

**UNIVERSITY OF KWAZULU-NATAL**

**Effectiveness of the Profit Sharing Scheme within FFS Refiners (Pty) Ltd**

**By**

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## Declaration

This is to confirm that the work in this study is that of the researcher only. Wherever work of others was used in the document, it was acknowledged and referenced accordingly.

Signed \_\_\_\_\_

Date \_\_\_\_\_

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## **Abstract**

The profit sharing scheme at FFS Refiners (Pty) Ltd has remained unchanged for a long period and acts as a motivational tool for certain employees in the organisation. The aim of the study is to highlight the effectiveness of the current profit sharing scheme at FFS Refiners (Pty) Ltd and how it can be optimised so that it can become more efficient and effective. A quantitative study was performed for this research. The data collection method that was used was a questionnaire which was administered to the population via Question Pro. The total population size for this study was 52 employees that are currently on the profit sharing scheme. A simple random sampling technique was utilised. Due to the population size being 52 and a confidence interval of 95% was required, a sample size of 48 sufficed for the study for which a total of 48 responses were received. The 95% confidence interval had a margin of error of 3.5% indicating that the sample response is indicative of the population. The initial questionnaire was pretested and validated using key employees that are currently on the scheme. The response rate for the administered questionnaire was 48 off 52, i.e. 92%. The findings of the study indicate that profit sharing motivates employees. It further identifies that employees prefer having a reduced salary and be exposed to the risk and variability of the profit sharing scheme. The results also indicate that the profit sharing scheme will be more effective if managed monthly and finally the profit sharing scheme will be more efficient and effective if a performance management tool, i.e. balanced scorecard, is linked to the profit sharing scheme. The main recommendations of the study is to offer a profit sharing scheme to lower level employees, review the profit sharing scheme on a monthly basis and to incorporate a performance management tool to the existing profit sharing scheme.

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# **CHAPTER ONE**

## **Introduction**

### **1.1 Introduction**

A profit sharing scheme has been practised at FFS Refiners (Pty) Ltd for many years now. The aim of the system was to motivate employees such that they think and work as if they are the owners of the company. The study was to identify the effectiveness of the current profit sharing scheme at the company and whether it was being operating at its most efficient level. The study further highlighted how the profit sharing scheme at FFS Refiners (Pty) Ltd could be improved so that the company can benefit with the increased levels of performance from key personnel that are on the current scheme.

This chapter highlights why this topic was chosen together with what the focus of the study was. The problem statement, research objectives and the limitations of the study were discussed.

### **1.2 Motivation for the study**

The motivation for the study is for the benefit of FFS Refiners (Pty) Ltd in terms of the shareholders, key incentivised personnel, non-incentivised employees and lastly the customers. The current profit sharing scheme has been operated for many years with limited change. This study was to identify if the profit sharing scheme was being managed optimally and what changes could be initiated so that the scheme can work even more effectively for all stakeholders concerned.

A well operated profit sharing scheme will benefit the shareholders as the company may become more profitable, incentivised employees as they will realise more monetary value in terms of their annual profit share due to improved company profitability, non-incentivised employees in terms of them being introduced to the scheme and lastly the customers as they will reap the benefits of enhanced product and service qualities due to the increase in performance at company level. The study further highlighted how risks in the organisation can be mitigated and hence ensures the future sustainability of the company.

This study has resulted in key issues being identified that will enhance the profit sharing scheme within the organisation. The unique contribution that this study will bring to the researchers discipline is that of improved financial reward. It will enable the researcher to manage and motivate the subordinates more effectively and regularly. The study will enable the researcher to mitigate risks as new proposals to the profit sharing scheme can be implemented. The overall reward for the researcher is improved managerial impact for the subordinates together with an improve annual monetary profit share for the researcher.

### **1.3 Focus of the study**

This study has focused on the profit sharing scheme in terms of how it could be optimised and if the scheme could be enhanced. The profit sharing scheme forms a large portion of an employee's remuneration package at FFS Refiners (Pty) Ltd, hence the need for the study.

### **1.4 Problem statement**

The study is important as it has the potential to transform the profitability of the company. Profit sharing may motivate employees to perform their work functions more optimally as any gain in profit for the organization will result in increased profit share for the individual. Profit sharing can act as a motivator to drive employees to become innovative thereby aiding the organization to gain a competitive advantage by increasing the efficiencies and effectiveness internally, which will lead to greater profitability for the company. The study will further indicate if the current profit sharing scheme is effective and if closer management of the scheme is required. The risks inherent in profit sharing will also be analysed thereby understanding if employees are keen for the risks and variability of the profit sharing scheme. Generally, profit sharing schemes have been linked to a performance management tool, however, within FFS Refiners (Pty) Ltd there is no performance measurement for individuals on the scheme. The use of a performance management tool, e.g. a balanced scorecard was investigated as well.

There have been many discussions within the organisation to establish the most optimum and effective mechanism for the profit sharing scheme. This resulted in

some employees feeling hard done by the fact that they believe the current profit sharing mechanism is biased. It was also an opinion that profit sharing does not motivate all employees on the scheme hence the need for the study. The problem statement that this research has answered is whether the current profit sharing scheme is effective enough and how could it be optimised for the benefit of all stakeholders concerned. Based on the problem statement, the following research objectives and questions have been identified.

### **1.5 Research Sub-questions**

- Does a profit sharing scheme act as a motivator to existing employees on the scheme?
- Would employees prefer having an increase in salary and no profit share to eliminate the risks inherent in profit sharing schemes?
- Would an actively monthly managed profit sharing scheme be more beneficial for the company?
- Would it be more beneficial for the organization to link an employees' profit share with a performance management tool, e.g. a balanced scorecard?

### **1.6 Aim and Objectives of the study**

The aim of the study is to identify if the current profit sharing scheme at FFS Refiners (Pty) Ltd is effective and how it can be improved such that there is mutual benefit between employee and employer. The profit sharing scheme is designed to create a sense of ownership among employees who are on the scheme, as an incentive scheme has the ability to transform the dynamics of any organisation if effectively managed (Estay, Lakshman and Pesme, 2011).

#### **The objectives include:**

- To determine if the profit sharing scheme acts as a motivator to employees
- To determine if employees on the profit sharing scheme would rather have an increase in salary as opposed to being exposed to the risk of the scheme.
- To determine if monthly management of the profit sharing scheme would be more beneficial

- To determine if the profit sharing scheme needs to be linked to a performance management tool, e.g. balanced scorecard

### **1.7 Limitations of the Study**

The limitations to this study include:

- Sample size – the total population for this study was 52 employees with 48 individuals in the population completing the survey. The 52 individuals are all on the current profit sharing scheme. The population and sample size could have been larger if the research was extended to non-incentivised employees to determine if the profit sharing scheme could motivate them as well.
- The research could have been more extensive in terms of identifying what other companies are utilising as a motivational tool for senior management.

### **1.8 Chapter Summary**

A variable pay system in the form of profit sharing has immense motivational factors for employees that have been invited to the scheme. The study has highlighted key issues that could enhance the current profit sharing scheme such that it becomes more beneficial to all stakeholders concerned.

The motivation of the study is clear in that the profit sharing scheme was needed to be looked at in terms of what companies globally are doing and to implement best practises into the current scheme. The research objectives have been set and have been identified as key objectives in terms of ensuring the profit sharing scheme is well operated and that the scheme brings out the best performances of all individuals that are on it.

The literature review will be discussed next and will highlight what academics and companies globally have done for ensuring that profit sharing schemes are operated fairly and optimally.

## **CHAPTER TWO**

### **Review of Literature**

#### **2.1 Introduction**

Profit sharing refers to an incentive programme that distributes compensation based on a specific formula that incorporates a company's profitability which an employee receives in addition to their usual salary and bonuses (Robbins, Judge, Odendaal and Roodt, 2009). There are instances when organisations offer selected employees shares in a company which is also a form of an incentive that an employee may receive (Aerts, Kraft and Lang, 2013). Companies that practise profit sharing are financially stable and they utilise variable pay remuneration systems to improve productivity, distribute profits to employees fairly and share certain investment risks with employees (Amisano and Del Boca, 2004). Profit sharing schemes have been practiced in a number of countries where it was established that employee involvement in similar schemes contribute to their psychological ownership of the organisation (Estay, Lakshman and Pesme, 2011). This type of ownership has led to increased levels of commitment, job enrichment, job satisfaction, improved behaviour and financial performance which relates to an effective and efficient work environment (Estay, Lakshman and Pesme, 2011).

The conceptual framework of the literature review will highlight what academics believe about how profit sharing links to the motivation of employees, whether employees prefer an increased salary vs. the risk of variable pay, how the profit sharing scheme should be managed and whether the scheme should be linked to a balance scorecard. Once this has been established, combined with the data analysis, the researcher was able to link the literature to the results of the survey.

#### **2.2 The literature review**

Senior management realises that an employee's performance is directly related to how they feel about the organisation they work for which is why profit sharing schemes has become rife in the business world of today. A recent survey conducted by WorldatWork (2009) indicates that approximately eighty percent of businesses surveyed have some sort of a variable pay system in the form of profit

sharing incentives or bonus programs. Incentive schemes are continuously becoming popular in industry as it focuses on company profits which is what matters the most to executives in organisations (Magnan, St-Onge and Cormier, 2005). Profit sharing can be a great tool for organisations as employees are determined to work harder, as they gain personal satisfaction for excellent work done. They will gain further satisfaction as they know that they will get a piece of the profits for their efforts (Enterprise Innovation Editors, 2010). There are some individuals that may not be motivated by the profit sharing scheme as their job functions may not allow them to value add or they are not motivated enough to make a difference. Improved performances lead to improved productivity which generally increases the overall financial performance of any organisation (Bos, 2010). Past research has indicated that employees exposed to profit sharing schemes and performance related pays are more satisfied with their jobs and results in low employee turnover in organisations when compared to employees on the traditional salary packages (O'Halloran, 2011).

Lima (2011) suggests that companies that initiate a profit sharing incentive to employees often outperform other companies within the same sector in productivity and financial performance. This enables these types of organisations to gain a competitive advantage as the motivation amongst the staff will be much higher than competitors. It has been mentioned that for many years businesses have realised that companies tend to perform more effectively when they share a portion of the profits with key employees (Bellman and Moller, 2010). The incentivised employees will always be looking at debottlenecking their processes which adds value to the organisation as opposed to those employees in competitor companies that are not motivated enough. There is always a need to enhance working life in companies by aiding employees to discover new innovative ways of doing their jobs more efficiently which can be achieved through an incentive scheme (Fongwa 2010).

Profit sharing seems to be a very positive system to be implemented in organisations with the potential for greater profitability for the company, however, there are some negative effects of profit sharing when practised in industry. The negative effects includes; a high level of risk associated with profit sharing schemes, employees that are unionised and are on an incentive scheme can

result in unions having some control over the workplace which is undesirable, employees may not be too interested in investing financial capital in their own firms shares due to their intellectual capital being tied up by the company, having passengers on the scheme, etc. (Jana and Petr, 2013). The general consensus is that employees on the incentive scheme are motivated; however, there are a selected few that are not interested in adding value to the organisation. These individuals still reap the benefits of incentive payouts due to other hard working and value adding individuals Jana and Petr, 2013.

Blasi and Kruse (2010), confirms that incentive based remuneration, i.e. employee stock ownership, gain sharing and profit sharing, generally improves the profitability of organisations as it is associated with much greater loyalty, low employee turnover, high levels of efficiency and effectiveness among employees, willingness to work hard, innovation, etc. Blasi and Kruse (2010) also confirmed that for an incentive program to be beneficial for a company, employees must be involved in decision making to a certain extent.

The objectives of the current study on incentive schemes is to focus on the motivational aspects, the inherent risk of the scheme, the management of a profit sharing scheme and finally if a profit sharing scheme should be linked to a performance management tool.

### **2.2.1 Motivation of employees exposed to a profit sharing scheme**

Many organisations have implemented an incentive payment to employees as a means to increase organisational performance together with enhancing motivation amongst employees. It was found that incentive schemes have a great impact on work motivation among employees (Edwards, Yang and Wright, 2007). A multi-factor profit sharing scheme has the potential to improve motivation amongst employees by determining the amount of incentive earned monthly which is paid along with ones' salary. Rao cited by Hadad et al (2010) demonstrated how a profit sharing scheme motivated individuals to improve production whilst utilizing raw materials more effectively and efficiently thereby improving productivity (Hadad, Keren and Barkai, 2010). Increase in productivity will not only provide a larger profit share for employees but also provide the company with a larger financial capacity to look at increases for components of an employee's package

other than a profit share (Long and Fang, 2012). There has been some sluggish productivity growth in the United States which is why many organisations have renewed their interest in various incentive schemes so that new employees can be employed at a lower fixed salary with the remainder of their remuneration being made up of a variable pay structure (Kim, 1998). It was further determined that a mixture of variable and fixed pay in an individual's package should generally be aligned to managements goals.

Profit sharing plans have historically been used for salesman so that they remain motivated to increase sales within an organisation thereby improving profitability. These salesman have commanded a low gross guaranteed salary, with the commission (variable pay portion) making up the bulk of their package. This is a self motivator for these employees as if they do not bring in the business, it affects their own financial positions, and if they do perform well, they will receive decent commissions whilst the organisation becomes more profitable (Hadad, Keren and Barkai, 2010). According to Havlicek (2011), cited in Jana and Petr (2013), there is a wide consensus that organisations with highly motivated employees can accomplish ambitious stretched goals but on the negative side, employees have different personalities hence they are stimulated by various other motivational factors.

It is believed that companies are motivated to implement a variable pay system in the form of profit sharing as this may discourage unionisation, enhance compensation flexibility, improve employee motivation, increase productivity and workplace cooperation (Estay, Lakshman and Pesme, 2011). Customer satisfaction is at risk during striking periods when employees are unionised hence affecting business sustainability. This is one of the benefits of a profit sharing scheme in that employees are not dictated by unions hence are not prone to strike action. These employees have the incentive to do well with the organisation, i.e. they are motivated to excel. Fongwa (2010), believes that it is imperative to have incentive and motivation schemes that ensures corporate sustainability and performance.

The hospital sector in Germany implemented an incentive plan where employees were paid bonuses based on resource savings which was then practiced in

industry. This motivated employees as they became incentivised to minimise production costs in all departments. It further improved the efficiencies and effectiveness of various organisations in a multitude of sectors (Hadad, Keren and Barkai, 2010). Generally in the business world, selling prices are fixed and is generally dictated by external factors, e.g. in fuel oil refining, the price is dictated by the rand/dollar exchange together with the crude oil price. The only way that these businesses can improve profit margins is by reducing the controllable that are generally in the form of operational cost which will improve profitability. Another way to improve profit margins is to optimise the process and search for innovative ways in the production facilities but employees need to be motivated to initiate these programs. Change in any organisation can be a huge obstacle for employers to overcome as to change the mindset of employees is difficult. Existing studies suggests that output based incentive schemes normally has a positive effect on employee productivity (Chu, Cho and Liu, 2010), hence, in order for employees to be motivated to initiate cost reduction and optimisation initiatives, they need to be incentivised and one of the ways is by introducing the profit sharing scheme to these employees. It is believed that an individual profit sharing scheme increases employee motivation in organisations (Hadad, Keren and Barkai, 2010).

Economic theory suggests that profit sharing schemes has generally been successful as it motivates employees to ensure their efforts are aligned with the shareholders objectives thereby becoming beneficial to all stakeholders concerned. There has been some literature that suggests there is a positive relationship between the financial return due to incentives and employee performance, however, this relationship was not a strong one. Based on that data, it suggests that profit sharing passengers do not have a negative impact on employee attitudes and behaviours when it comes to financial reward (McCarthy, Reeves and Turner, 2010).

Profit sharing can be looked as being a productivity enhancing tool by improving motivation and cooperation within an organisation. According to Eamets, Mygind and Spitsa (2008), with regards to the benefits of financial participation among employees in Estonia indicated that there was a 13-15% higher productivity in private companies than state companies as the private sector implemented

incentive schemes (Eamets, Mygind and Spitsa, 2008). The main aim is to increase the company's performance by creating a work setting where existing employees are motivated to work accurately, diligently and effectively towards organisational goals set by senior management. By creating this type of work setting, there is every possibility of identifying talents in an organisation that one may not have found without a profit sharing scheme as all employees exposed to the scheme should be motivated to excel (Long and Fang, 2012).

Long (1997), cited in Long and Fang (2012), conducted telephonic interviews with chief executive offices of Canadian companies in an attempt to identify the reasoning behind managements decision to implement a profit sharing scheme. The feedback received was that profit sharing was implemented in organisations to improve the organisations performance by improving employee motivation, helping employees understand the business better and to promote teamwork. This reasoning was more for the work setting in organisations. The other reasoning for management to implement profit sharing, from a human capital point of view, was to ensure employees receive better rewards, improving individual compensation packages, loyal employees could be rewarded, key employees could be retained and ensuring employee commitment is built (Long and Fang, 2012).

It has been long debated of whether profit sharing increases the overall earnings of employees that are exposed to the scheme; however, in order for organisations to offer profit sharing, they look at reducing the fixed portion of pay or substituting some part of an individual's package so that profit sharing can be offered. There are some companies that do not change any part of the fixed portion and offer profit sharing purely based on a motivational aspect with the assumption that the company will benefit with the increased motivation of employees. Kruse, Freeman and Blasi (2010) studied some U.S. data regarding whether profit sharing had a positive effect on an employee's earnings and their conclusion was in the affirmative, however, there has been several studies that found no relationship between profit sharing and employees earnings (Long and Fang, 2012). Andrews, Bellmann, Schank and Upward (2010) investigated and compared profit sharing on employee earnings two years after implementation of a profit sharing scheme. Their investigation found that employees on profit sharing schemes earned

approximately 25% more than other employees and employees in profit sharing organisations earned approximately 27% more. After adjusting and relating the figures to a baseline, they found that the overall effect of profit sharing on employees earnings was between 2.5-4% over a two year period (Long and Fang, 2012).

As per the study by Pouliakas (2010), the experimental evidence of monetary incentives tends to have a positive effect on employees working performance, motivation and utility as long as the incentive monetary value is large enough. He also observed that these findings are present if the heterogeneous biases have been removed from the analysis. The negative effects of the analysis indicate that if the bonus received was small, there is a risk involved in the attitude of workers. He further cautions employers that issue small incentives to employees as this could act as a demotivator with regards to fairness.

The main objective for implementing profit sharing schemes in organisations is due to the potential of increasing productivity and profitability overall for the company, however, some researchers wonder why this is so. It is believed that an increase in productivity is accomplished by including an employee's income being dependent on performance (i.e. increase productivity) which acts as a motivator for employees to increase their efforts (Jana and Petr, 2013). Kato, Lee and Ryu (2010), found that the introduction of a profit sharing plan in companies will lead to a significant increase in production (approximately 10%) which can be attributed to the improved motivation of employees.

Gielen (2011), cited in Jana and Petr, (2013), highlights two ways on how profit sharing can increase a companies' training investment. The first way is that employees who are trained well and whose package is based on a performance related pay system, are motivated to (or should be motivated) to ensure they maximise their efforts in understanding and utilising newly acquired knowledge from training programs so that their productivity and salary can increase simultaneously as the company becomes more profitable. The second way is that profit sharing can reduce employee turnover and minimises risk for an organisation, e.g. a company that has a poor financial year are not forced to pay employees an incentive (Jana and Petr, 2013).

A survey, regarding profit sharing and remuneration systems was conducted in USA by the National Industrial Conference Board (NICB), an association that includes many leading industries. It was found that most organisations that participated in this survey indicated that a more stable workforce was their main objectives for offering profit sharing to their employees. They were of the opinion that by offering profit sharing to their employees, it will secure the futures of these employees to the company (Estay, Lakshman and Pesme, 2011).

It was noted that saving time and materials in a production facility was also considered to be a motivator to employees if profit sharing was offered with this objective. With profit sharing being offered to employees in certain companies, than these employees will be motivated to reduce the waste in their processing facilities thereby improving profitability. A general consensus in the NICB survey indicated that cost cutting acts as a motivator for employees to reduce overall expenses thereby improving profitability and hence should be offered profit sharing (Estay, Lakshman and Pesme, 2011).

A survey conducted by Kelly Services, cited in Enterprise Innovation Editors (2010), found that employees are easily motivated when they are offered profit sharing in companies. Profit sharing can create powerful bonds between employers and employees and can motivate all concerned to improve productivity and be more creative (Enterprise Innovation Editors, 2010).

It was established that in many organisations, employees do not make full use of their working hours, i.e. their utilization is never at 100%. With a profit sharing scheme, employees are more motivated to increase their individual utilisation which increases productivity and ultimately leads to greater profitability to the company. Profit sharing further encouraged employees to save when they received their profit sharing bonuses. Financial motives have been the primary reason to create motivation and enthusiasm within companies and hence profit sharing has a positive impact on motivation among employees (Estay, Lakshman and Pesme, 2011).

The study by Blasi and Kruse (2010), indicates that incentive schemes in organisations is rapidly growing and has the ability to increase the wealth of employees at the lower and middle income levels. The problem with incentive

schemes is the “passenger” problem but Blasi and Kruse found that employees monitoring their peers in organisations can aid in the inhibition of the incentive passenger problem as employees can take action against the shirkers. With efficient investment diversification, employees can get around the issue of risk associated with incentive schemes and hence the risk is manageable. It was further found that incentive schemes has generally improved the performance of companies that actually implement the variable pay tool as employees are more loyal, willing to work harder, innovative, motivated, etc. There is an improved labour-management relationship in incentivised organisations as incentive schemes are associated with employees being able to make decisions, they have higher pay, wealth, job security, benefits, trust in the employer, etc. It was further found that incentive schemes complements labour policies and practices as incentive schemes has the ability for employees compensations to be above market related levels, it drives down supervisory costs, etc. (Blasi and Kruse, 2010).

According to Blasi and Kruse (2010), they further indicated that workers exposed to an incentive scheme are likely to work harder such that the company benefits and workers will be more motivated to make suggestions so that the company can improve overall. The study indicated that employees prefer to be incentivised in the form of cash incentives and stock options with the least preferred incentive being in the form of buying company shares in the open market.

Profit sharing plans generally has a motivational effect on all staff that are exposed to the scheme which leads to enhanced growth, however, it is believed that this effect wears out with time (Magnan, St-Onge and Cormier, 2005). Incentive schemes have the tendency to positively affect motivation, performance and interest within companies (Milne 2007).

The overall consensus as per the various studies conducted indicate that profit sharing has a motivational effect on employees, however, there has been limited research indicating that profit sharing schemes do not have a motivational effect.

### **2.2.2 Guaranteed Increased Salary vs. lower salary with profit sharing risk**

Profit sharing is a scheme that may result in employees experiencing high fluctuations in their compensation packages which are not ideal for certain employees. This is due to the risk of an incentive scheme. Profit sharing employees will thus find it difficult to plan their finances using the profit sharing portion of their compensation packages (Chang 2006).

It is imperative that the staff on the profit sharing scheme understands how the system operates therefore companies need to educate and communicate with employees to ensure a successful profit sharing scheme. The reason for this is that if the company has a poor fiscal year and no profit share is paid to employees, they become angry and demotivated as they do not know what happened (Stack 2010). The classic agency theory suggests that employees whose packages are related to performance are completely compensated for the higher risk associated with profit sharing schemes, however, when comparing performance related pay positions with standard time rate positions, there has not been much difference in employee turnover. According to the sorting theory, it suggests that employees exposed to performance related pay packages expose the company to less risk in the form of lower employee turnover as these individuals have job security and are satisfied with their respective positions in their organisations (O'Halloran 2011).

Sliwka and Grund (2006) as cited in O'Halloran (2011) suggests that the less risk averse employees can also be attracted to a profit sharing scheme even though the scheme has greater risk. The driving force behind this is that employees are able to earn greater than market related packages if they are prepared to expose themselves to some risk in the form of variable pay. The high risk inherent in pay variability is due to profitability in that some years there may be huge profits hence excellent profit sharing payout whereas some years there may not be a decent profit share. When there is a good profit share, employee packages can be one of the best in the industry, however, with a low profit share, employee's packages could be at the bottom end of the salary packages in the sector. An article by Reuters, 2013, indicated that Caterpillar, the largest manufacturer of mining and construction equipment, who has a profit sharing plan in practice, were to make their smallest payout since the recession which was due to be paid in March 2014

(Reuters, 2013). This highlights the risks and fluctuations associated with profit sharing schemes.

Empirical evidence suggests that companies that have offered employees a profit share in their respective packages generally achieve higher productivity than the companies who do not offer performance related pays (Lima 2011). In organisations that do not have profit sharing schemes, those employees command a greater guaranteed salary and those that have profit share command a lower salary, but is compensated with the risky profit share which has the potential to be much greater than the employees with guaranteed packages if the company and individual performs favourably. Employees with lower wealth and base salary are more risk inclined and therefore prefer being offered a profit share (Kurtulus, Kruse and Blasi, 2011).

There is some vagueness of whether employees can see the benefits of their working efforts and the financial returns they would receive from profit sharing schemes which is due to the variability and the riskiness. Many employees are against the idea of having a large portion of their salary package based on performance related measures as they struggle to see a direct link between their work efforts and their portion of the profit share (McCarthy, Reeves and Turner, 2010). As per economic theory, employees would demand a higher total compensation package due to the risks inherent in a variable pay structure (Long and Fang, 2012). Some employees that are subjected to a variable pay package that is based on financial reward are fortunate enough to experience high bonuses in some years and therefore they may believe that it is worth the risk of being exposed to profit sharing schemes whereas, some employees may not get a decent profit share especially during the recent financial slump that has affected businesses worldwide. In the midst of a recession, companies favour profit sharing schemes as the fixed portion of an employee's package is lower and with the organisation having poor profitability, there is no requirement for a profit share payout, hence the organisational personnel cost is lower when compared to employees who has a high guaranteed package with no profit share. In this way, the company maintains a low salary cost and employees are forced to perform so that they can improve their personal packages with a decent bonus when the company performs well. The company mitigates their high personnel cost by only

paying employees a decent bonus if they perform which must convert to improved profits for the company (McCarthy, Reeves and Turner, 2010).

By the very nature of businesses, there are some positions where employee participation is limited due to the nature of their jobs which can lead to disappointment and demotivation among staff. These may be critical positions within the organisation, however, due to these positions not being able to value add to the organisations, it is these type of employees who should be receiving a larger guaranteed package with no bonuses, if not, these employees may be construed as passengers (McCarthy, Reeves and Turner, 2010).

Profit sharing has the ability to provide employees with incomes that is directly linked to the financial performance of the company. This has the ability to ensure greater commitment from employees to the company, investment in the company by employees, improved human capital investment in the organisation by ensuring low employee turnover, enhanced teamwork, cooperative spirit and the reduction of internal conflict within the organisation. The aim of companies generally is to grow and improve the company's profitability. The profit sharing scheme has the ability for individuals to grow with the company as the company expands and becomes more profitable thereby improving innovation in the organisation which can lead to a competitive advantage (Fongwa 2010). There is definitely an opportunity for both the rich and the poor to grow richer in a profit sharing organisation. A reason for concern regarding the risks of incentive schemes is that it poses as an economic risk as an employee's employment, wealth, retirement, medical aid and income is dependent on the performance of the company. The threats or risks associated with the schemes are quite evident and obvious in that if the company becomes bankrupt, the employees can lose their jobs and shares, however, the benefits of a profit sharing scheme far outweighs the risks associated with it (Fongwa 2010). An example of the risk associated with incentive schemes is the Enron debacle. When Enron closed up, the employees not only lost their employment but also their retirement and other savings that were held in the company's shares (Blasi and Kruse, 2010).

There has been evidence that suggests that some employees may prefer a larger guaranteed package as opposed to being exposed to the risk on profit sharing.

The reason for this is that the nature of profit sharing does not always guarantee an employee with a profit share annually. If the company had to perform poorly in a fiscal year, the profit share for employees can be revoked which can have a detrimental effect to employee utilisation and motivation. With a loss of profit share and hence low motivation levels, this could potentially lead to poor job satisfaction over time. Some employees that have reaped the benefits of the scheme historically tends to adapt their lifestyles to receiving a bonus. When the bonus is not paid out, these employees get highly demotivated and can result in a drop of work performance which can affect the next year's profitability of the organisation (Pouliakas 2010).

As cited in Jana and Petr (2013), senior employees in companies prefer to have a fixed salary as opposed to being exposed to the risk of profit sharing. With profit sharing, the companies are motivated to employ individuals externally thereby reducing the pay for employees within the company.

Estay, Lakshman and Pesme (2011), mentions that the main reason for profit sharing to be abandoned in companies is due to an economic slowdown which obviously affects the profitability and sustainability of a company, therefore, some employees prefer the less risk of the guaranteed package especially in times of a credit crunch.

A study by Blasi and Kruse (2010), found that even the most risk-averse employees also prefer a small portion of their remuneration package to include an incentive or risk portion as there is always large upside potential. Large number of employees in the study indicated that it is extremely unlikely that they will be looking for a new job; they will turn down any potential offers made to them even if the salary is higher, and they will be loyal to the company, etc. if their package includes an incentive or variable portion.

### **2.2.3 Management of profit sharing schemes**

Profit sharing and other variable pay systems are being used extensively in an attempt to retain excellent performing employees (Halzack 2012). One of the issues with profit sharing schemes is the fact that there may be passengers on the scheme that is content with any type of bonus they would receive, i.e. they are not

driven to improve financial performances to reap the rewards of a decent profit share. These types of employees are in their comfort zone without the real need for an incentive. In order for incentive schemes to be successful, effective management will need to be practised to weed out the passengers and further motivate the drivers. Management must implement a more cooperative culture where motivated employees apply peer pressure on the passengers and hence monitor the work of their co-workers (McCarthy, Reeves and Turner, 2010). If passenger problems persist, management should take more drastic measures to cut those employees percentages and increase those employees that do perform. Management could also invite other employees to the scheme. To realise the full potential of profit sharing schemes, it is essential that employees are issued with a decent percentage for a profit share which can be attributed to their personal performance. Some employees that do not have a decent percentage may not be motivated to go the extra mile to achieve success in the organisation, i.e. they are content with the guaranteed salary with a minimal incentive. The individual's percentage should be such that they are motivated to excel so that they can reap the benefits of a decent incentive. Profit sharing should be part of a larger strategy in that employee participation must be practiced within the organisation (McCarthy, Reeves and Turner, 2010).

The problem of passengers associated with profit sharing schemes is generally rife in larger organisations with the effects reduced in smaller organisations (Fongwa 2010). The effectiveness of profit sharing schemes in organisations can also depend on the company size which will ultimately determine the success of profit sharing. The view of profit sharing is that in larger companies the effectiveness and success of profit sharing schemes is low which could be attributed to the passengers on the scheme and is referred to as the "1/n" problem (Long and Fang, 2012). The interpretation of this is that if an employee increases their effort and hence improving productivity together with profitability, the employee has to share this achievement with all other employees on the scheme ("n") which will result in a small profit gain for the individual. If the individual is not innovative and does not improve their efforts and productivity, they can still gain due to the increased efforts of other individuals on the scheme and hence can become a passenger. The scale of this problem is believed to increase as "n"

increases (i.e. larger profit sharing pools) which suggests that large companies will benefit less from profit sharing schemes when compared to smaller companies (Long and Fang, 2012).

It is reported by British, USA and Japanese academics that employee participation and ownership in organisations tend to improve the companies' performances and productivity which ultimately leads to greater success for the organisation as a whole. Organisations can create employee ownership by allowing them to purchase shares, set stretched targets and if achieved shares can be offered to them, etc. Effective management of a profit sharing schemes also aids in retaining highly committed and talented individuals which is important for the sustainability and success of organisations (Emerson, 2012). When employees are motivated and committed to their jobs, it leads to better individual performances which the company reaps as benefits overall. Profit sharing schemes further facilitates employees to grow wealth significantly through investment generated funds as the variable portion of their packages could contribute a significant monetary value. Close management of profit sharing schemes is important as it forms a powerful tool for value creation in organisations however, if managed poorly, it can impede value creation.

Efficient and effective management of incentive schemes requires that companies should inhibit the one-man one-boss model which was typical in hierarchical organisations (i.e. top down approach) and the move should be to a more flatter structure so that lower level employees are involved in decision making to a certain extent (Toor 2009). Effective management of a profit sharing scheme encourages employees to investigate value adding innovations and practice continuous improvement techniques as the employee is rewarded whilst the company realises more profits (Phusavat and Anussornnitisarn, 2009).

The effective management of performance related pay systems is very important as these schemes could be based on subjective measures which exploit the system to inaccurate information (Aerts, Kraft and Lang, 2013). There has been substantial research with employees on a performance related pay package whose job satisfaction does not increase as the criteria used to measure performance was of a subjective nature and the actual output was not taken into

consideration (O'Halloran 2011). It is therefore imperative that an incentive based scheme must be properly managed and must be absolutely fair overall. If there are subjective criteria present in the allocation of profit share, it must be dealt with fairly as poor management of profit share allocation can be detrimental as employees may lose focus on the company's strategy.

Companies that offer stock options and profit sharing for employees generally have a low employee turnover rate than organisations that do not offer these perks. When compared to employees that have a compensation package that includes a fixed portion and a variable portion but with the variable portion being made up of commission, piece rate and tips, it was found that the employee turnover rate was very similar to those that do not receive a performance related pay. When comparing employees that receive stock options with those that receive a profit share, it was found that those with stock options are even less likely to leave the organisation as opposed to profit sharing employees. Profit sharing employees have a lower turnover rate than fixed based salaried employees (O'Halloran 2011). Scoppa (2003) as cited in O'Halloran (2011) suggests that companies whose costs associated with high turnover is high, generally implement a performance related pay system in the form of stock ownership or profit sharing as to decrease employee turnover rate. In these sorts of organisations, it can be extremely damaging to have high employee turnover as this can affect the sustainability of organisations. Employee turnover can be very costly for organisations due to the costs of training new employees together with the lower efficiency levels during the first few months on the job for newly appointed employees. The outgoing employees may also cause risk to the business as they may take sensitive information to their new employers (Heymann and Barrera, 2010).

It was found that profit sharing reduced employee turnover in many companies therefore, companies were prepared and motivated to make large investments in specific training programmes for their employees. These large training investments equip employees with the correct intellectual tools to be able to make a greater contribution to the organisation. This leads to more efficient and effective value chains which ultimately increases profitability and hence profit share together with greater employee retention. With a low employee turnover

rate, and increased investment in training, has equipped employees with the correct tools to perform their job functions more effectively and efficiently thereby enabling these employees to make a significant impact to the company. These individuals were able to increase productivity which also resulted in an increased pay package per employee (Jana and Petr, 2013). On the contrary, Bellmann and Moller (2010), cited in Jana and Petr (2013), found that there was no correlation between the positive effect of profit sharing on the stability of employment.

Senior management together with employees who has sensitive information pertaining to the company they are employed by, are generally given decent profit sharing or stock options. The rationale behind this is that these employees are extremely valuable to an organisation and if they have to leave and join competitive companies, it can cause problems. Employees who undergo intensive and extremely expensive training are also locked in with profit sharing or stock options as re-training new employees would be an expensive exercise together with the fact that the employees leaving an organisation has been equipped with the correct tools to perform well in other organisations. This may even lead to organisations losing their competitive advantage to a certain extent (Heymann and Barrera, 2010).

The two broad models that are associated with performance related pays is the classic agency model and the agency theory. The classic agency model of performance related pays indicate that companies fully compensate employees on performance related pay systems for the risk evident in these schemes hence, employees have the same level of utility than what they would have had in a time-rate position. As per the agency theory, employees job satisfaction will be no different when compared to a time-rate position hence similar employee turnover can be expected (O'Halloran 2011). Heywood and Wei (2006) cited in O'Halloran (2011), indicate that profit sharing generally has a positive relation to job satisfaction as individuals are motivated to innovate which is beneficial for the organisation and individual. When job satisfaction is at a high in companies, it relates to low employee turnover as opposed to poor job satisfaction.

Profit sharing schemes enable companies to lower their marginal labour cost when employees are offered compensation packages that include the profit share as a

variable portion. The reason for this is that if the company is not profitable in a period, the company only has to pay a base salary. The base salary would have been used in the financial analysis of the organisation in order for the company to be profitable. With employees on the profit sharing scheme, they are generally motivated to excel and add value to the company by implementing innovative ideas which results in greater profitability of the company and an increase profit share for the employee. The base salary for profit sharing employees are generally lower than time based employees but historically, profit sharing employees earn more due to the profit share. This enables the company to minimise labour cost with huge potential for greater profitability (Lima 2011). Deutsche Bank has initiated an incentive scheme that has historically paid out large bonus, however, this strategy of the bank was to ensure that the banks fixed costs were kept to a minimum (Ross and Schafer, 2014).

Profit sharing schemes in Canada and USA is generally used as a retirement savings vehicle (Long and Fang, 2012). It can be recommended that companies do away with the current retirement savings plans that are in the form of a fixed commitment from the employer and employee and in place there could be a variable profit sharing scheme that is contributed to an individual's retirement (Long and Fang, 2012). In this way, the employees' salaries would be fixed and if they want to contribute significantly to retirement, they need to perform well in their respective positions so that a decent profit share for retirement is possible. This type of scheme may not be beneficial to all individuals as the younger generation that is not even thinking about retirement, may not be motivated by this scheme. As per Long and Fang (2012), human capital (i.e. highly skilled, competent, qualified, innovative, etc. employees) would anticipate an increase in total employees earnings over time with the implementation of a profit sharing scheme.

There may be some employees on profit sharing schemes whose position does not allow them to add value or contribute to the profitability of the company. These employees may be in senior positions but should not be given a profit share. It is these types of employees that should rather command a higher guaranteed package with very little or no variable portion. The portions that these individuals have should be distributed among other employees who can add financial value. It is therefore imperative for profit sharing schemes to be closely managed to

identify and remedy these issues. There is huge potential and lots of opportunities to value add by properly managing an incentive scheme.

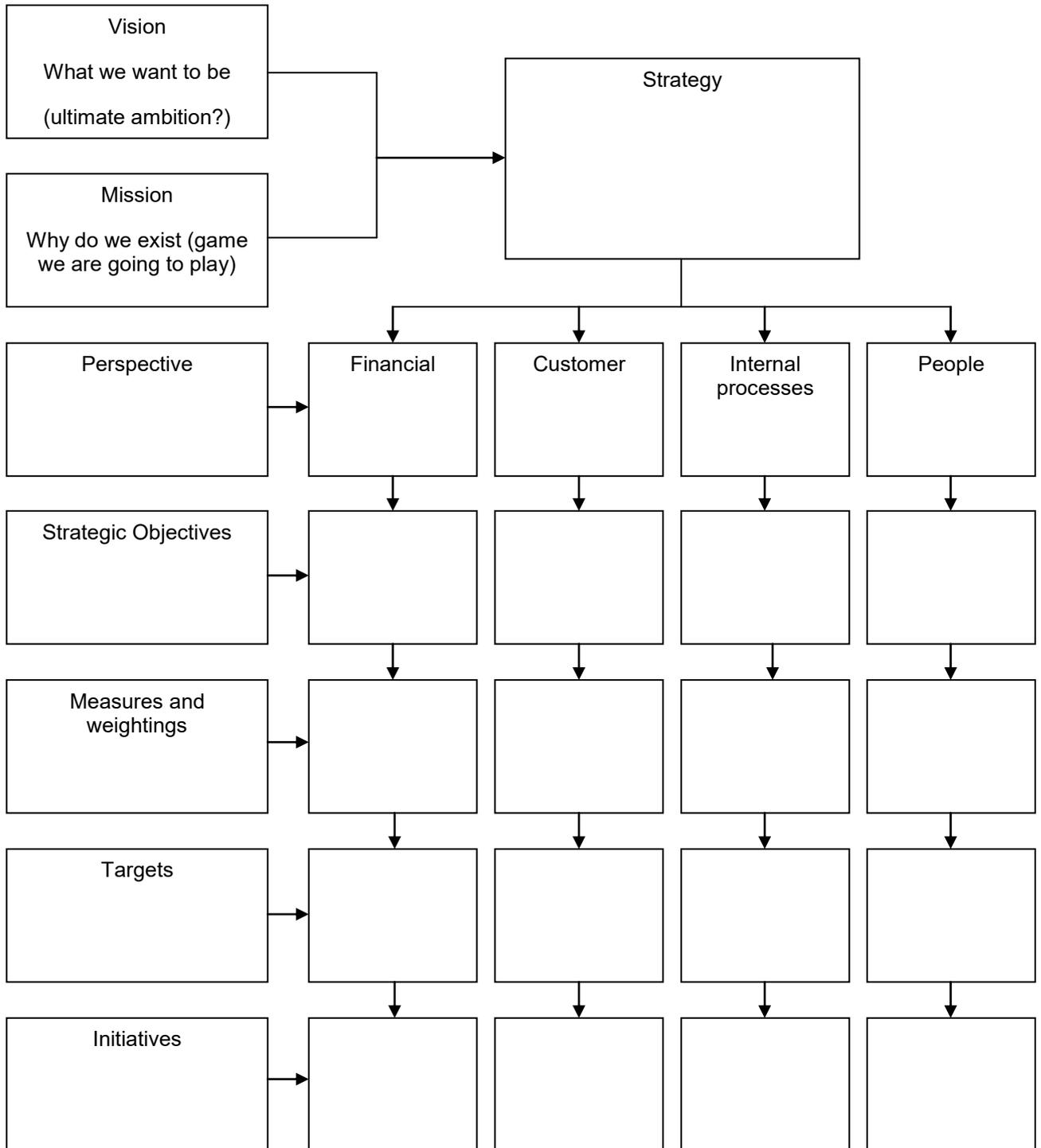
Workers exposed to incentive schemes generally act as if they are co-owners of the organisations and therefore work hard for the success of the company with these individuals benefiting from the enhance performance. Incentivised employees also acts as “watch dogs” for each other which can have the tendency to reduce supervisory costs associated with the company as it ensures sustainability over the long term (Fongwa 2010). This can result in conflict in the work place but it is important for senior management to intervene and find a resolution with reiterating that the ultimate goal is to improve profitability.

It is believed that for a profit sharing scheme to work and be beneficial to companies, it needs to include all employees, not only managers or senior staff as this is rife in the European Union. This will require that all individuals to participate in making a difference and motivates employees to work together efficiently and effectively as all employees will be knowledgeable of the fact that they will all benefit with their improved labour input. The result of this is that supervision costs could be reduced to negligible amounts which will ultimately lead to cost reduction which inadvertently leads to improved profitability (Fongwa 2010). Cost reduction initiatives with improved profitability are strategies that ensure sustainability of any organisation. Employees, who have the ability to lead their company, also need to be involved at the company’s board levels as the employees know best of what is happening in the organisation since they have a better understanding of the business. This can result in higher performances, cost reduction and improved productivity as some of the politically appointed executives may not have the appropriate capacity to increase the key drivers to push the company to the highest levels of efficiencies (Fongwa 2010). It is recommended by Fongwa (2010) that profit sharing should depend on an employee’s total compensation package in the form of salaries, earnings and benefits. The effect of this is that employees with a long tenure will receive a greater proportion of the profit share thereby reducing the risk of high employee turnover (Fongwa 2010).

#### **2.2.4 Profit sharing schemes linked to a performance management tool**

Historically, performance management was mainly determined based on the financial performance of an organisation; however, it was found that this was not always useful as sustainability is not only based on financial performance. This led to the development of the balanced scorecard as a performance management tool (Manville 2007). The balanced scorecard is a means that has been used extensively to measure performance. This type of system includes relative weightings from a financial, customer, internal business processes, innovation and learning perspectives (Evans 2007). The selection of the key performance indicators for each employee for a specific division is critical for the efficient and effective evaluation of each employee (Phusavat, Anussornnitisarn, Helo and Dwight, 2009). A balanced scorecard system aids in identifying and implementing correct measures by aligning them with the vision and strategies for the organisation (Evans 2007).

According to Hough et al (2011), the balanced scorecard aids managers and other stakeholders to focus on strategic issues prevalent in an organisation as it acts as a map to achieve the organisational set goals and targets. According to Kaplan and Norton (1992), the balanced scorecard is the navigation tool for managers to achieve future competitive success.



**Figure 2.1** The balanced scorecard

Adapted from Hough, J., Arthur, A., Thompson, J.R., Strickland III, A.J., Gamble, J.E., 2011. *Crafting and Executing Strategy – Creating sustainable high performance in South Africa: Text, Readings and Cases*. 2<sup>nd</sup> Edition. McGraw Hill

Figure 2.1 above highlights how the different components of the balanced scorecard are integrated. The balanced scorecard acts as a link between the

strategy of an organisation and the employees who are responsible for the implementation of the strategy (Hough et. al. 2011). The balanced scorecard can thus be a very useful tool if it can be utilised to measure performance which will enhance the efficiency of a variable pay system, e.g. a profit sharing scheme.

Another tool to measure performance is the Malcolm Baldrige system that groups performance measurement into five major categories; customer, financial and market, human resource, supplier and partner performance and organisational effectiveness (Evans 2007).

Performance measurement has become a key indicator to measure employee progress in organisations. Performance management contributes to the effective management of employees in order to increase organisational performance (Lam 2008). It has gained huge recognition from academics and acceptance from companies over the past 20 years with the measurement tool including both financial and non-financial information (Phusavat, Anussornnitisarn, Helo and Dwight, 2009). Liebowitz et al. (2007) cited in Phusavat, Anussornnitisarn, Helo and Dwight (2009), indicates that there are three basic questions that need to be analysed, namely, how well a company is performing currently, are the objectives of the company being met and how much has the company improved in its last financial period? (Phusavat, Anussornnitisarn, Helo and Dwight, 2009). Kaplan and Norton (2004), and Pongatichat and Johnston (2008), cited in Phusavat, Anussornnitisarn, Helo and Dwight (2009), suggests that a performance measurement tool must be aligned with the company's overall mission, policies, and ultimately objectives. Performance management has begun to play a very important role in all industries as the database has become more robust and flexible with effective performance management becoming possible with the advancement of information technology (Phusavat, Anussornnitisarn, Helo and Dwight, 2009). In order for a performance measurement system to be effective, it must include the correct basket of indicators with the correct weightings for each indicator to evaluate performance, e.g. a method to evaluate the financial performance of a company, by using ratios like earnings per share, return on assets, profit margin, etc., cannot be fully utilized at the plant level where equipment downtime, yield, unscheduled stoppages, etc. may be prevalent. If this is the case, an individual who works in the finance department but whose

performance measurement is weighted heavily on yield, production, quality, etc. would be unfair to that individual and vice versa for an individual in production. It is therefore critical to have the performance measurement system based on an individual's department and job with the correct weightings (Phusavat, Anussornnitisarn, Helo and Dwight, 2009).

Some organisations realise that by solely focusing on profitability, employees tend to not look after other weaknesses within the organisation which can lead to sustainability issues. It is for this reason that some organisations setup strategy sessions and perform a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis thereby identifying key areas of focus. With key issues identified during a SWOT analysis, management can link these issues with the profit sharing scheme thereby ensuring employees are not only focused on profitability, but also other facets of the business that is exposed to risk (Bos 2010).

Although some literature indicates a positive relationship between employee profit sharing and financial performance of organisations, there are indications that profit sharing can have a negative effect on the performance of an organisation. It is therefore recommended that profit sharing schemes should have some aspects of non-financial objectives, e.g. environmental, people development, etc. (Estay, Lakshman and Pesme, 2011).

A recent case study on 3C indicated that the company implemented an incentive plan for their buyers whose performance was linked to sales and gross margin. The idea behind utilising these two indicators to incentivise buyers is that if these two indicators have to improve, it will result in higher income for the organisation. The problem with output based incentive schemes is that at times it may not be beneficial for the company as individual's roles and responsibilities may not tie in with specific managed indicators. In order for a company to operate, different employees from different departments may have multiple tasks that may not be linked to indicators utilized for profit sharing hence, these individuals may feel disadvantaged by the scheme which can bring about negativity in the organisation. It was therefore recommended that in order to implement a successful profit sharing scheme, companies need to measure and compensate employees on all critical aspects linked to their job to bring about fairness in an organisation and the

use of a performance management tool may be able to achieve this. The results of the case study for 3C indicated that the purchasing department performance deteriorated after the buyers were offered to be incentivised. In this organisation, purchasing performance was measured by gross margin return on inventory investment (GMROI) which has been the key indicator that has been quoted in literature. It was further determined that the gross margin did improve after the implementation of the incentive plan however, the GMROI decreased due to the inventory turnover reducing. It was assumed that after implementation of the incentive plan, buyers focused most of their efforts on improving sales and gross margin as their incentives were linked to these indicators but this was done with the downside being poor inventory management. This further indicates that companies should design incentive schemes that include a basket of indicators such that the sustainability of the company is not at risk (Chu, Cho and Liu, 2010). Senior management should be extremely wary of how they design profit sharing schemes due to the possibilities of negative impacts for the organisation, e.g. dysfunctional behaviour, sustainability, etc.

An effectively managed profit sharing scheme should ideally be linked to a performance management tool that must determine an employee's remuneration in terms of their variable pay piece of the salary. The common theme with profit sharing schemes is that they are mostly linked to the financial performance of the company and therefore does not meet the holistic overall organisation strategy. It is therefore recommended that a balanced scorecard is utilised as it does not only focus on the financial well being of a company, but also takes into consideration non-financial goals, i.e. environmental, human resources, etc. (Chu, Cho and Liu, 2010).

Phusavat and Anussornnitisarn (2009) highlighted that it will be very difficult to manage an organisation efficiently and effectively without a performance management tool linked to a basket of different key indicators. It has been reported that ISO 9001:2008 and the European Foundation For Quality Management Excellence Model, stipulates that performance measurement is a vital part of their requirements.

Some senior employees from a variety of sectors believe that a performance management and measurement system is a necessary tool for successful and effective management (Phusavat, Anussornnitisarn, Helo and Dwight, 2009). Profit sharing schemes linked to a performance management tool can be very effective as individuals will try their best to be involved holistically within a certain department and will try to excel in all divisions so that a good performance measurement score can be achieved.

It has been observed that companies that conduct formal reviews and utilise performance measurement systems have generally reported better financials than organisations that do not. Employees therefore are driven to perform in all areas that they are measured on so that the overall financials of the company can improve and hence their individual profit share, provided that they have gained a good performance score (Evans 2007). A performance measurement system is extremely important especially when an organisation experiences rapid growth (Manville 2007).

Implementing a balanced scorecard as a strategic management tool to measure employee performances within organisations seems to be a trend that is followed globally (Pangarkar and Kirkwood, 2008). The absence of a performance management tool can be a risk to the organisation, e.g. when quality is critical in a production facility, one may allow product to pass as they are consistently looking at the revenue earned from the sale not of the risk that a poor quality product can cause to the company. If an individual is judged with a balanced scorecard, the individuals will be very wary of the quality aspects as a poor quality control system can lead to a low performance score. Not implementing a performance management system can be a risk to the business (Shukla 2009).

### **2.3 Chapter Summary**

There has been research conducted that suggest that there is a positive relationship with profit sharing schemes and the financial performance of organisations, however, this is true when there has been high levels of employee involvement, work related decision making and sufficient access to business information sharing in organisations (Estay, Lakshman and Pesme, 2011).

The impact of profit sharing on profitability and productivity may be ambiguous, but the vast majority of the literature indicates either a neutral or positive effect on profit sharing in organisations (Jana and Petr, 2013).

Long and Fang (2012) cited in Jana and Petr (2013), reports that the research that they conducted indicates a positive impact of profit sharing on individuals earnings. Bayo-Moriones and Larraza-Kintana (2009), cited in Jana and Petr (2013), has also found a positive impact between employee commitment and profit sharing.

Based on the literature review, it is evident that a fruitful research study on this topic will be possible hence the researcher proceeded with the study. The void that this study is able to exploit is to identify whether a profit sharing scheme motivates employees within FFS Refiners (Pty) Ltd and how the current pool of profit sharing employees believe the scheme should be operated. It will further highlight the preferences of employees with respect to their salary packages and how to maximise the benefits of a profit sharing scheme. The details of the research methodology have been highlighted in the proceeding chapter.

# CHAPTER THREE

## Research Methodology

### 3.1 Introduction

Effectively conducted research can assist organisations to solve specific problems in a step by step logical and organised way. The research process consists of problem identification, data gathering, analysis of the data and finally drawing conclusions based on the data (Sekaran and Bougie, 2013).

The chosen research topic was “Effectiveness of the Profit Sharing Scheme within FFS Refiners (Pty) Ltd”. A critical literature review was conducted with the research objectives being formulated. The aim of a literature review is to understand what academics and researchers globally have investigated within the field of the chosen topic. Subsequent to the literature review, the objectives of the study were set and questions for each objective were formulated. The topic of research was submitted for ethical clearance prior to the collection of data. Once ethical clearance was granted, the formulated questionnaire was designed on Question Pro and distributed to the sample population who received the notice to complete the survey via email. The data was collected and thereafter analysed with valid conclusions and recommendations made.

There has been many debates regarding the effectiveness of the profit sharing scheme within FFS Refiners (Pty) Ltd and how it could be improved or optimised to create maximum benefit hence it was clear that there was a need for this research study.

### 3.2 Objectives of the Study

**The objectives of the study that were identified include:**

3.2.1 To determine if the profit sharing scheme acts as a motivator to employees;

3.2.2 To determine if employees on the profit sharing scheme would rather have an increase in salary as opposed to being exposed to the risk of the scheme;

3.2.3 To determine if the monthly management of the profit sharing scheme would be more beneficial.

3.2.4 To determine if the profit sharing scheme needs to be linked to a performance management tool, e.g. balanced scorecard.

**The critical questions which the researcher has tried to answer by initiating this research are as follows:**

3.2.5 Does a profit sharing scheme act as a motivator to existing employees on the scheme?

3.2.6 Would employees prefer having an increase in salary and no profit share to eliminate the risk inherent in profit sharing schemes?

3.2.7 Would an actively monthly managed profit sharing scheme be more beneficial for the company?

3.2.8 Would it be more beneficial for the organisation to link an employee's profit share with a performance management tool, e.g. a balanced scorecard?

### **3.3 Participants and Location of the Study**

The envisaged participants for the study were all the employees that are currently exposed to the profit sharing scheme at FFS Refiners (Pty) Ltd. The total number of employees on the incentive scheme within the company is fifty two (52) which makes up the population size for the study. The population participants include executives, senior/middle/junior managers, engineers, supervisors, accountants, environmentalist, legal, administration, human resources, marketing, chemists, etc. It is highly possible for views of employees to change based on their seniority in the company. The main attributor to this is that senior employees may be resistant to change the mechanism of the scheme due to the current scheme benefitting them and change could affect their personal profit share.

The research conducted was based on a confidence level of 95% with a margin of error of 3.5%. By interpolation for a population size of 52 participants, the sample size required was 48 individuals. If the margin of error was 5%, a sample size of 46 individuals would have sufficed. The 3.5% margin of error highlights that the

results from the sample is more indicative of that of the population (Raymond 2012). For this particular study, a response rate of 92% was achieved.

The incentivised employees are spread around the country and are based at different refineries together with the Head Office. The location of the participants of the study is within the borders of South Africa with all incentivised employees being distributed between Durban, Pietermaritzburg, Chloorkop, Evander and Cape Town. The Durban based employees are distributed between the Head Office and the Durban based refinery.

### **3.4 Data Collection Strategies**

There are three main methods to collect data which includes questionnaires, observation of people and interviewing the participants (Sekaran and Bougie, 2013). For the purpose of the current research, the data collection method that was used was a questionnaire which was administered to the population. The questionnaire was designed such that there was no biasness. Data collected can be either primary or secondary in nature with the current research data being that of primary data, i.e. information received directly by the researcher from active participants.

The advantage of utilizing questionnaires as a data collection strategy, i.e. quantitative analysis, is that it is less time consuming and less expensive when compared to observations and interviews. Questionnaires can be disseminated globally with very fast and efficient delivery to participants. Individuals can respond to the questionnaire in their own time and convenience (Sekaran and Bougie, 2013).

The disadvantage of questionnaires is that there is a large chance of non-responsiveness and non-response error. A further disadvantage is that computer literacy is a must for electronically distributed questionnaires and participants must have access to computers. They must also be willing to partake in the survey (Sekaran and Bougie, 2013).

The questionnaire distribution media to the population size can be undertaken by means of mailing to respondents, administered personally or electronically distributed. Electronically distributed and mailing to respondent questionnaires

main advantage is that a wide geographical region can be reached with very little effort from the researcher, and the participants can complete the questionnaire at their leisure. The disadvantage here is that any ambiguity or vagueness in the questionnaire cannot be clarified easily and the return rates for such a strategy is low (Sekaran and Bougie, 2013). The questionnaire formulated in this research was administered to the population by means of electronic media, i.e. Question Pro.

Once ethical clearance was obtained, the questionnaire formulated was distributed to the population to obtain the research data. It was found that a total of 48 employees participated in the survey thus making up the sample size.

### **3.5 Research Design and Methods**

Research design sets out the plan for the proceeding steps of research analysis. It highlights how one wants to conduct research in terms of the type of research to be conducted together with how the data collected will be statistically analysed. The statistical analysis will thereafter be linked to answering the research questions and objectives.

#### **3.5.1 Description and Purpose**

Research can be conducted either quantitatively or qualitatively with the former being in the form of a structured questionnaire whereas the latter is in the form of interviews (Anderson 2006). The method selected for the current research was that of a quantitative nature hence the generation of the questionnaire. The aim of quantitative research is to collect data on a certain topic, count the responses and statistically analyse the data set so that an explanation can be constructed for what has been observed (Babbie 2010). The main reason for following a quantitative study as opposed to a qualitative one is that the researcher was able to compare data in a more systematic way and hence was able to generalise the population. A key requirement was to collate data for a large enough sample of the population as the outcome of the data had the potential to change a major portion of employees pay packages.

### **3.5.1.1 Construction of the Instrument**

The three main criteria required for questionnaire design is that it must be worded correctly so that participants are able to understand and relate to the questions. Secondly, it is important for the researcher to understand how the responses will be dissected, coded and statistically analysed. Thirdly, the appearance of the questionnaire is important. It is critically important to ensure that the questions are not biased as this will result in skewed results and analysis (Sekaran and Bougie, 2013).

There are 2 types of questions that can be presented in a questionnaire, i.e. open or close ended questions. Open-ended questions require the participants to list answers as per their perceptions or opinions whereas closed-ended questions ensures respondents selects from a given set of alternatives. Likert, ordinal, nominal and ratio scale type of questionnaires are considered to be closed-ended questions (Sekaran and Bougie, 2013). In the case for the current study, closed-ended questions were utilised in the form of Likert Scale only. The use of Likert scale enabled the questionnaire to be more efficient and effective as respondents had to choose from a predetermined set of alternatives. This further allowed respondents to complete the survey timeously.

Respondents generally have a tendency to select the option at the extreme ends of the questionnaire and to avoid this, positively and negatively worded questions were formulated. The added advantage of this is that respondents tend to pay closer attention to questions when this strategy is incorporated into the construction of the questionnaire (Sekaran and Bougie, 2013). This was practised in the formulation of the current questionnaire.

Double barrelled, leading and loaded questions were avoided as this would have brought about confusion and ambiguity into the survey media. The survey that was designed ensured that the responses were bias free as anonymity of the participants was a requirement. The primary reason for this was that the researcher did not want the participants to be pressured into answering a question favourably, i.e. avoiding biasness, which may have occurred if the researcher knew each individuals responses.

On completion of the literature review, research objectives could be highlighted and were set. A set of pertinent questions relating to each objective was constructed so that the research questions and objectives were answered appropriately.

Several ethical considerations were implemented when conducting the survey which included, but not limited to, that people from the population size were not compelled to participate in the study, the researcher designed the questionnaire such that participants are anonymous thereby safeguarding confidentiality of employees, etc.

### **3.5.1.2 Recruitment of Study Participants**

Surveys are efficient and effective tools in terms of gaining insight to a particular topic through data collection and analyses, however, if the correct individuals are not selected to participate, it will distort the findings which can be detrimental to the organisation concerned.

The entire group of people that the researcher wants to investigate is considered the population (Explorable.com 2014). Selecting a certain number of key employees from the total population of individuals is termed sampling. The sample size must be of a certain amount so that statistically, the sample can represent the entire population (Sekaran and Bougie, 2013). For the current study, the population was all the employees that are currently on the profit sharing scheme within the company. Their positions range from junior management to executive management. The total population size was 52 individuals with the sample size being 48. This ensured that a 95% confidence interval for the analysis was satisfied with a margin of error being 3.5%.

The sampling mechanism that was utilized was probability sampling for which simple random sampling was practised, i.e. every person in the population had an equal chance of participating.

### **3.5.2 Pretesting and Validation**

It is important that prior to a questionnaire being distributed to a population, it must be administered to a small focus group of individuals to ensure that the questions

are easily understood by the participants and that there is no ambiguity or biasness attached to the questions. If there are any statements that need clarification, this can be accomplished by using a pretesting mechanism prior to the official survey being issued.

For the current research, a focused group was selected for pretesting the questionnaire. It must be highlighted that the focused group that was selected was not arbitrary, participants were included in the focus group for reasons which are highlighted. One individual who formed part of the focused group was actually the founder and implementer of the current profit sharing scheme within FFS Refiners (Pty) Ltd. Another individual who was selected was someone who was recently appointed and was exposed to a different type of incentive scheme at a multinational company. It was insightful on his thoughts regarding the current scheme and the variable pay system he was exposed to at his previous employer. This enabled him to be a valid contributor to this study as he was able to identify synergies between the 2 different incentive schemes and hence was able to integrate the positives of both systems whilst removing the negatives. Another participant who is not with the company for too long now, accepted to take a pay cut from his previous job to join the company. This individual's salary was less than his salary at the former employer, however, when the profit share was paid out to him, his package became far superior to his previous package. The new package became superior to market related pays as well. There was an individual selected who has been with the company for many years and at different positions at different branches. He was subjected to multiple profit pay outs and hence his input was valuable. The remainder of the focused groups were key individuals in the FFS Refiners (Pty) Ltd system.

The participants of the focused group are employees from different branches and various levels in the organogram, i.e. focus group included the CEO, COO, Engineering Manager, Branch Manager, Engineer and Accountant. All of these individuals have been on the current incentive scheme. It was found that an individual felt that there was biasness to some questions. The researcher discussed this with the incumbent and managed to come to agreement and made the necessary changes to the questionnaire. Another issue highlighted by a participant was that there was one question that was a doubled barrelled question

and should be remedied by converting it into two separate questions. This was confirmed and implemented by the researcher. It was further identified by an individual that the questionnaire required implementing other options regarding profit sharing schemes which was an excellent addition to the questionnaire. An individual mentioned that in some positions in the organisation, one may not be able to be innovative and value add due to that particular position's job description and should be included in the research. It was agreed that this was an intelligent, common and practical issue. An individual mentioned that the current research is purely based on financial performance and believed that it should look at a basket of indicators. The researcher agreed on this as in the modern era, it is not only financial performance that affects the sustainability of an organisation but other factors, i.e. 3 P's (Profit, People and Planet) as well. Focusing solely on financials, can put the business at risk in terms of sustainability.

Collectively, these individuals were able to add immense value to the questionnaire design as the researcher removed and added questions pertinent to the research. With the insightful inputs of the focus group, the questionnaire was amended and finally administered to the population size.

### **3.5.3 Administration of the Questionnaire**

After pretesting the questionnaire with the focused group, the final questionnaire was designed on Question Pro and distributed to the entire population size via email. All respondents received an email indicating that they are requested to complete a survey. They were advised that the survey should not take them too long to complete.

Reminders from Question Pro to the population were sent out weekly to participants to complete the survey if they had not done so. When it was close to the data exporting stage from Question Pro, the population participants were emailed and notified that it was the final reminder as the survey was to be complete.

The responses were captured on Question Pro and was automatically graphed. Subsequent to this, summary tables were generating for all questions pertaining to

each objective and finally the data was converted to a score with a graph to highlight the association with the research objective.

### **3.6 Analysis of the Data**

It is imperative to convert the data into a measurement or scale once the questionnaire was completed, i.e. in the form of numbers. When this is done, one is able to perform statistical analysis on the “numbers” from the questionnaire. There are four basic types of scales that can be utilised to aid in the analysis of data, viz. nominal, ordinal, interval and ratio (Sekaran and Bougie, 2013). For the purpose of the current research, interval scale was utilised which enabled the researcher to perform arithmetical operations on the data collected. The rating scale utilised for the research was that of Likert Scale which is constructed to examine how strongly participants agree or disagree to various statements.

At the end of the survey, the data was coded by Question Pro with the descriptive statistics being generated. The descriptive statistical analysis includes frequencies (percentages), mean, and standard deviation. Pearson’s correlation analysis was carried out to find significant relationships between variables.

### **3.7 Chapter Summary**

Research methodology forms a pivotal role in providing structure to the research project together with aiding in statistical analysis. It provides direction for the researcher to accomplish their objectives efficiently and effectively. The methodology of the research is explained in sufficient detail with the aims and objectives of the research identified. The location and participants of the study were detailed together with the data collection strategies.

In terms of the research design and methods, details were mentioned regarding the construction of the questionnaire together with the recruitment of study participants. Prior to the questionnaire being issued for completion, the pretesting and validation of the questionnaire was conducted by consulting and forming a focused group of key participants. The administration of the questionnaire was discussed.

The proceeding chapter highlights the presentation of the data together with the discussion of the results established.

## CHAPTER FOUR

### Presentation of Results

#### 4.1 Introduction

The timeline given to participants to complete the survey was 4 weeks. The entire population was sent weekly emails as a reminder to complete the questionnaire. The data that has been generated from the questionnaire on Question Pro has been analysed and reflected below. The numbers of respondents that participated indicate that the researcher was able to achieve Confidence Interval of 95% thereby indicating that the results achieved is reliable and is representative of the population, i.e. all profit sharing employees at the organisation. The data has been statistically analysed so that conclusions can be drawn from the data with the corresponding research objectives.

#### 4.2 Results

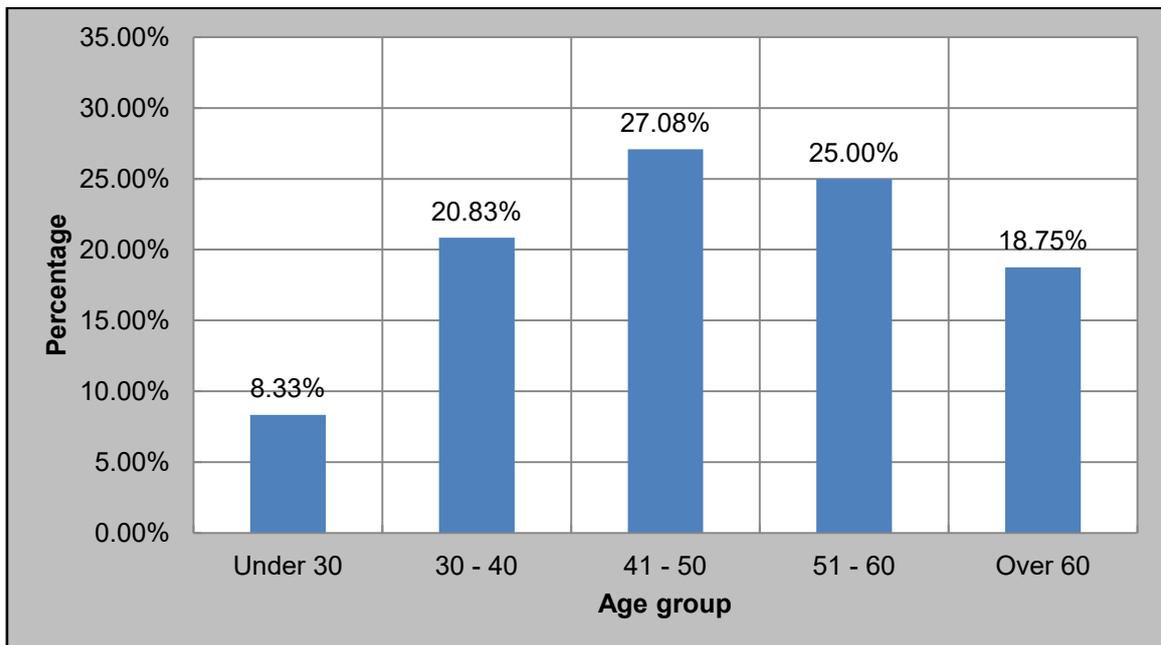
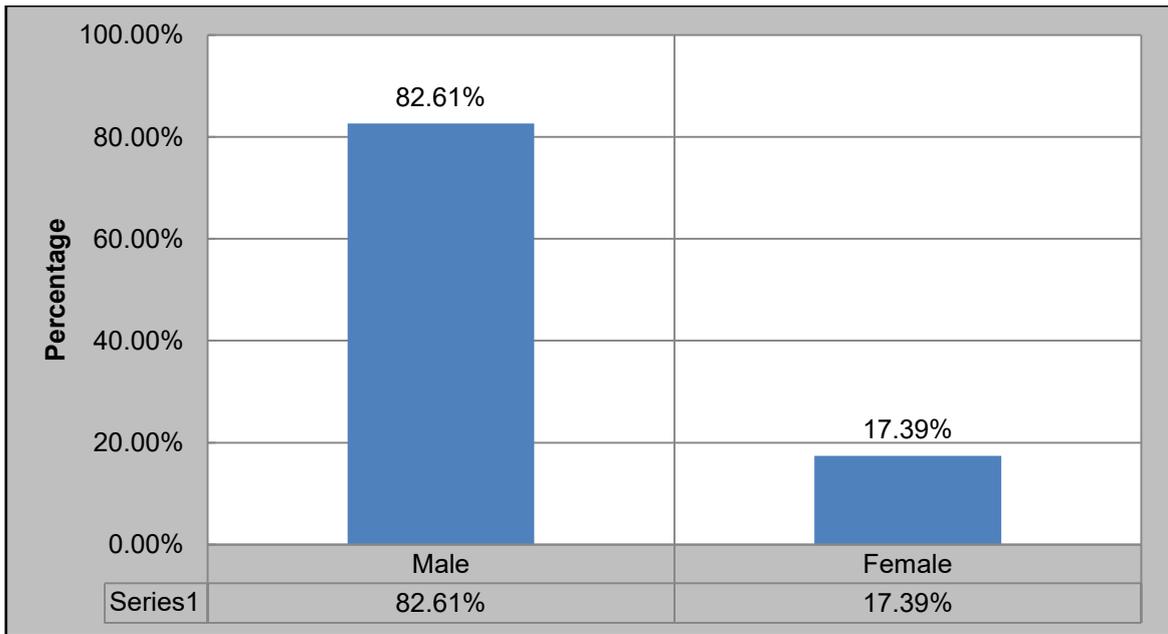
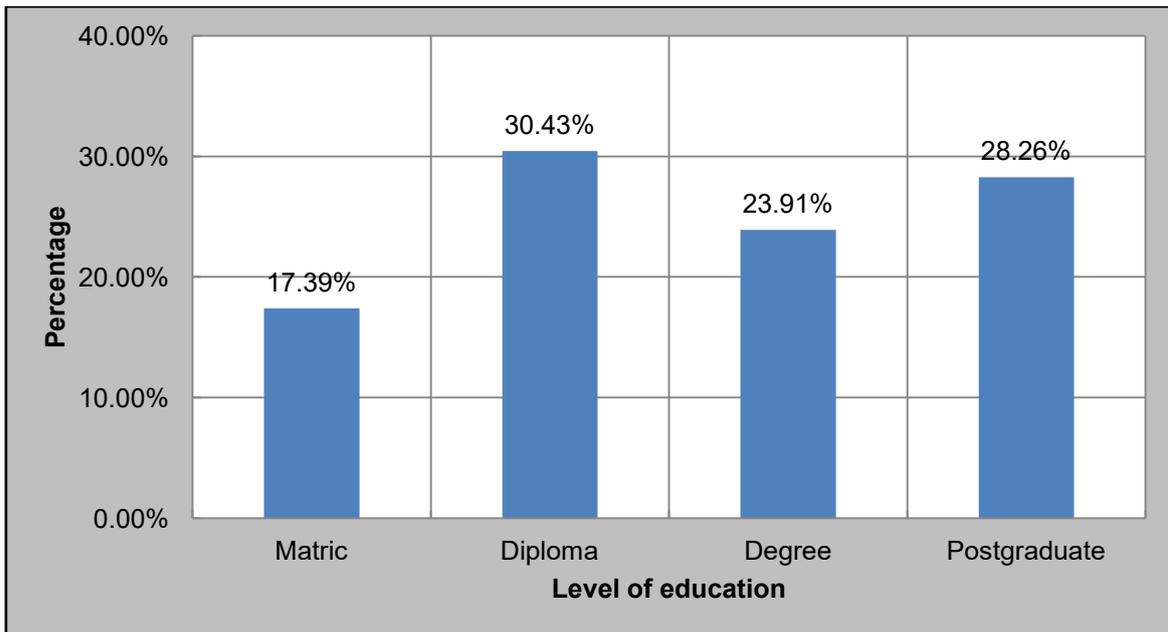


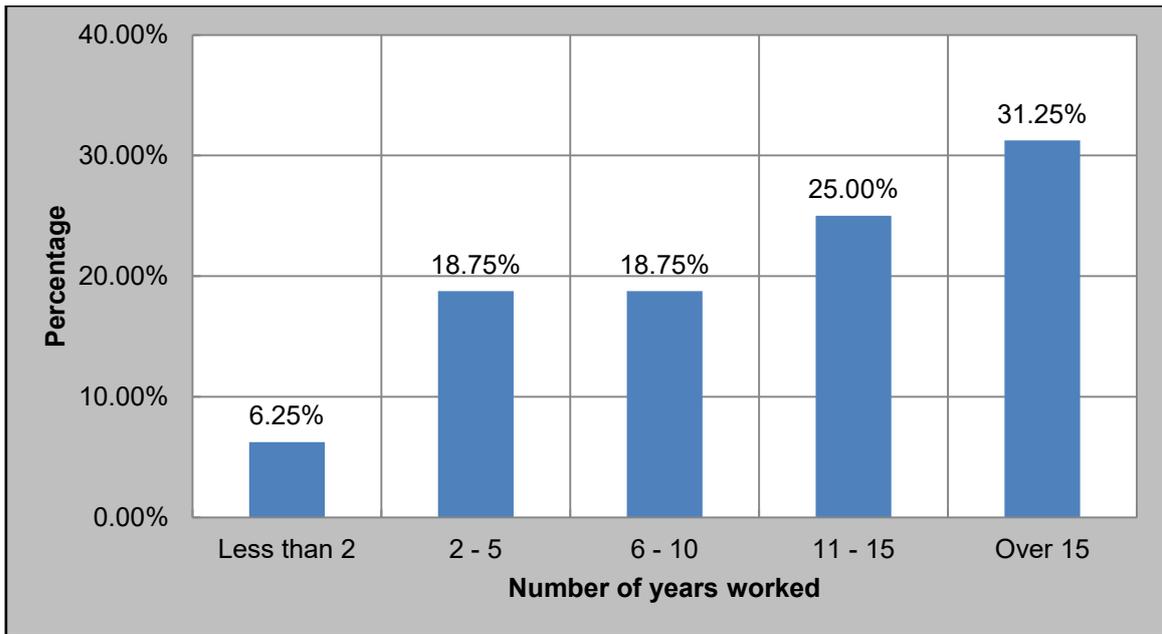
Figure 4.1: Age distribution of the participants



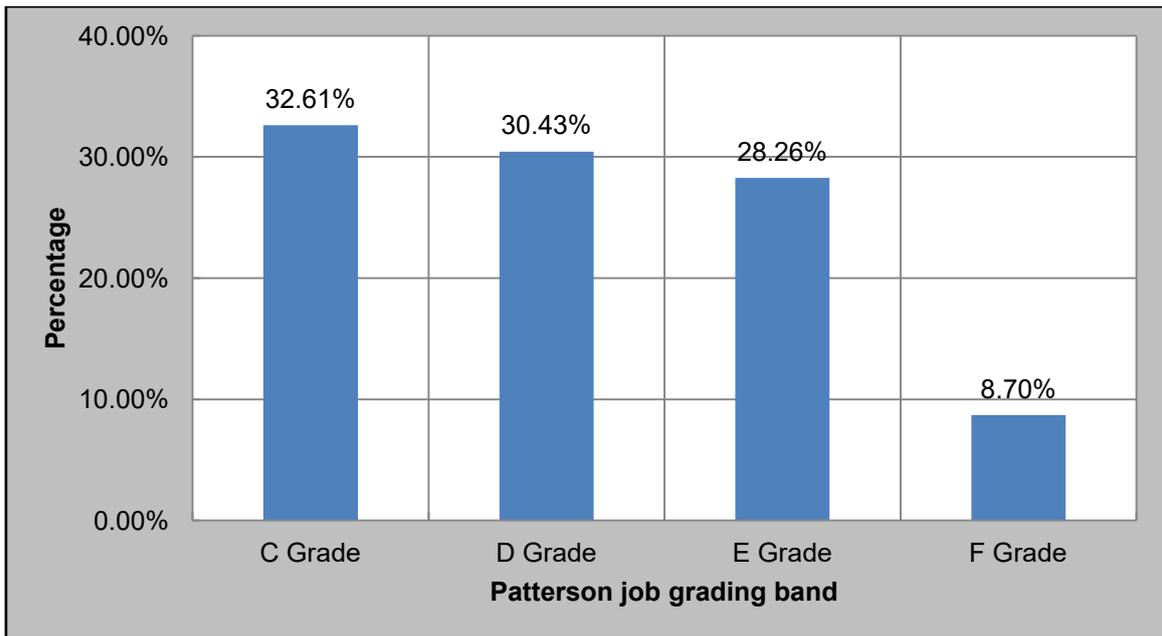
**Figure 4.2:** Frequency distribution of gender of the participants



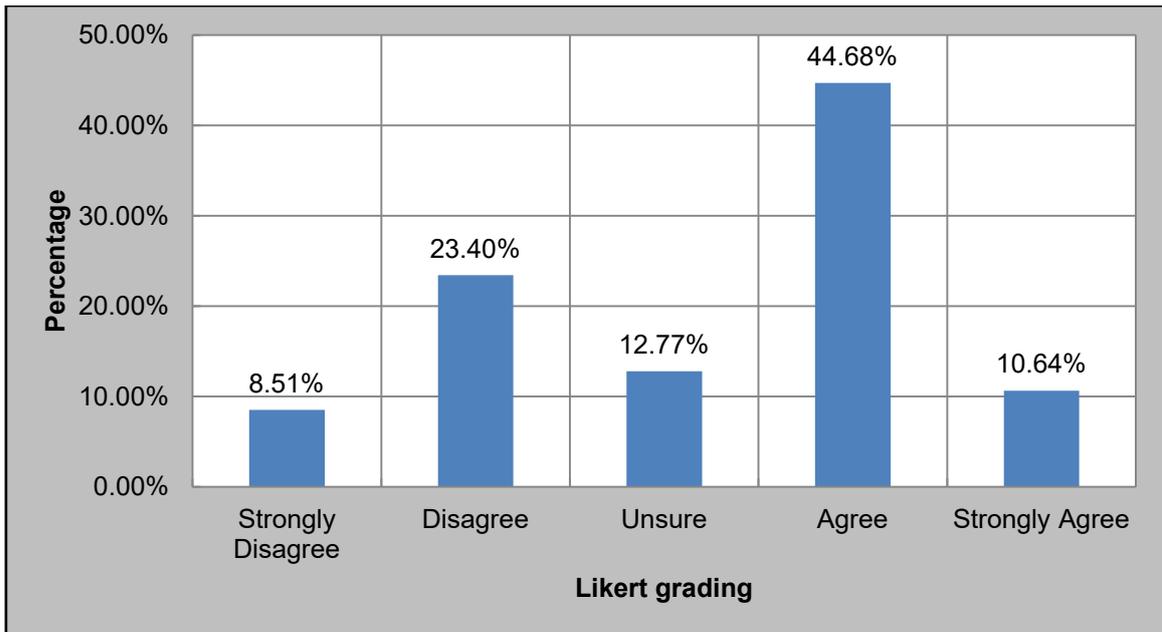
**Figure 4.3:** Distribution of participant's level of education



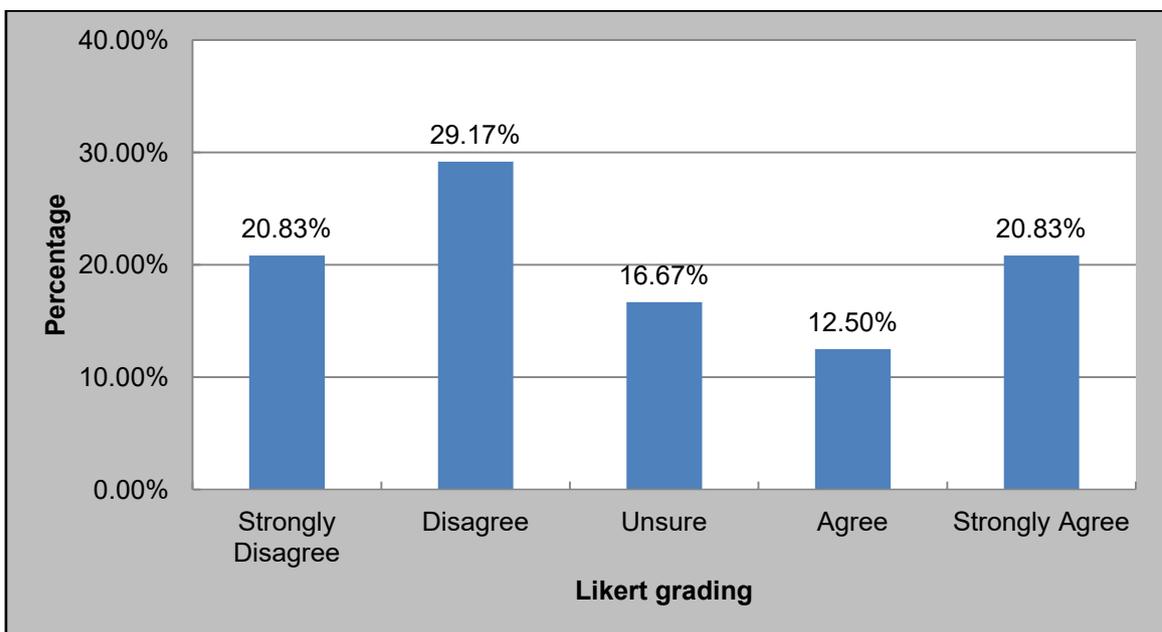
**Figure 4.4:** Years of experience of the participants



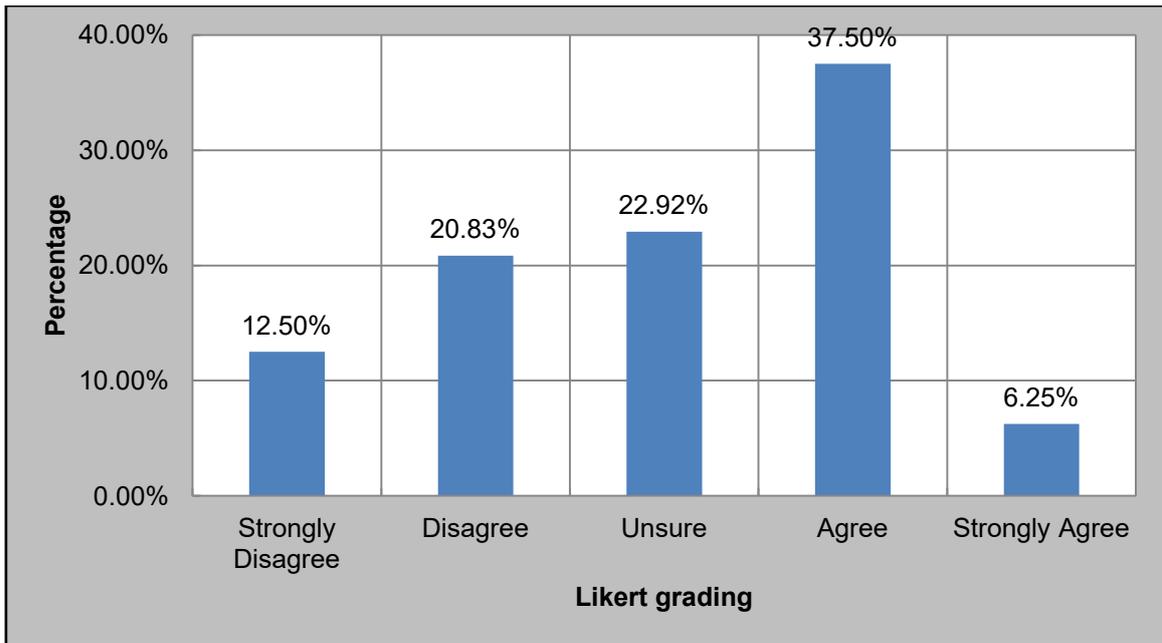
**Figure 4.5:** Distribution of job grading of the participants



**Figure 4.6:** Respondents output would not be the same if they were not on the profit sharing scheme and only received a 13<sup>th</sup> cheque



**Figure 4.7:** The consensus of having one profit sharing centre

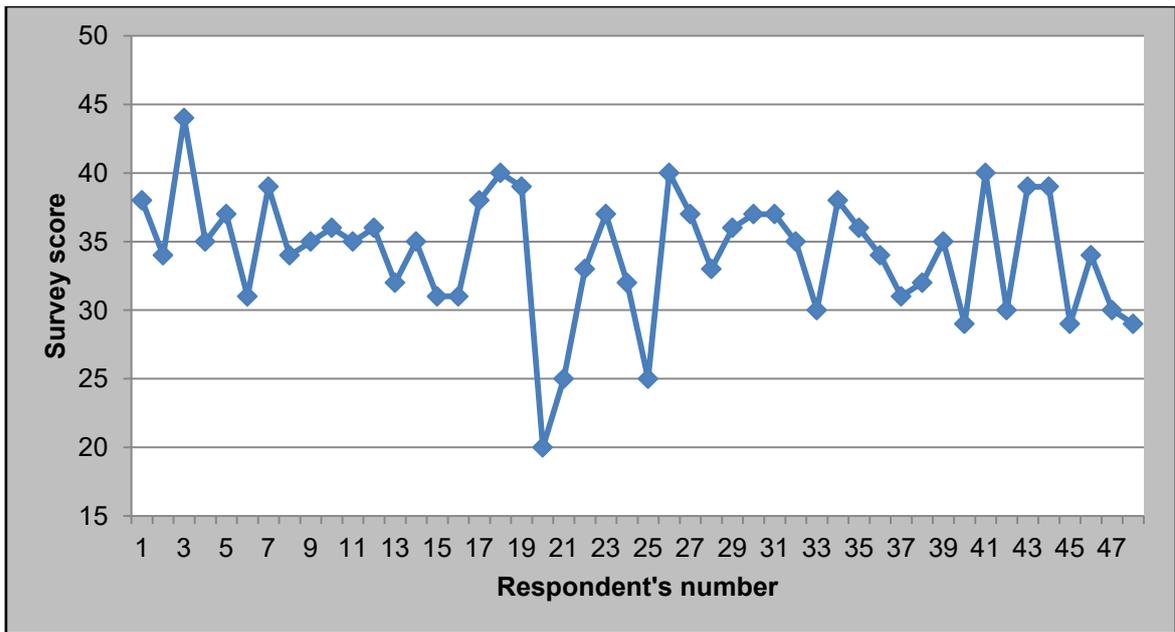


**Figure 4.8:** Branch level profit share should be a combination of company profits together with branch profits

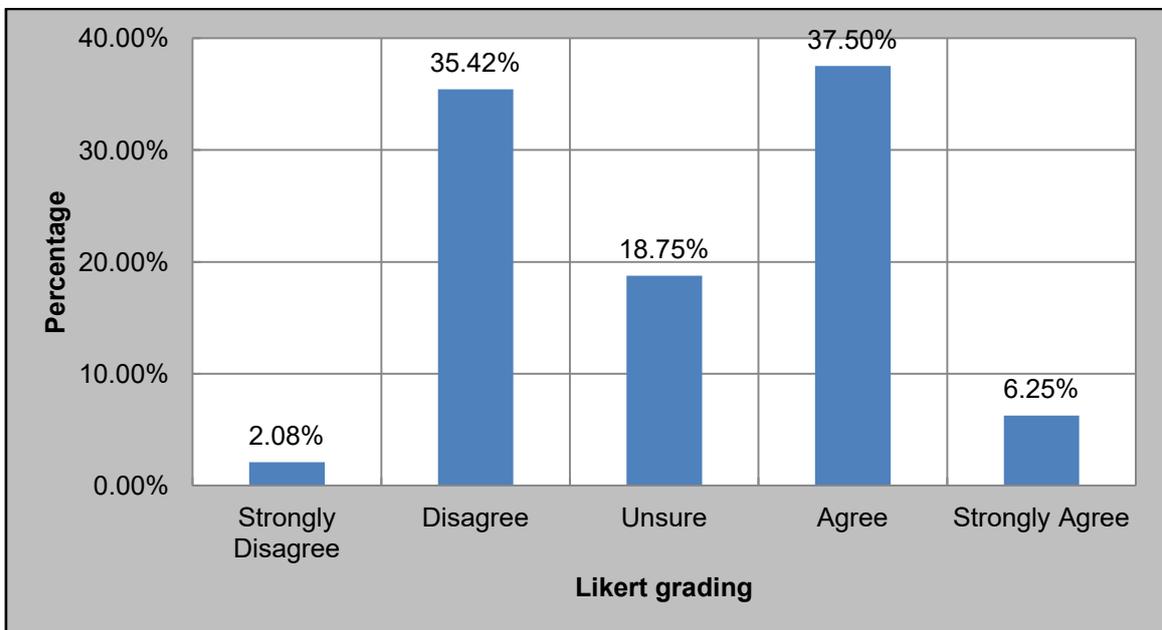
**Table 4.1:** Summary of participants' response regarding the profit sharing scheme acting as a motivator

Statements	SD <sup>1</sup>	D	U	A	SA	Mean	SDE
The current profit sharing scheme motivates you	0.00	4.17	4.17	<b>47.92</b>	43.75	4.31	0.75
Profit sharing motivates you to institute cost reduction initiatives	0.00	4.17	6.25	<b>54.17</b>	35.42	4.21	0.74
Due to profit sharing, one of your main goals is to ensure customer/supplier satisfaction	0.00	6.52	2.17	<b>52.17</b>	39.13	4.24	0.79
Profit sharing motivates you to come up with innovative ideas to improve profitability	0.00	4.17	0.00	43.75	<b>52.08</b>	4.44	0.71
Profit sharing will motivate junior management, i.e. C3 and C4 salary grades, to perform at a more optimum level than their current level if the scheme was offered to them	2.08	4.17	18.75	<b>52.08</b>	22.92	3.90	0.88
When there is a crisis, you will strive to resolve the situation even though it is not your department	0.00	0.00	0.00	<b>58.70</b>	41.30	4.41	0.50
Theoretically, the company benefits by having a profit sharing scheme as employees are motivated to perform. Your current output would not be the same if all that was offered by the company was a guaranteed 13th cheque	8.51	23.40	12.77	<b>44.68</b>	10.64	3.26	1.19
All employees work for the same employer, therefore all profit sharing clusters should be grouped into one profit sharing centre company wide.	20.83	<b>29.17</b>	16.67	12.50	20.83	2.83	1.45
The profit sharing scheme at branch level should be made up of a portion of branch and company profits	12.50	20.83	22.92	<b>37.50</b>	6.25	3.04	1.17

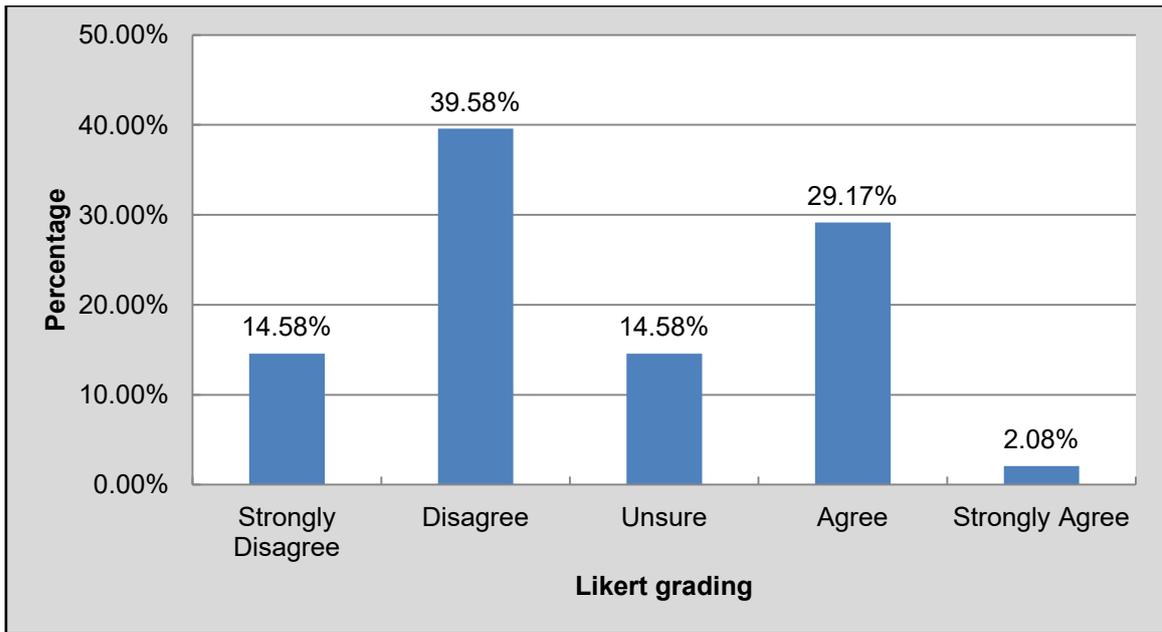
SD<sup>1</sup> = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree, SDE = Standard Deviation



**Figure 4.9:** Total score distribution of the respondents regarding the profit sharing scheme acting as a motivator



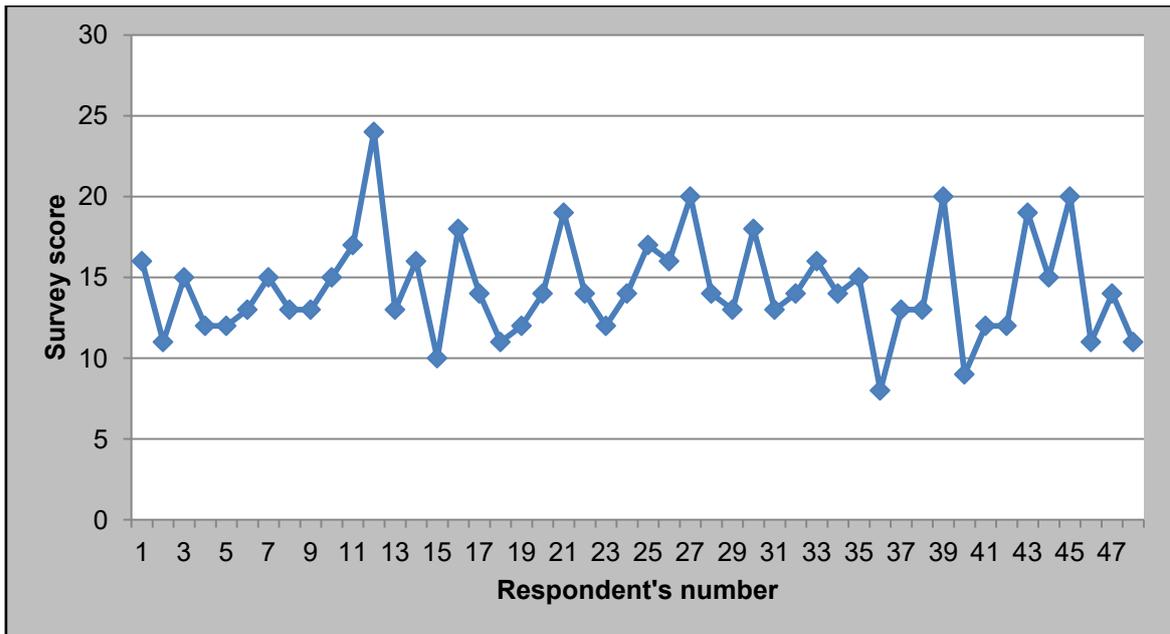
**Figure 4.10:** Some individuals should have a larger salary and not be on the profit sharing scheme as their positions do not add financial value



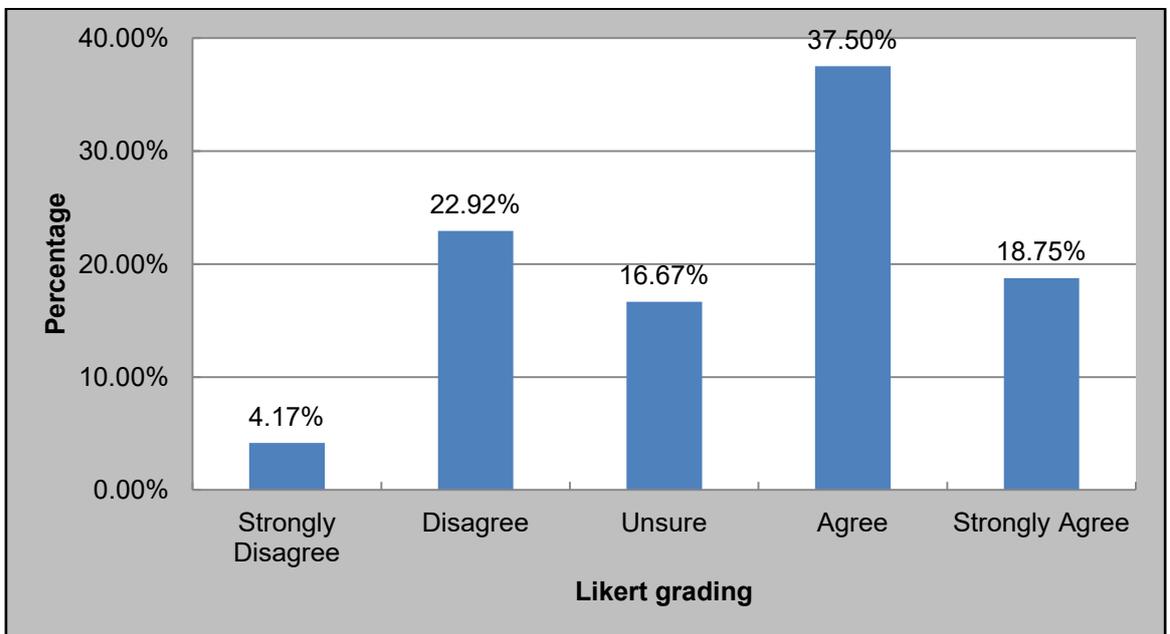
**Figure 4.11:** Preference to have an increased salary with no profit share for pension/provident fund growth benefits

**Table 4.2:** Summary of participants' response towards the profit sharing scheme in that they would rather have an increase in salary as opposed to being exposed to the risk of the profit sharing

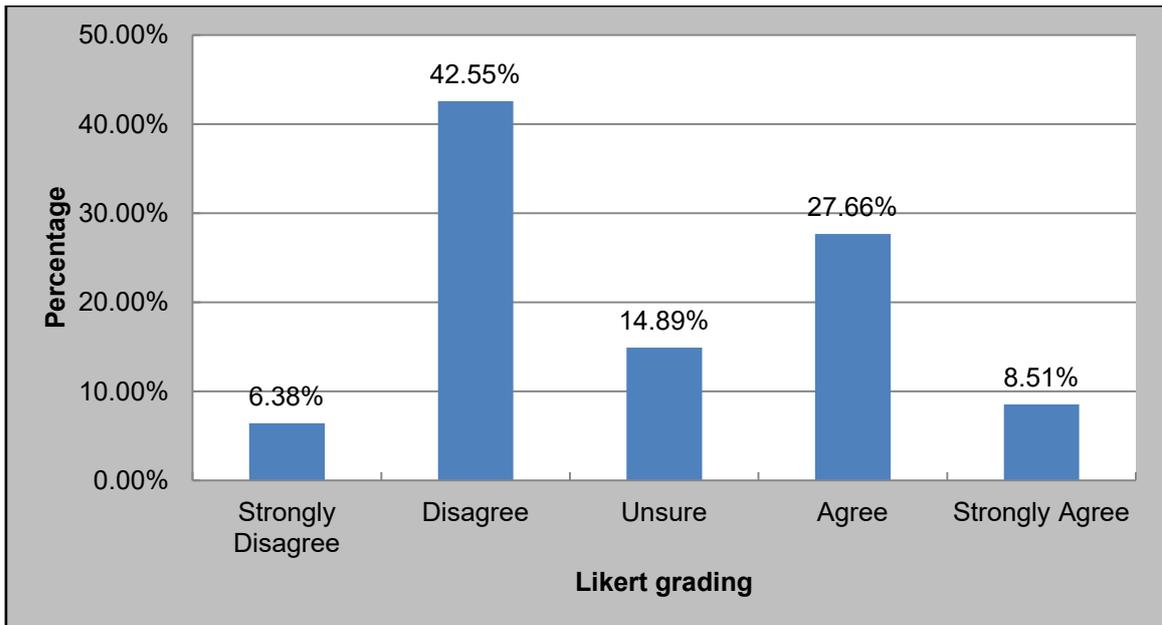
Statements	SD <sup>1</sup>	D	U	A	SA	Mean	SDE
There is inherent risk with profit sharing in that some years your profit share may be high and some years nothing. You would therefore prefer a higher gross salary and no profit sharing incentive thereby removing the risk of profit sharing.	22.92	<b>47.92</b>	16.67	8.33	4.17	2.23	1.04
When applying for a bond or vehicle finance, the profit sharing scheme cannot be used in this application due to the risk and variability of the profit sharing scheme. You would therefore prefer having an increase in salary with a reduced/zero profit sharing percentage.	18.75	<b>50.00</b>	10.42	18.75	2.08	2.35	1.06
You believe that some individuals should rather have an increase in salary and not be on the profit sharing scheme as their job functions do not add financial value.	2.08	35.42	18.75	<b>37.50</b>	6.25	3.10	1.04
The profit sharing scheme does not contribute to an employee's pension/provident fund. You would therefore prefer having an increased salary, where you and the employer contribute equally to your current pension/provident fund as opposed to being exposed to the risk of the profit sharing scheme, i.e. zero profit share percentage.	14.58	<b>39.58</b>	14.58	29.17	2.08	2.65	1.12
Being a member of the profit sharing scheme, you think like the owner of the company.	0.00	4.26	8.51	<b>57.45</b>	29.79	4.13	0.74



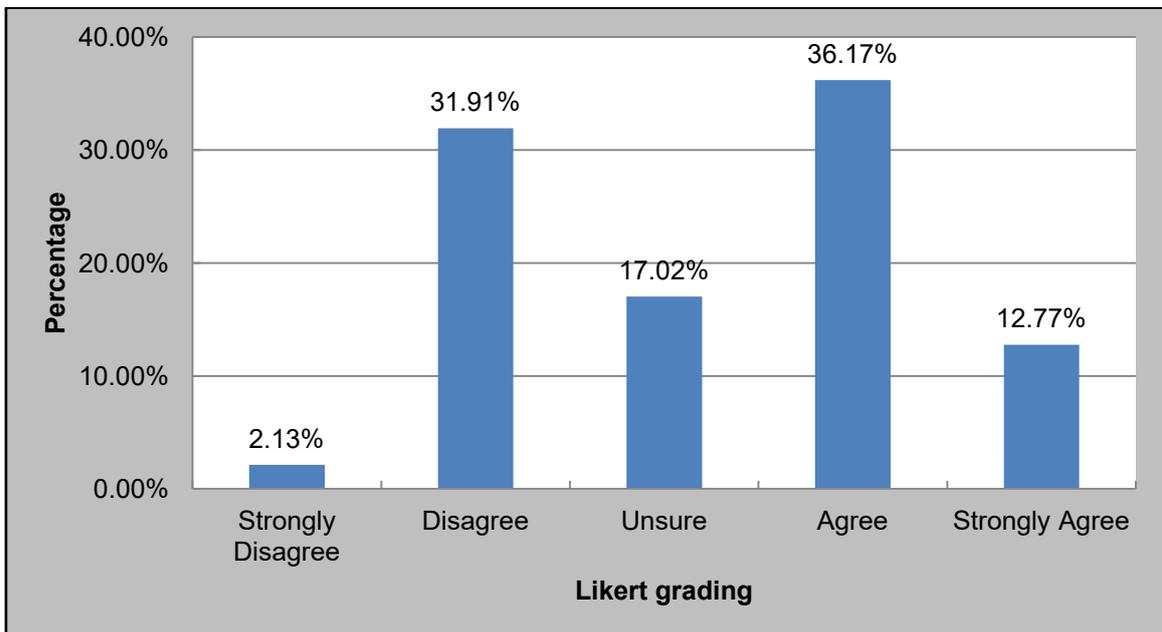
**Figure 4.12:** Overall score for response towards the profit sharing scheme in that they would rather have an increase in salary as opposed to being exposed to the risk of the profit sharing



**Figure 4.13:** Monthly management of the profit sharing scheme will drive employees to excel all the time



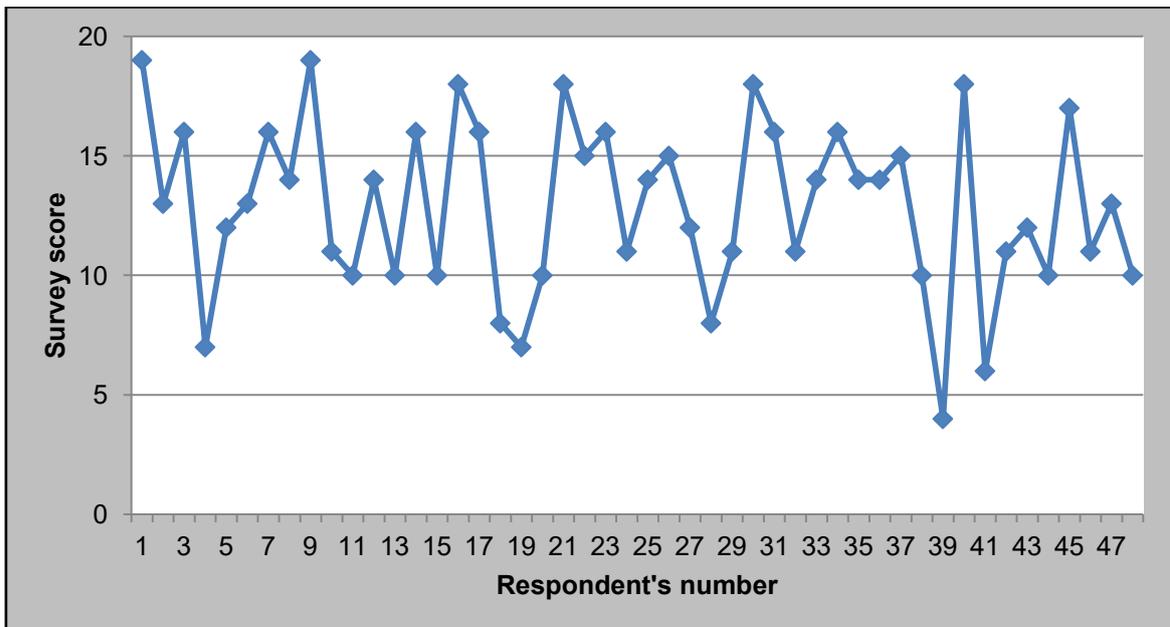
**Figure 4.14:** Employees profit sharing percentage should reduce with a decline in individual performance on a monthly basis



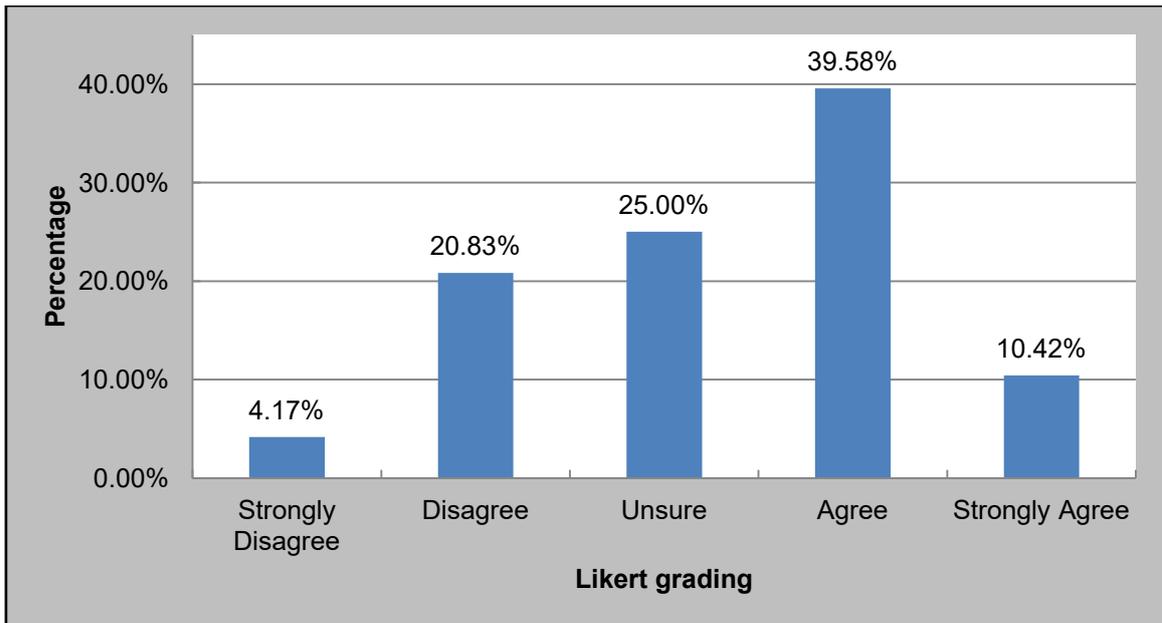
**Figure 4.15:** Profit sharing individuals are forced to motivate themselves to perform or suffer reduction in percentages monthly

**Table 4.3:** Participants response highlighting whether the monthly management of the profit sharing scheme would be more beneficial

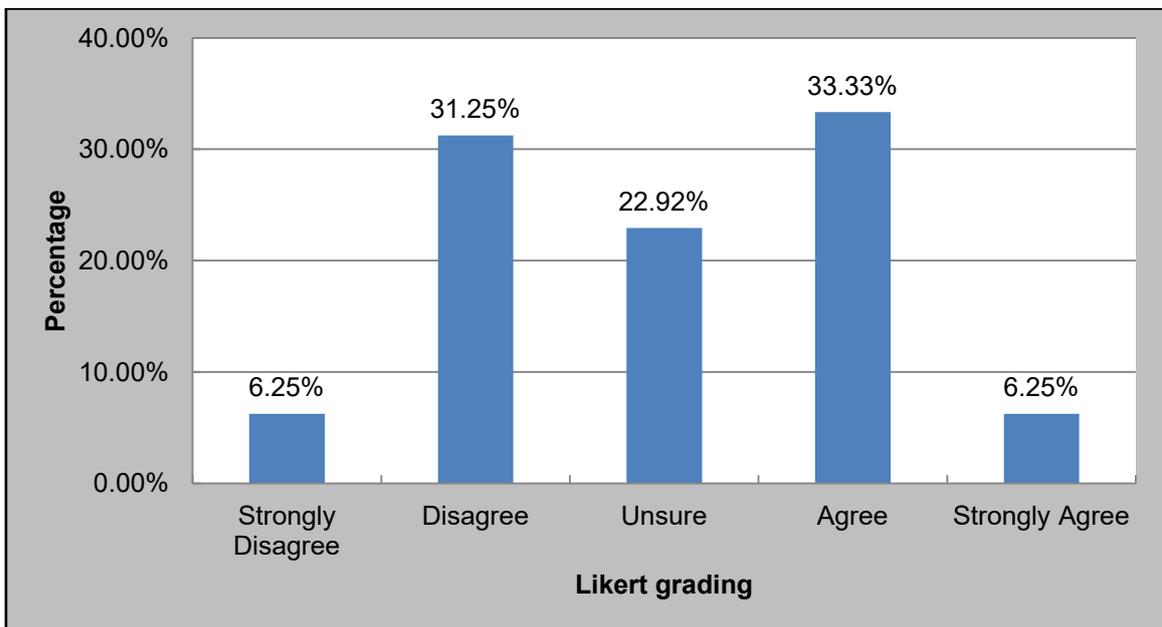
Statements	SD <sup>1</sup>	D	U	A	SA	Mean	SDE
Monthly management of the profit sharing scheme will drive employees to excel all the time.	4.17	22.92	16.67	<b>37.50</b>	18.75	3.44	1.17
Employees profit sharing percentages should reduce with a decline in individual performance on a monthly basis	6.38	<b>42.55</b>	14.89	27.66	8.51	2.89	1.15
Employees are forced to motivate themselves to perform or else they would incur reduction in profit sharing percentages monthly.	2.13	31.91	17.02	<b>36.17</b>	12.77	3.26	1.11
Profit sharing drives you to assist other departments to improve their efficiencies which can be monitored more accurately on a monthly basis.	4.17	18.75	8.33	<b>66.67</b>	2.08	3.44	0.97



**Figure 4.16:** Total score distribution regarding monthly management of the profit sharing scheme if it is more beneficial



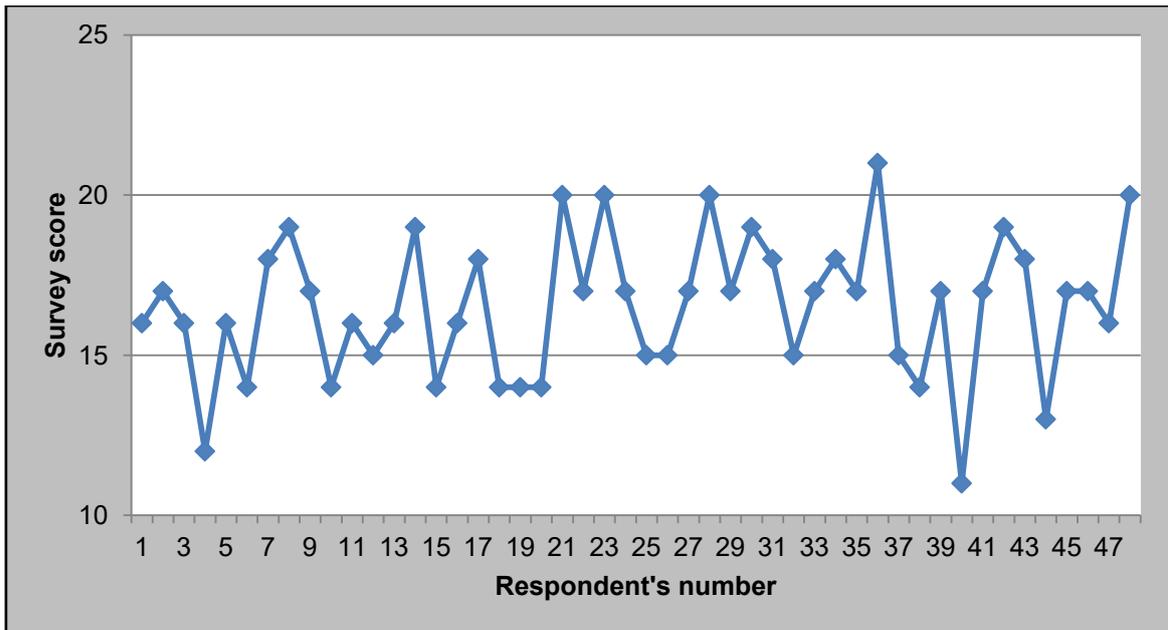
**Figure 4.17:** A performance management tool will be difficult to manage in the company's operating environment



**Figure 4.18:** The current profit sharing scheme should include a basket of different indicators

**Table 4.4:** Summary of statements regarding whether the profit sharing scheme needs to be linked to a performance management tool

Statements	SD <sup>1</sup>	D	U	A	SA	Mean	SDE
A performance management tool will be beneficial to the organisation	6.25	12.50	25.00	<b>47.92</b>	8.33	3.40	1.03
A performance management tool will take the company to the next level of efficiencies and effectiveness	4.17	14.58	25.00	<b>52.08</b>	4.17	3.38	0.94
A performance management tool will be difficult to manage in the company's operating environment	4.17	20.83	25.00	<b>39.58</b>	10.42	3.31	1.06
A performance management tool can decrease morale, as individuals may perform exceptionally well in one section of the performance management system, that results in huge financial gain, but may lack in other sections, resulting in a poor performance management score.	0.00	16.67	35.42	<b>39.58</b>	8.33	3.40	0.87
The profit sharing scheme should make use of a performance management tool like a balanced scorecard which may have a basket of indicators ensuring employees look at other parts of the business that can cause risk.	6.25	31.25	22.92	<b>33.33</b>	6.25	3.02	1.08



**Figure 4.19:** Overall score for statements regarding whether the profit sharing scheme needs to be linked to a performance management tool

```
. pwcorr v21 v27 v32 v38, star(5)
```

	v21	v27	v32	v38
v21	1.0000			
v27	0.0214	1.0000		
v32	-0.0459	0.1889	1.0000	
v38	0.0408	0.0827	0.2399	1.0000

**Table 4.5:** Pearson’s correlation analysis output

### 4.3 Chapter Summary

The results reflected in this chapter seem interesting as they do not seem to conform to the current practise at FFS Refiners (Pty) Ltd. The discussion of these results will be highlighted in the proceeding chapter.

## **CHAPTER FIVE**

### **Discussion**

#### **5.1 Introduction**

In research, it is imperative to statistically analyse data and thereafter discuss the analysis. The aim is to investigate whether the data collected, combined with the statistical analysis, satisfies the research objectives. If there is no correlation between the actual results and analysis with the research objective, the researcher is required to explain the discrepancies. If there is a correlation between the data and the statistical analysis, the researcher will be required to link this to the literature review to highlight what academics globally have established as per each objective. If there are any deviations from the literature review in terms of the statistical analysis, possible explanations will be required.

As per the conceptual framework of the literature review, the discussion of results that follow will highlight employees opinions about motivation, risks and management of a profit sharing scheme. It will further highlight the opinions of employees regarding a balanced scorecard linked to a profit sharing scheme.

#### **5.2 Discussion of results**

A total of 48 employees completed the questionnaire as per the data from Question Pro. The participants' socio-demographic information has been summarized in Figures 4.1 to 4.5 as presented in Chapter four. It was found that more than half (52.08%) of the participants were between 41 and 60 years old (Figure 4.1), majority of them (82.61%) were male (Figure 4.2), 82.61% had post Matriculation qualification (Figure 4.3). Matric was used as the minimum option as it is the minimum entry requirement for the company. It was found that 56.25% had more than 10 years of working experience (Figure 4.4), and 63.04% were working in Grade C and/or Grade D (Figure 4.5).

As can be expected in Figure 4.1, the smallest portion of the age analysis was the under 30 groupings (8.33%). Theoretically, there should be few individuals in this bracket as this age groupings is at the collecting experience stage of their careers. It may be encouraging to other non-incentivised employees that as they build a

long tenure career with FFS Refiners (Pty) Ltd, they have the potential to grow wealth when they are invited to the profit sharing scheme.

Figure 4.2 indicates that the majority of individuals that are exposed to the profit sharing scheme are males with only 17.39% being female. It seems as if the company is male dominated in terms of senior positions. As per the employment equity act in South Africa, affirmative action measures are required to be implemented to redress the previously disadvantaged groups so that the workplace has an equitable representation (Labour Guide 2014). With the employment equity in South Africa, the company should view this as an area that needs to be improved to bring some equality to the organisation by employing more females in senior positions.

Figure 4.5 highlights the spread between participants regarding their job grading as per the Patterson Grading System. As can be seen, the C grade, in particular C3, is the lowest grade that can be exposed to the incentive scheme as it is the lowest non-unionised grade. The C3 band employees are either skilled or junior management. The interesting observation of Figure 4.5 is that the bulk of incentivised employees are on the C3 band and this is the band of employees that are generally at the forefront of the business, i.e. the shop floor. This is an innovative way of doing business as the bottom line of any production facility is to be able to get the product to the customer timeously and within quality specifications. The incentive therefore acts as a driver for these individuals. The theory behind this is that if individuals that are on the shop floor are motivated enough, they will drive production, look at cost reductions initiatives, and ensure the business is not at risk in terms of quality and environmental issues. The D band employees are generally middle management who is also very close to the production facility and hence also have control to leverage the business from a production point view. The E Grade employees are senior managers who also give direction to employees in terms of the company's vision and goals. The highest grade individual is that of the executive team, i.e. F Grade. There are few of them and make up the smallest portion of incentive employees. The general belief in business strategy is that companies should plan light and execute heavy. This is indicative of the setup at FFS Refiners (Pty) Ltd in that their execution level is the C and D Grade and hence they have offered some of these individuals a

share in the profits so that the execution of the company's vision and goals can be realised.

### **5.2.1 Research objective 1: To determine if the profit sharing scheme acts as a motivator to employees**

There were nine statements that were posed to the participants to determine if the profit sharing scheme acts as a motivator to employees. All the statements were five points Likert scale type. A score from 1 (strongly disagree) to 5 (strongly agree) was allocated per respondent to the statements. A high score indicated that the statement was a significant motivator for the profit sharing scheme.

The results summarised in Table 4.1, indicates that majority of the statements had more than 70% of the respondents positively agreed to those statements. Almost all the respondents (> 90%) agreed or strongly agreed that the current profit sharing scheme motivates them. This was also confirmed by Hadad, Keren and Barkai (2010), that profit sharing motivates employees. According to Estay, Lakshman and Pesme (2011), they have indicated that profit sharing has the potential to improve employee motivation, increase productivity and improve workplace cooperation. A study conducted in Estonia indicated that there was a 13-15% higher productivity in private companies than state companies as the private sector implemented incentive schemes which motivated employees (Eamets, Mygind and Spitsa, 2008). Telephonic interviews were conducted with Chief Executive Offices for Canadian companies who mentioned that profit sharing schemes were implemented in their organisations to motivate employees (Long and Fang, 2012). There has been experimental evidence indicating that monetary incentives have a positive impact on employee motivation (Pouliakas 2010).

There was a unanimous 95.83% who positively indicated that profit sharing motivates them to come up with innovative ideas to improve profitability and many participants (89.59%) indicated that they are motivated to implement cost reduction initiatives (Table 4.1). Rao cited by Hadad et al. (2010), demonstrated how a profit sharing scheme motivated individuals to improve production whilst utilizing raw materials more effectively and efficiently thereby improving productivity through innovation. The hospital sector in Germany implemented an incentive plan where employees were paid bonuses based on resource savings.

This motivated employees as they became incentivised to minimise costs in all departments which improved the efficiencies and effectiveness of the organisation (Hadad, Keren and Barkai, 2010). Existing studies suggests that output based incentive schemes normally has a positive effect on employee productivity (Chu, Cho and Liu, 2010).

There was a 91.40% result indicating that due to profit sharing, one of their main goals of participants is to ensure customer/supplier satisfaction, three quarter (75%) of the participants indicated that the profit sharing scheme can motivate junior management (i.e. C3 grade), and all of them (100%) highlighted that when there is a crisis, they will strive to resolve the situation even though it is not their department (Table 4.1). Incentive schemes have the tendency to positively affect motivation, performance and interest within companies (Milne 2007).

As can be highlighted in Figure 4.6, majority of the employees (55.32%) have indicated that their individual output would not have been the same if all that they were offered was a 13<sup>th</sup> cheque and no profit share. This statement is indicative that the profit sharing scheme motivates the majority of the individuals to perform at a high performance level for which the company and employee reaps the benefits. This is supported by the literature of Edwards, Yang and Wright (2007), where they have indicated that incentive schemes in general has a great impact on work motivation among employees. Figure 4.6 also indicates that 31.91% of the participants believe that their performance is not based on the profit sharing scheme and that they may be motivated by other factors that may include job satisfaction, job challenges, job enrichment, etc.

On the other hand, half of the respondents negatively indicated that if all employees work for the same employer, than all profit sharing clusters should be grouped into one profit sharing centre companywide which stipulates that the current profit sharing scheme is the correct scheme, highlighted in Figure 4.7. The statement regarding respondent's opinion of having one profit centre as opposed to multiple in the organisation can lead to counterproductive performances. Each profit centre will be focusing on improving their individual profit centre financial performance for which they may not have the overall company interest at heart. The results is in disagreement with the literature of Magnan, St-Onge and Cormier

(2005), who has indicated that incentive schemes are increasingly becoming popular in industry as it focuses on company profits which is probably the most important aspect to shareholders.

Figure 4.8 indicates that it is the belief of some incentivised employees (33.33%) at FFS Refiners (Pty) that the profit sharing cluster that they belong to should be the only profit that they share in, however a large majority (43.75%) of the participants have indicated that their profit share should include profits from their individual cluster together with a portion of the total company profits. Economic theory has suggested that profit sharing schemes motivates employees to ensure their efforts are aligned with shareholders objectives (McCarthy, Reeves and Turner, 2010), hence the majority of respondents are of the opinion that a profit sharing system that incorporates both branch and company profits may reduce the counter productivity of employees, i.e. inter-branch competition.

Finally, by combining all the statements, it was found that 87.50% of the respondents scored  $\geq 30$  from possible scores between 9 and 45 (Figure 4.9). It can therefore be concluded that the profit sharing scheme might act as a motivator to employees at FFS Refiners (Pty) Ltd. A survey conducted by Kelly Services, cited in Enterprise Innovation Editors (2010), found that employees are easily motivated when they are offered profit sharing in companies.

The first research objective of this study was to identify if the profit sharing scheme acts as a motivator among employees exposed to the scheme. As per the survey results, combined with the statistical analysis, it is clear that employees at FFS Refiners (Pty) Ltd are motivated by the profit sharing scheme as 87.50% of the participants have scored  $\geq 30$  (Figure 4.9). The various academics share the opinion that profit sharing motivates employees as highlighted above. It can therefore be concluded, that profit sharing motivates employees and there may be great benefit if majority of the C3 employees are invited to the scheme.

**5.2.2 Research Objective 2: To determine if employees on the profit sharing scheme would rather have an increase in salary as opposed to being exposed to the risk of the profit sharing.**

To determine if employees on the profit sharing scheme would rather have an increase in salary as opposed to being exposed to the risk of the profit sharing scheme, there were five Likert type statements that were asked. A score from 1 (strongly disagree) to 5 (strongly agree) was allocated per respondent to the statements. A high score would have indicated that the employees are in favour of having an increased salary and not be exposed to the risk and variability of the profit sharing scheme. Results had shown that more respondents gave negative answers to four of the five statements highlighted in Table 4.2.

Respondents (> 67%) disagreed that they would prefer a higher gross salary and no profit sharing incentive thereby removing the risk of profit sharing. The respondents (> 68%) further indicated that even though their profit sharing history cannot be utilised in any bond or vehicle finance application, they would still not prefer having an increase in salary with a reduced/zero profit sharing percentage (Table 4.2). Sliwka and Grund (2006) as cited in O'Halloran (2011), has indicated that employees are prepared to take the risk with profit sharing as the pay variability has the potential to command high pay levels. Employees with lower wealth and base salary are more risk inclined and therefore prefer being offered a profit share as opposed to a larger guaranteed salary package (Kurtulus, Kruse and Blasi, 2011). Despite the supporting literature relating to favouring a profit sharing scheme over a fixed salary, the minority (12.50%) have indicated that they would rather have an increased fixed salary as opposed to being exposed to the risk and variability of the profit sharing scheme. An Article by Reuters (2013), indicated that Caterpillar, who is the largest manufacturer of mining and construction equipment, were to make their smallest profit sharing payout since the recession. This highlights the risks and variability of a profit sharing scheme.

More than half (>50%) of the participants (Figure 4.11) have indicated that they are not concerned that the incentive scheme payout does not lawfully contribute to their pension/provident fund and do not want it to do so. This is in contrast to the literature of Long and Fang (2012), whose study indicates that many companies in

Canada and USA have implemented profit sharing schemes but for retirement savings purposes. The benefit of systems like this is that employees can create significant retirement wealth for themselves throughout their careers which may enable these individuals to retire early in life thereby creating more opportunities for the younger generation to procure employment. These individuals having created significant wealth with an early retirement may be able to form their own organisations thereby stimulating economic growth. This is an interesting system especially in South Africa with a 25.20% unemployment rate (Statistics South Africa 2014). Profit sharing as a retirement savings vehicle can create more jobs as individuals retire earlier and those brave individuals who now have the capital to start up their own companies at retirement can further reduce unemployment as they will employ individuals to work for their newly formed companies. The participants of the survey have indicated that they do not prefer this and that they rather have the profit sharing scheme. They may be of the opinion that they are able to manage their own wealth and are able to grow significant wealth for retirement with the current profit sharing scheme. This system will require greater money management discipline.

The majority (87.24%) of the participants have indicated that they think like the owner of the company due to the profit sharing scheme (Table 4.2). According to Fongwa (2010), workers exposed to the profit sharing scheme generally act as co-owners of the company and hence go the extra mile to ensure high levels of performance. The increased performance by the individuals with this mind set ultimately leads to improved performance and sustainability. This view was further confirmed by Estay, Lakshman and Pesme (2011), as their study indicated that employee involvement in similar profit sharing schemes contribute to their psychological ownership of the organisation.

Figure 4.10 show that there is no agreement regarding that some individuals should rather have an increase in salary as their company position does not allow them to add financial value to the company. The majority (43.75%) as opposed to the slightly lower minority (37.50%) have indicated that employees whose position does not allow them to add financial value should be removed from the profit sharing scheme and should be compensated for by having an increased salary. The work conducted by Jana and Petr (2013), has indicated that senior employees

prefer to have a fixed salary as opposed to being exposed to the risk of the profit sharing scheme.

Further analysis had shown that 70% of the respondents had scored 15 or less from a possible score between 5 and 25 (Figure 4.12). It can therefore be concluded that the employees on the profit sharing scheme would rather not have an increase in salary but to be exposed to the risk of the profit sharing scheme. The threats or risks associated with the variable pay schemes are quite evident and obvious in that if the company becomes bankrupt or suffers poor profitability, the employees can lose their jobs and profit share, however, the benefits of a profit sharing scheme far outweighs the risks associated with it (Fongwa 2010).

### **5.2.3 Research Objective Three: To determine if the monthly management of the profit sharing scheme would be more beneficial**

To determine if the monthly management of the profit sharing scheme would be more beneficial, there were four Likert type statements that were posed to the participants. A score from 1 (strongly disagree) to 5 (strongly agree) was allocated per respondent. A larger overall score will indicate that the monthly management of the profit sharing scheme will be more beneficial.

Figure 4.13 has highlighted that more than half of the respondents (56.25%) agreed that the monthly management of the profit sharing scheme will drive employees to excel all the time. As per Phusavat and Anussornnitisarn (2009), effective regular management of the profit sharing schemes encourages employees to continuously innovate and improve the business which results in a greater profit share for individuals with a leaner more profitable business for the company. There have been 27.09% of the participants that disagreed that regular profit sharing reviews will drive employee's performances which is against the literature above.

Almost half of the respondents (48.94%) indicated that employees will be forced to motivate themselves if they do not want to be penalised a percentage share of their profits monthly (Figure 4.15). McCarthy, Reeves and Turner (2010), are of the opinion that the profit sharing scheme creates a more cooperative culture where motivated employees apply peer pressure on the passengers and hence

monitor the work of their co-workers. This applied pressure among fellow incentivised employees forces each individual to perform and value adds in their respective positions.

It was found that 68.75% of the participants agreed that profit sharing drives them to assist other departments to improve their efficiencies which can be monitored more accurately on a monthly basis (Table 4.3). There are various tools that can be utilised to enforce this concept. A balance scorecard as a performance management tool is very effective and in a way links an individual to different departments, i.e. financial, customer, internal business processes, innovation and learning perspectives (Evans 2007).

It was also found that almost half of the respondents (48.93%) disagreed that employee's profit sharing percentages should reduce with a decline in individual performance on a monthly basis (Figure 4.14); however, a considerable minority (36.17%) of the participants indicated that a reduction or increase in percentages monthly should be implemented. Having passengers on the profit sharing scheme is a reality. Accordingly to McCarthy, Reeves and Turner (2010), they are of the opinion that if passenger problems are evident within the profit sharing scheme, management should take drastic action by reducing the incentive percentages of passengers and increase the percentages of those that do perform.

Overall, just over half (54.17%) of the respondents had scored  $\geq 13$  from a possible score between 4 and 20 (Figure 4.16). These results indicate that the monthly management of the profit sharing scheme might be more beneficial to FFS Refiners (Pty) Ltd. There may be some respondents that may feel a monthly management of the profit sharing scheme may become too difficult due to time constraints, however, they may be of the opinion that a quarterly review of the profit sharing scheme may be beneficial, i.e. 4 review per year or less. Currently there is no profit sharing reviews.

#### **5.2.4 Research Objective 4: To determine if the profit sharing scheme needs to be linked to a performance management tool**

There were five statements were provided to determine if the profit sharing scheme needs to be linked to a performance management tool, e.g. a balanced scorecard. All the statements were five points Likert type. A score from 1 (strongly disagree) to 5 (strongly agree) was allocated per respondent. A larger overall score will indicate that the profit sharing scheme needs to be linked to a performance management tool.

Results showed (Table 4.4) that more than half of the participants agreed that a performance management tool would be beneficial to the organization (56.25%) and a performance management tool would take the company to the next level of efficiencies and effectiveness (56.25%). Performance measurement and management has gained recognition from academics and acceptance from companies globally (Phusavat, Anussornnitisarn, Helo and Dwight, 2009). Bos (2010) has indicated that without performance management tools practised in organisations, employees are solely focusing on profitability especially if they form part of the profit sharing group, however, this may result in weaknesses in other key areas that affect sustainability, e.g. environmental concerns, etc. A recent case study on 3C indicated that the company introduced an incentive plan for their buyers whose performance was linked to sales and gross margin. A key measure of buyer performance was the Gross Margin Return on Inventory (GMROI). After the implementation of the incentive plan, it was found that the gross margin did improve but to the detriment of the GMROI as there was poor inventory turnover. Buyers were focusing their efforts on improving sales and gross margin since their incentives were linked to these indicators but this was detrimental as there was poor inventory management. It is for this reason that companies should design incentive schemes that include a basket of indicators to reduce risk of the business and to ensure the focus of the employees are channelled in the correct direction (Chu, Cho and Liu, 2010).

It was found that half of the respondents (50%) indicated that the performance management tool will be difficult to manage in the company's operating environment (Figure 4.17), however, existing literature by Phusavat and

Anussornnitisarn (2009), highlighted that it will be difficult to manage an organisation efficiently and effectively without a performance management tool that is linked to a basket of different key indicators. The supporting literature is against the survey results. As per the participants, the majority indicated that it will be difficult to manage a performance management tool in the FFS Refiners (Pty) Ltd operations, however, they should take cognisance of the fact that this is a critical tool to utilise to ensure the risks associated with sustainability is reduced. The executives should further look at best practises globally as majority of the leading companies make use of a performance management tool. The benefits of a well managed performance measurement tool far supersede the negatives of having such a scheme.

There was a 47.91% indication that a performance management tool can decrease morale due to some candidates performing exceptionally well in one area of the measurement tool but lacking in the others. As per Evans (2007), companies that have implemented performance measurement systems have generally reported better financial results than companies that do not have this tool. The majority of participants (47.91%) have indicated that the performance management tool can decrease morale, however, if the company is to continue competing in the competitive business world, balanced scorecard can aid in the organisation achieving its strategic goals. The negative response from the participants may be due to a lack of education on a performance management system.

A significant amount of respondents (39.58%) have indicated that the profit sharing scheme should be linked to a performance management tool which includes a basket of indicators so that the business risk can be reduced, however, 37.50% of the respondents disagreed with this (Figure 4.18). The results could be due to individuals not having the knowledge of performance management tools or that they are definitely for or against it. It is important to have a performance measurement system based on an individual's department and job with the correct weightings, i.e. based on the impact to different departments, to prevent unfairness (Phusavat, Anussornnitisarn, Helo and Dwight, 2009).

Combining all the statements, results highlighted that 68.75% of the respondents scored  $\geq 16$  from a possible score between 5 and 25. Therefore, it could be concluded that the profit sharing scheme is needed to be linked to a performance management tool. Not implementing a performance management system can be a risk to the business (Shukla 2009).

### **5.3 Summary**

Pearson's correlation analysis (Table 4.5) was carried out to find significant relationships between variables. This analysis did not find any significant correlation between overall scores of the four objectives.

Research objective one was to establish if the profit sharing scheme acts as a motivator to employees. Based on the results of the survey, it was concluded that the profit sharing scheme does act as a motivator to employees at FFS Refiners (Pty) Ltd as 87.50% of the participants recorded a score of  $\geq 30$  from a possible score of 9 to 45. The overall results were further supported by the general consensus of various academics that the profit sharing scheme acts as a motivator to employees.

Research objective two was to establish if employees on the profit sharing scheme would rather have an increase in salary as opposed to being exposed to the risk of the profit sharing. The results and analysis from the survey indicates that employees on the profit sharing scheme would rather not have an increase in salary and be on the profit sharing scheme as there was approximately 70% of the participants that recorded a score of  $< 15$ . There has been a large number of evidence from literature that supports these results in terms of the rewards of a profit sharing scheme outweigh the risks associated with it.

Research objective three was to determine if the monthly management of the profit sharing scheme would be more beneficial. The survey results indicate that 54.17% of respondents scored  $\geq 13$  from a potential score of 4 to 20. The results was not very convincing as just above half of the participants agree with the objective. The supporting literature does indicate that more regular and effective management of the profit sharing will be more beneficial to the company however; the frequency of reviewing the profit sharing scheme has not been established.

Research objective four was to determine if the profit sharing scheme needs to be linked to a performance management tool, e.g. a balanced scorecard. The survey results indicate that 68.75% of the participants scored  $\geq 16$  from a possible score between 5 and 25. Majority of the literature reviewed supports the objective in that the profit sharing scheme should be linked to a performance management tool.

## **CHAPTER SIX**

### **Recommendations and Conclusions**

#### **6.1 Introduction**

There have been four research objectives that this study has tried to investigate. The positive results of the study, combined with the stance of the supporting literature, will be recommended to be implemented at FFS Refiners (Pty) Ltd such that the current scheme can be optimised so that its efficiency and effectiveness can be improved thereby enhancing the company's operations.

#### **6.2 Has the problem been solved?**

Yes, the problem has been solved in terms of the results of the survey and the support from literature. Research objective one indicated that the majority of the participants (87.50%) scored  $\geq 30$  (Figure 4.9), indicating that the profit sharing scheme motivates employees. Research objective two indicated that the majority of the respondents (70%) prefer a reduced guaranteed salary whilst being exposed to the risk of the profit sharing scheme. Research objective three indicated that 54.17% of the participants indicated that a monthly management of the incentive scheme will be beneficial to the organisation. Research objective four indicated that 68.75% of the participants have scored a result that indicates a profit sharing scheme should be linked to a performance management tool, e.g. a balanced scorecard.

#### **6.3 Implications of this research**

The research has shown the value of profit sharing schemes and that it is a must have in organisations. The motivational effects of a profit sharing scheme can greatly enhance the performances of any organisation. The main reason for this is majority of employees are generally motivated by money, and hence a profit sharing scheme can act as a driver and motivator for all employees on an incentive scheme.

It is evident that employees are prepared to accept a reduced salary to be offered an incentive scheme. The main reason for this is that employees will share in the

profits of the organisation and hence can act as a valuable tool to create wealth for employees.

Organisations that have profit sharing schemes should use this tool to leverage the business performances by managing a scheme like this actively. If not, the issue of passengers on the scheme may become stronger which may negatively affect the scheme.

Organisations globally have incorporated a performance management tool in the form of a balanced scorecard in their organisations. The majority of the literature indicates that a performance management tool will benefit any organisation if implemented and designed correctly. Literature has suggested that organisations that have performance management tools outperform similar companies. Organisations like FFS Refiners (Pty) that do not practise any form of performance management should implement a tool like this to enhance the business performance by optimising individual's performances.

The participants of this study will be forwarded the results of the survey so that they understand what their peers believe the profit sharing scheme should look like. The company can use this research to optimise the current scheme which may be beneficial to all employees exposed to the scheme.

#### **6.4 Recommendations to solve the research problem**

Based on this study, it was determined that profit sharing motivates employees which were also confirmed by supporting literature. The recommendation is for FFS Refiners (Pty) Ltd to identify and include key personnel who are not currently on the scheme. The individuals that should be included are listed below:

- Production supervisors – this key position work directly with shift workers and are an integral part of the operations of the refineries. With them being on the incentive scheme, they will be motivated to improve the performances of the production line by applying pressure to the employees on the floor.
- Process technicians – these individuals' job functions are to constantly identify and remedy bottlenecks in processes. In doing so, the operations are optimised constantly with the levels of efficiencies and effectiveness improving all the time. These individuals should be included in the profit sharing pool.

- Plant Engineers – these individuals are constantly designing and implementing changes on the plant that affect sustainability. These individuals work on reducing the risks that the refineries may be experiencing together with optimising the operations. Including these individuals on the scheme will definitely be beneficial.
- Laboratory Chemists – these individuals are the key employees to ensure customer satisfaction. They ensure that the product that leaves the refinery is always within the specifications so that customers are getting value for money. The business can be put at huge risk if the laboratory chemist is inefficient in their duties. It will therefore be beneficial to include them on the profit sharing scheme.

With the current profit sharing scheme, there are a percentage of the profits that is allocated for profit sharing with different individuals having a different profit sharing percentage. In order to incorporate new individuals on the scheme and allocate percentages to them, existing members of the scheme will need to give up some percentages. This may be a difficult sell to these employees but the idea will be directed to the executive team that makes this decision. The idea behind it will be that current members on the scheme will give up a small portion of their percentages such that key members that are proposed to be invited to the scheme can get a percentage of the profits. The motivation to the executive team will be that even though the individual percentages of employees may reduce, this will motivate and theoretically improve profits with the lower level employees being motivated. Overall, even with a reduced percentage, the monetary value of the profit share annually has the potential to be greater (with a reduced percentage) than if these individuals were not on the scheme.

Another recommendation is to review the profit sharing scheme more regularly. Currently there are no profit sharing review meetings and the individuals only receive their profit share annually. The regular review of the profit sharing scheme will ensure that employees that are not performing are forced to perform, i.e. to weed out the passengers on the scheme. An example of this is an individual may perform very poorly on the recent month and can be docked part of their percentage. The percentage dropped can be distributed to other members that have value added for that period. With this type of review, the employees

awarded a greater percentage will be motivated to excel in the proceeding months to gain more profit share, whilst the individual who has been docked a portion of their percentage will need to self motivate themselves in the proceeding months to prevent a recurrence of dropped percentages. This may not be practical to do every month; however, it will definitely be possible to have the review sessions on a quarterly basis. The idea is to keep everyone's performance levels at a maximum for sustained periods of time.

Lastly, the recommendation of implementing a performance management tool in the form of a balanced scorecard will be put forward to the executive team. This will incur initial setup cost in terms of designing the structure of this scheme together with licensing cost for IT programmes that can work the system. The support of this idea will be that organisations globally have implemented a similar system and it has increased performances at those organisations. The current profit sharing system has worked well for FFS Refiners (Pty) Ltd, however, a balanced scorecard system can improve the performances of the company if successfully designed and implemented.

## **6.5 Recommendations for future studies**

There are few recommendations that can be put forward for future studies. These include:

- To determine the effect of having a profit sharing scheme that is linked only to a retirement savings vehicle, i.e. whatever profit share and individual gets, this should be contributed to their pension/provident fund. A time value study on this should be conducted to identify at which point an individual will be able to retire comfortably. The idea behind this is that if individuals can retire at an early age, this will enable them to enjoy their retirement savings as opposed to becoming too old to do so. It will further result in more individuals being employed more frequently hence the unemployment rate can reduce in South Africa. The retired individuals may further be stimulated to open up their own companies and hence stimulate economic growth. This will result in them employing people which will further reduce unemployment.
- A study should be conducted to determine how low in employment level can a company go to offer a profit sharing scheme. There may be different

motivational tools that can be used for lower levels of staff. If lower levels of staff can be motivated, it will improve performance levels.

- The current study was based for the profit sharing employees at FFS Refiners (Pty) Ltd. It will be interesting to investigate the effectiveness of profit sharing schemes in other companies that are in different business sectors.
- A study to determine the levels of motivation prior to implementation of profit sharing scheme to post implementation. The idea is to quantify if there was a change in motivational and performance levels. This study should also link up with a profit sharing scheme that is linked to a balance scorecard prior and post implementation.

## **6.6 Summary**

The research questions together with whether the questions have been answered or not in this study are as follows:

- Does a profit sharing scheme act as a motivator to existing employees on the scheme?

In terms of the current practises at FFS Refiners (Pty) Ltd, senior management are of the opinion that the profit sharing scheme acts as a motivator to employees. It is for this reason that various personnel have been offered the scheme with the view that they will think like the owner of the company and will try their utmost best to improve performances. As per the results and literature review, it conforms to managements views as well, i.e. the profit sharing scheme acts as a motivator to employees.

- Would employees prefer having an increase in salary and no profit share to eliminate the risk inherent in profit sharing schemes?

An increase in salary and the reduction of profit share has not been practised at FFS Refiners (Pty) Ltd. It was therefore interesting to determine what the current employees on the incentive scheme felt about this objective. The majority has indicated that they prefer to have a reduced salary and be on the profit sharing scheme even though there is risk in the profit sharing scheme.

- Would an actively monthly managed profit sharing scheme be more beneficial for the company?

The monthly management of the profit sharing scheme is not being practised at FFS Refiners (Pty) Ltd currently and slightly above half of the participants indicated that it will be a positive initiative to have a monthly managed incentive scheme, however, more individuals may have been in favour of this as well if the profit sharing review was done less regularly than monthly, i.e. maybe every quarter. The advantage of a regularly reviewed profit sharing scheme is that it weeds out passengers, and rewards hard workers.

- Would it be more beneficial for the organisation to link an employee's profit share with a performance management tool, e.g. a balanced scorecard?

There is no performance measurement tool that is being utilised at FFS Refiners (Pty) Ltd currently. The survey has indicated that participants are of the opinion that a performance management tool will benefit the company if it is capable of being managed effectively as it will elevate the company to new levels of efficiencies and effectiveness. This is vastly supported by literature and hence should be a definite value adding initiative if implemented at FFS Refiners (Pty) Ltd.

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# APPENDICES

## Appendix 1: Questionnaire

### Section One:

#### About Yourself

1. Your age

1) Under 30

2) 30 – 40

3) 41 – 50

4) 51 – 60

5) Over 60

2. Your highest completed level of education

1) Matric

2) Diploma

3) Degree

4) Postgraduate

3. Your gender

1) Male

2) Female

4. Number of years worked at FFS Refiners (Pty) Ltd

1) Less than 2

2) 2 – 5

3) 6 – 10

4) 11 – 15

5) Over 15

5. Patterson Job Grading Band

1) C Grade

2) D Grade

3) E Grade

4) F Grade

**Section Two:**

**Please read each statement and decide to what extent you agree or disagree, by marking the appropriate block with an “X”. The following rating scale should be used:**

**1 – strongly disagree**

**2 – disagree**

**3 – unsure**

**4 – agree**

**5 – strongly agree**

**Research Objective One: To determine if the profit sharing scheme acts as a motivator to employees**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
6. The current profit sharing scheme motivates you					
7. Profit sharing motivates you to institute cost reduction initiatives					
8. Due to profit sharing, one of your main goals is to ensure customer/supplier satisfaction					
9. Profit sharing motivates you to come up with					

innovative ideas to improve profitability					
10. Profit sharing will motivate middle management, i.e. C3 and C4 salary grades, to perform at a more optimum level than their current level if the scheme was offered to them.					
11. When there is a crisis, you will strive to resolve the situation even though it is not in your department					
12. Theoretically, the company benefits by having a profit sharing scheme as employees are motivated to perform. Your current output <u>would not</u> be the same if all that was offered by the company was a guaranteed 13 <sup>th</sup> cheque.					
13. The current profit sharing scheme is divided into three profit centres, i.e. Head Office, Cape Town and Durban/Pietermaritzburg/Chloorkop/Evander. All employees work for the same employee, therefore all profit sharing clusters should be grouped into one profit sharing centre company wide.					
14. The profit sharing scheme at branch level should be made up of a portion of branch and company profits					

**Research Objective Two: To determine if employees on the profit sharing scheme would rather have an increase in salary as opposed to being exposed to the risk of the profit sharing scheme**

Statement	1	2	3	4	5
15. There is inherent risk with profit sharing in that some years your profit share may be high and some years nothing. <u>You</u> would therefore prefer a higher gross salary and no profit sharing incentive thereby removing the risk of profit sharing.					
16. When applying for a bond or vehicle finance, the profit sharing scheme cannot be used in this application due to the risk and variability of the profit sharing scheme. You would therefore prefer having an increase in salary with a reduced/zero profit sharing percentage.					
17. <u>You believe that some individuals</u> should rather have an increase in salary and not be on the profit sharing scheme as their job functions do not add value					
18. The profit sharing scheme does not contribute to an employee's pension/provident fund. You would therefore prefer having an increased salary, where you and the employer contribute equally to your current pension/provident fund as opposed to being exposed to the risk of the profit sharing scheme, i.e. zero profit sharing percentage.					
19. Being a member of the profit sharing scheme, you think like the owner of the company					

**Research Objective Three: To determine if the monthly management of the profit sharing scheme would be more beneficial**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
20.Monthly management of the profit sharing scheme will drive employees to excel all the time.					
21.Employees profit sharing percentages should reduce with a decline in individual performance on a monthly basis					
22.Employees are forced to motivate themselves to perform or else they would incur reduction in profit sharing percentages monthly					
23.Profit sharing drives you to assist other departments to improve their efficiencies which can be monitored more accurately on a monthly basis.					

**Research Objective Four: To determine if the profit sharing scheme needs to be linked to a performance management tool, e.g. balanced scorecard**

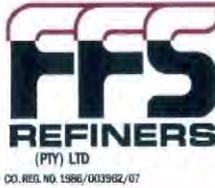
<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
24.A performance management tool will be beneficial to the organisation					
25.A performance management tool will take the company to the next level of efficiencies and effectiveness					
26.A performance management tool will be difficult to					

manage in the company's operating environment					
27.A performance management tool can decrease morale, as individuals may perform exceptionally well in one section of the performance management system, that results in huge financial gain, but may lack in other sections, resulting in a poor performance management score					
28.The current profit sharing scheme is primarily dependent on the financial performance of the organisation, which may result in other factors that affect sustainability, e.g. environmental, safety, people development, etc. to be overlooked which can be a risk to the business. The profit sharing scheme should therefore make use of a performance management tool like a balanced scorecard which may have a basket of indicators ensuring employees look at other parts of the business that can cause risk.					

**End of the Questionnaire**

Thank you for taking the time to complete the questionnaire

## Appendix 2: Gatekeepers Letter



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Fax Accounts: (0)31 459 5327  
E-Mail: ffs@ffs.co.za  
www.fts-refiners.com

05 March 2014

Graduate School of Business  
University of Kwa-Zulu Natal  
Durban  
4001

Dear Sirs

### GATEKEEPER'S PASS

Mr Bilal Sayed is studying for his MBA through The Graduate School of Business and his thesis is "Effectiveness of the Profit Sharing Scheme within FFS Refiners (Pty) Ltd".

We have given him permission to conduct this research and to collect data from the employees who are participants in the profit sharing scheme.

Please contact me should you have any questions.

Yours faithfully

**D A COCHRAN** FCIS  
PROFESSIONAL ACCOUNTANT (SA)  
**DIRECTOR**

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## Appendix 3: Ethical Clearance



02 April 2014

Mr Bhal Sayed (201299688)  
Graduate School of Business & Leadership  
Westville Campus

Protocol reference number: HSS/0398/01404  
Project title: Effectiveness of the Profit Sharing Scheme within PPS Refiners (Pty) Ltd

Dear Mr Sayed,

### Full Approval – Expedited

In response to your application dated 12 March 2014, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted FULL APPROVAL.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I have this opportunity of wishing you everything of the best with your study.

Yours faithfully

Dr Shamsik Singh (Chair)

/ms

Cc Supervisor: Dr Abdulji Eider  
cc Academic Leader-Research: Dr E Marupen  
cc School Administrator: Ms Zairina Buljira

Humanities & Social Sciences Research Ethics Committee

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