

Abstract submission form for European Productivity Conference (EPC 2006)
 Dipoli Congress Center, Espoo, Finland, 30 August – 1 September 2006

025

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- The abstract submission deadline is 27 January 2006. Abstracts are to be e-mailed to epc2006@congreg.fi.
- Font type and size for the abstract: **Times New Roman, 12 points.**
- Line spacing: single for the whole text. Write abstract title in **bold** using both upper and lower case letters.
- Leave blank line before and after author(s) names (family name and first name in full) and after affiliation.
- Underline presenting author. List co-authors (max 5). For co-authors mention family name and first name (initials only).
- Write a structured abstract using sub-headings *in italic*, for example, *Aims, Methods, Results* and *Conclusions*.
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"Copy and paste" your abstract text in the box below (14 cm width x 15 cm height):

A follow up study of the effects of a profit sharing system: a case study

Christina Sweins, Helsinki University of Technology, Helsinki, Finland

Aims: The aim of this study is to find out how the possibility to transfer the profit share into the personnel fund affects the functionality of the personnel fund. This procedural is unique in Finland and that makes it even more interesting. Empirical literature suggests that more information of a compensation system results in better functionality. The functionality in turn enhances productivity. The paper investigates the issue by comparing data from one organisation before and after the change. A previous study of the functionality of personnel funds will be used as background data. Functionality was measured with three indicators 1. Common satisfaction 2. Effects on action and 3. influence on work climate and co-operation.

Methods: Data was collected with a questionnaire in 2000 (n=25) before the change and in 2005 (n=31) after the change from one organization. Also facts of the pay systems were collected. The data will be compared with data from 31 organizations (n=1038) gathered in 2000.

Results: The preliminary results show that the change has improved the functionality of the fund. The knowledge of company activities has been better after the change. Personnel are more affected to the company and their input of work has increased after the change. The respondents estimate that partly due to the personnel fund the company goals have improved better after the change.

Conclusion: The results indicate that information of the compensation system is important for the functionality. Better knowledge results in better functionality of a compensation system. When the compensation system works well there will be more effects on performance.

Keywords: Personnel fund, functionality, effects of profit sharing, compensation

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Compensation and reward systems



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A follow up study of the effects of a profit sharing system: a case study

European Productivity Conference
Espoo 31.8.2006

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Profit sharing system

- Payments once a year to a PF
 - Has been in use for 15 years, payments made 5 times
 - Based on company profit and productivity
 - The aim is to get more understanding in company results
-

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Results oriented pay system

- Payments 4 times a year
- Has been in use for 9 years, payments vary from 1% to 5% of wages
- Based on different targets every year output is usually included with 50%
- Aim is to get more interest in areas of focus

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Combination of reward systems

- The two systems were combined 4 years ago
- Possibility to either cash based profit sharing or profit sharing payed into the PF
- If the performance related part is payed into the PF the amount will increase with 1.25 due to tax incentives

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- Knowledge of pay system is important for effects in the company (Thierry 1998)
- Knowledge of the pay system increases the understanding of the link between work effort and pay (Burchett & Willoughby 2004)
- Knowledge of pay, increases satisfaction with pay and commitment (Heneman & al 2002, Miceli & Mulvey 2000)

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Focus of the Research

- The focus of the research is on the personnel fund system in company X before and after a combination of PS and ROP systems
- *Comparison with dataset gathered from 31 personnel funds in 2000*

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Research Questions

- Does knowledge about the PF increase?
- What impacts are there on company outcomes?

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Methods and data

- Questionnaires to personnel in company X,
- 2000 n=25
- 2005 n=33
- Company specific data on the compensation systems
- *Comparison with data from PF functionality analysis made in 2000 n=1038*

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Change of actual knowledge

| | 2005 | 2000 |
|------|----------|---------|
| 1-3 | 12,10 % | 37,5 % |
| 4-6 | 48,50 % | 58,3 % |
| 7-10 | 39,40 % | 4,2 % |
| | 100,00 % | 100,0 % |

Significant $p < 0,001$

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Perceived knowledge

| | n | Mean 2005 | n | Mean 2000 | Sign. |
|-------------------------------------|----|-----------|----|-----------|-------------|
| Perceived knowledge common PF rules | 23 | 1,52 | 25 | 2,32 | $p < 0,000$ |
| Perceived knowledge own PF rules | 28 | 1,39 | 25 | 2,20 | $p < 0,000$ |

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Company targets and the PS system

| | N | Mean 2005 | SD 2005 | N | Mean 2000 | SD 2000 |
|---|----|-----------|---------|----|-----------|---------|
| I accept that the amount of PS is small after a bad year | 33 | 4,12 | 0,96 | 24 | 3,92 | 1,06 |
| My work has clear targets | 33 | 4,03 | 0,68 | 25 | 4,32 | 0,75 |
| I know what is the aim of the PS system in my company | 33 | 3,61 | 0,97 | 18 | 3,17 | 0,99 |
| I get enough feedback of the development of the company's key ratio | 32 | 3,53 | 1,11 | 21 | 3,00 | 1,10 |
| The PS system fits the present goals of the company | 33 | 3,52 | 0,91 | 23 | 3,35 | 0,98 |
| Partly due to the PS system company actions have improved | 32 | 3,25 | 0,95 | 21 | 2,52 | 1,12 |
| I am satisfied with my yearly PF shares | 33 | 2,85 | 0,97 | 22 | 2,73 | 1,08 |
| Due to the PS system company targets are clearer | 33 | 2,73 | 0,91 | 22 | 2,59 | 0,91 |
| We are discussing matters dealing with the PS system often enough | 33 | 2,70 | 0,92 | 24 | 2,46 | 0,83 |
| Due to the PF the targets are clearer | 33 | 2,27 | 0,98 | 23 | 2,30 | 0,93 |
| The PS system is steering my work | 33 | 2,06 | 0,83 | 24 | 1,79 | 1,02 |

Sig 0,02

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The personnel fund has increased

| | Mean X 2005 | Mean X 2000 | sign. all 2000 |
|---|-------------|-------------|----------------|
| Attachment to the workplace | 3,18 | 2,65 | 3,12 |
| Employee turnover | 2,03 | 1,59 | 1,94 |
| Fidelity to the work place | 3,23 | 2,77 | 3,16 |
| Employee knowledge about company activities | 3,70 | 3,00 | p < 0,002 3,12 |
| Democracy in decision making | 2,70 | 2,48 | 2,79 |
| Conflicts between employer and employees | 2,94 | 2,74 | 2,14 |
| Recognition of the whole workforce | 3,91 | 3,35 | p < 0,002 3,49 |
| Assets directed to personnel development | 2,77 | 2,77 | 2,99 |
| Company reputation as a good workplace | 3,45 | 3,09 | 3,56 |
| Interest in work | 3,33 | 2,92 | 3,17 |
| Input of work | 3,24 | 2,71 | p < 0,05 3,11 |

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Sum variables

| | 1 | 2 | 3 | α |
|---------------------------|--------------|--------------|--------------|----------|
| Satisfaction of PF system | 0,189 | 0,048 | 0,864 | .74 |
| Satisfaction of PF share | 0,059 | 0,171 | 0,867 | |
| Impacts on quality | 0,763 | 0,153 | 0,153 | .91 |
| Financial effectivity | 0,780 | 0,142 | 0,139 | |
| Flexibility | 0,755 | 0,295 | 0,041 | |
| Effectivity on action | 0,806 | 0,256 | 0,075 | |
| Delivery reliability | 0,787 | 0,184 | 0,091 | .78 |
| Customer notification | 0,813 | 0,110 | 0,091 | |
| Systematical planning | 0,761 | 0,292 | 0,043 | .78 |
| Information flow | 0,187 | 0,762 | 0,04 | |
| Co-operation | 0,383 | 0,769 | 0,062 | |
| Work climate | 0,177 | 0,801 | 0,194 | |

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| Sum variables | mean 2006 | mean 2000 |
|--|-----------|-----------|
| Common PF satisfaction | 3,12 | 2,96 |
| Impacts on actions | 3,43 | 3,39 |
| Impacts on work climate and co-operation | 3,28 | 3,2 |

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| | M X 2005 | M X 2000 | All 2000 |
|----------------------------|----------|----------|----------|
| Sum directive actions | 2,84 | 2,89 | 2,72 |
| Sum interest | 3,84 | 4,15 | 3,78 |
| Sum feedback | 3,09 | 2,6 | 2,51 |
| Sum effort | 4,30 | 4,62 | 4,53 |
| Sum burden | 3,32 | 3,17 | 3,27 |
| Sum image | 3,57 | 3,70 | 3,98 |
| Summa equity | 3,81 | 3,76 | 3,9 |
| Sum pay satisfaction | 2,59 | 2,97 | 2,92 |
| Sum activity outcomes | 3,43 | 3,39 | 3,42 |
| Sum workclimate | 3,28 | 3,2 | 3,32 |
| Sum PF satisfaction | 3,12 | 2,96 | 3,37 |
| Sum calculative commitment | 2,98 | 3,35 | 3,14 |
| Sum normative commitment | 3,00 | 2,65 | 2,31 |
| Sum affective commitment | 4,04 | 3,78 | 3,76 |

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Due to the PF it is possible to have more performance based pay

| | | N | Percent | Valid Percent | Cum. Percent |
|-------|-------------------|----|---------|---------------|--------------|
| Valid | Totally disagree | 10 | 30,3 | 31,3 | 31,3 |
| | Somewhat disagree | 2 | 6,1 | 6,3 | 37,5 |
| | In between | 6 | 18,2 | 18,8 | 56,3 |
| | Somewhat agree | 9 | 27,3 | 28,1 | 84,4 |
| | Totally agree | 5 | 15,2 | 15,6 | 100,0 |
| | Total | 32 | 97,0 | 100 | |

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Results

- Knowledge, recognition and input of work have improved
- There is a correlation between the right answers and the targets of work, and how employees know what the PF aims at
- Partly due to the PF system company actions have improved
- Further analyses to be done

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