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**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

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

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## Methods and data

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

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- 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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**Thank You!**

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