material dengan bukan material untuk memaksimumkan kualiti dan kuantiti kerja selain mendapatkan maklum balas mengenai bagaimana pekerja menilai skim insentif tersebut.

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Thank you very much.

DECLARATION

I declare that this thesis entitle “How Employees’ Incentives Scheme Benefits Company's Performance” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature : 
Name : UMIKALSOM BINTI YUNUS
Date : 25th February, 2013

DEDICATION

To my beloved parents, husband and kids

Ruminah binti Zainudin

Yunus bin Sartam

Mohamad Nizam bin Ayof

Qorish Faqihin bin Mohamad Nizam

Qistina Alia binti Mohamad Nizam

Qaseh Qaisara binti Mohamad Nizam

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CHAPTER 1

INTRODUCTION

1.0 Background

Most managers in today's organizations highly rely on reward systems as a means to drive creative performance. To influence employees to become motivated through the manipulation of incentives scheme systems is a challenging endeavor. Thus, increasing the level of creativity in employees and work groups is often attempted but far less frequently achieved in organizational settings. As quoted by Salerno:-

“Early in my career, one of the first business lessons I learned was this: It’s impossible to win the hearts and minds of people unless you clearly establish goals and values and reward people if they act in a way that leads to the fulfilment of those objectives. It quickly became clear to me that if you want to make sure your customers are treated well, you have to make sure you treat your employees well and recognize their efforts.” (Salerno, 2002)

This quote is just one of many recent calls to arms by business leaders alike for rewards or incentives for employees to be placed in the management agenda to-do list. By introducing a comprehensive compensation systems that align employees’ competencies with remuneration will inevitably be a key factor contributing to the achievement of the strategic goal of maintaining long-term organizational success and effectiveness (Alice, 2012).

Globalization is a concept that encompasses change and competition in the organizations. Organizations that want to survive in an intense competition and to develop themselves are required to produce different kinds of solution of external factors that triggered organizations to work harder. Undoubtedly, the most important factor is human in organizations. One of the main management strategies of an organization is to invest in employees. An Organization is seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications. Therefore, the reward system has been the most considerable practices of the human resource management system (Pinar, 2011).

Reward management system or employees incentives scheme is a core function of human resource discipline and is a strategic partner with company managements. Besides, it has an important role on employee performance (Yang, 2008). Barber and Bretz (2000) mentioned that reward management systems have major impact on organizations capability to catch, retain and motivate high potential employees and as a result getting the high levels of performance.

To motivate employees for contributing their best effort to generate innovation ideas is by implementing rewards management system or employees' incentives schemes that will create and lead to better business functionality and further improvise company performance both financially and non-financially. Lee and Wong (2006) found that reward does have an impact on the company's innovation performance. In addition, Paul (1981) suggests that a reward strategy can point out the significant areas of an organization, and guiding its future orientation. Undoubtedly, reward strategy and systems are the mechanisms that make this happen many years before in the world. These are proved since 1980s where many researches and studies have been done on the reward aspect in other

countries especially in the United State and China (Edward and Christopher, 2006; Lee and Wong, 2006; Paul, 1981; Sarin and Mahajan, 2001 and etc).

1.1 Employees' Incentives Scheme

An incentive scheme (payment or programme) is any compensation that has been designed to recognize some specific accomplishment on the part of an employee. An incentive is one technique by which employees' carry out their end of the employment contract, that is, compensating employees for their efforts (Hartman, Kurtzand and Moser, 1995). Graffin and Ebert, (1993) defined that incentive schemes are special pay programmes designed to motivate high performance. Incentive schemes attempt to link at least a portion of pay to job performance to encourage higher productivity.

Incentives should be aligned with the behaviors that help achieve organizational goals or performance (Ugwu Ude and Coker M.A., 2012). Incentives basically relates with compensation to productivity. Incentives are either individual or group (organization wide). A primary purpose of an incentive scheme is to encourage greater productivity from individuals and work groups. In addition to motivating employees to increase their level of productivity, incentive schemes may reduce turnover among good performers or productive workers. Incentive schemes are also cost effective because of savings that often resulted from productivity improvements.

1.2 Employees' Incentives Scheme and Company's Performance

Armstrong (2006) mentioned that reward practice will enhance motivation, commitment, increase job engagement and develop discretionary behavior. He further define motivation process as course of action that encourage the employees to establish goal, take action, and attain goal – a valued reward that satisfies their particular needs. The

goal, in organization aspect, can be defined as desirable performance both financially and non-financially such as increase in profit and increase in product quality.

Performance measurement is one of the strategic management components which evaluate the results of resources utilization, as well as improvement in the organization performance (Ong et. al., 2012). Non-financial measures on key business process such as product quality (Lakhal and Pasin, 2008), customer relationship management (Roger, 1996) and employee-oriented measures (Christina and Gursoy, 2009) are indirect leading factors of financial performance.

A well-structured employee incentive scheme will not only help retain good employees by engaging them and elevating their productivity and service levels to new heights, but it can also help a business attract new employees to the company by enhancing the brand image, as engaged employees will talk positively about their workplace.

According to Towers Watson 2012 – 2013 Global Talent Management and Rewards Study, almost three-quarters of employer respondents globally (72%) report problems attracting critical-skill employees, and over half (56%) report problems retaining them. The numbers are even higher among companies in fast-growing economies, with 82% and 71% reporting problems attracting and retaining critical-skill employees, respectively.

The study had mentioned that companies that have adopted an integrated approach to reward strategy, design and execution in the context of an overarching employee value proposition are realizing better outcomes. These companies are:

- less likely to report problems attracting and retaining critical-skill employees;
- five times more likely to report their employees as highly engaged;
- more than twice as likely to report achieving financial performance significantly above their peers.

The study also stated that the differences were more pronounced when these findings were examined in the context of the regional economic conditions in which the companies were operating. In fast-growing economies, where talent markets are tight and competition for the best talent is intense, the companies that get it right in terms of an effective employee value proposition and total rewards strategy, design and execution are even less likely to report problems with attraction and retention, and 2.5 times more likely to report financial performance that is substantially above their peer group.

Not only that, the organization also will be the major beneficiaries because:-

- Staff will know precisely the performance that the company's expects. Because of that they're far more likely to meet company's expectations.
- The rewards will reinforce the importance of achieving performance goals.
- Provided organization recognizes both team and individual performance, then the organization can reinforce the importance of effective teamwork.
- Organization can establish systems to reward all employees and avoid accusations of favoring certain groups.
- The performance focus will mean that employees identify more closely with effective business results.
- Organization can also use the incentives scheme to reinforce the key aspects of company business culture.
- Employees will be more likely to identify other system problems that impede their opportunity to reach stated performance standards and earn rewards and incentives.

Employees' incentives scheme can also become a basis for encouraging employee self-management. It encourages employees to accept greater responsibility for day to day business matters. That frees managers to concentrate on broader management issues

1.3 Incentives Scheme and Motivation Theories

1.3.1 Maslow's Hierarchy of Needs

Motivation begins with the realization that individuals have needs or expectations that they want to meet (Ude and Coker, 2012). These needs resulted in a driving force or behaviour to accomplish desired goals. Accomplishing the desired goals gives a sense of fulfilment or satisfaction which ultimately leads to performance and productivity. Through feedback, employees would modify their needs. Like compensation, motivation is important to employees because they have to be motivated (compensated) to perform at an acceptable level, to do a good job join, and remain with the organization.

Each of us is motivated by needs. Abraham Maslow's Hierarchy of Needs motivational model was developed in 1940s and the theory remains valid today for understanding human motivation, management training, and personal development. Indeed, Maslow's ideas surrounding the Hierarchy of Needs concerning the responsibility of employers was to provide a workplace environment that encourages and enables employees to fulfill their own unique potential (self-actualization). Maslow presents a hierarchy of needs model which can be divided into basic (or deficiency) needs (e.g. physiological, safety, love, and esteem) and growth needs (cognitive, aesthetics and self-actualization).

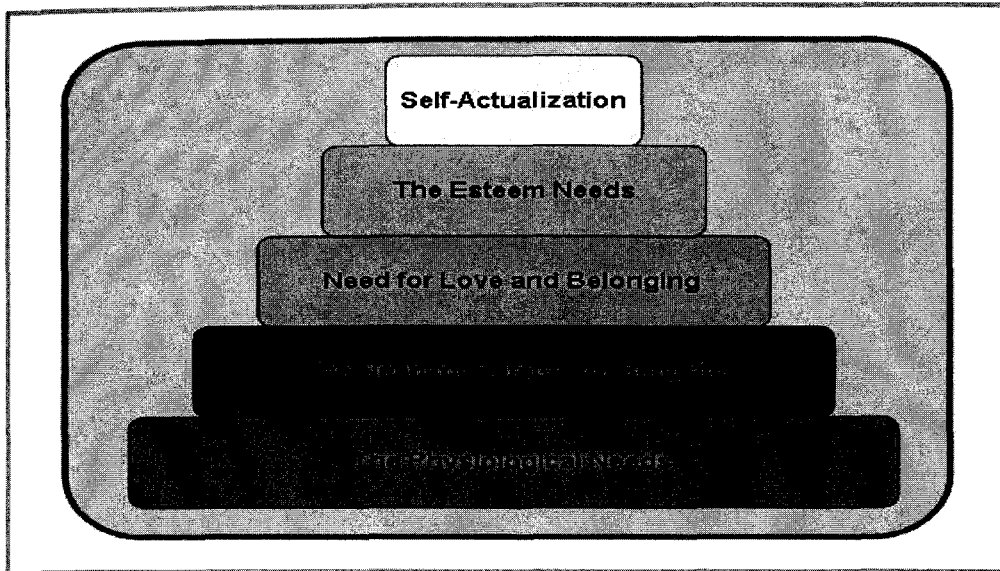


Figure 1.1: Maslow's Hierarchy of Needs (www.businessballs.com, 2001)

1.3.2 Goal-Setting Theory

Employees were motivated by clear goals and appropriate feedback (Locke, 1968). Locke went on to say that working toward a goal provided a major source of motivation to actually reach the goal – which, in turn, improved performance. Other theories which expanded and extended those of Maslow included Edwin Locke's Goal Theory or Goal-Setting Theory. Goal setting is considered to be one of the most practical and effective motivational techniques for the workplace (Latham & Pinder, 2005). These tend to stress cultural differences and the fact that individuals tend to be motivated by different factors at different times. Goal-Setting Theory was based on the notion that individuals sometimes have a drive to reach a clearly defined end state. Often, this end state is a reward in itself. A goal's efficiency is affected by three features: proximity, difficulty and specificity.

Good goal setting incorporates the SMART criteria, in which goals are: specific, measurable, accurate, relevant, and timely. SMART (Doran, 1981) is a mnemonic used to set objectives, often called Key Performance Indicators (KPIs),

for example for project management, employee performance management and personal development.

An ideal goal should present a situation where the time between the initiation of behavior and the end state is close. A goal should be moderate, not too hard or too easy to complete. In both cases, most people are not optimally motivated, as many want a challenge (which assumes some kind of insecurity of success). At the same time people want to feel that there is a substantial probability that they will succeed. Specificity concerns the description of the goal in their class. The goal should be objectively defined and intelligible for the individual.

According to Locke and Latham (1990, 2002), a core finding of this theory includes:

1. People who set specific and difficult goals outperform those who set easy and vague goals;
2. Goal commitment is key for goals to drive performance
3. Rewards, praise and feedback only improve performance to the extent that they lead to the setting of, and commitment to, a goal.

Table 1.1: Characteristics of S.M.A.R.T goals

S	Specific	The need for a specific goal over and against a more general one. This means the goal is clear and unambiguous; without vagaries and platitudes.
M	Measurable	The need for concrete criteria for measuring toward the attainment of the goal. The thought behind this is that if a goal is not measurable, it is not possible to know whether a team is making progress toward successful completion.
A	Accurate	The theory states that an attainable goal may cause goal-setters to identify previously overlooked opportunities to bring themselves closer to the achievement of their goals.
R	Relevant	Relevant goals (when met) drive the team, department, and organization forward. A goal that supports or is in alignment with other goals would be considered a relevant goal.
T	Timely	A commitment to a deadline helps a team focus their efforts on completion of the goal on or before the due date.

(Source: Meyer Resource Group Inc., 2003).

1.3.3 Key Performance Indicators (KPIs)

A performance indicator or Key Performance Indicators (KPI) is an industry jargon for a type of performance measurement (Taylor, 1990). KPIs are commonly used by an organization to evaluate its success or the success of a particular activity in which it is engaged. Sometimes success is defined in terms of making progress toward strategic goals, but often success is simply the repeated achievement of some level of operational goal (for example, zero defects, 10/10 customer satisfaction, etc.). Because of the need to develop a good understanding of what is important, performance indicator selection is often closely associated with the use of various techniques to assess the present state of the business, and its key activities.

These assessments often lead to the identification of potential improvements; and as a consequence, performance indicators are routinely associated with 'performance improvement' initiatives.

In general, Key Performance Indicators is defining as a set of values used to measure against. Other definitions for Key Performance Indicators (KPI's) are as follows:-

1. "A metric that helps you understand how you are doing against your objectives." (K. Avinash, 2010)
2. "Measures that help decision makers define and measure progress toward business goals. KPI metrics translate complex measures into a simple indicator that allows decision makers to assess the current situation and act quickly." (KAIZEN Analytics, 2008)
3. "Measurable industry, department or task relevant performance metrics that are evaluated over a specified time period, and compared against acceptable norms, past performance or targets." (W. Allan, 2010)
4. "A set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals." (James, 2011)

These raw sets of values, which are fed to systems in charge of summarizing the information, are called indicators. Indicators identifiable as possible candidates for KPIs can be summarized into the following sub-categories:-

1. Quantitative indicators which can be presented as a number.
2. Practical indicators that interface with existing company processes.

3. Directional indicators specifying whether an organization is getting better or not.
4. Actionable indicators are sufficiently in an organization's control to affect change.
5. Financial indicators used in performance measurement and when looking at an operating index.

Key performance indicators are also referred to key success indicators, in practical terms and for strategic development, are objectives to be targeted that will add the most value to the business. Key performance indicators (KPIs) are ways to periodically assess the performances of organizations, business units, and their division, departments and employees. Accordingly, KPIs are most commonly defined in a way that is understandable, meaningful, and measurable.

A KPI can follow the SMART criteria. This means the measure has a:-

- S** - specific purpose for the business it is;
- M** - measurable to really get a value of the KPI;
- A** - the defined norms have to be achievable;
- R** - the improvement of a KPI has to be relevant to the success of the organization and
- T** - time phased, which means the value or outcomes are shown for a predefined and relevant period.