

Executive Summary

1.0 Performance-based Remuneration Systems

Performance-based Remuneration Systems are increasingly being implemented by SMEs. Most SMEs have realised the need to be competitive and one of the ways to ensure that it sustains its competitive edge is to make sure that any increase in remuneration is supported by performance improvement. This is evident in the studies carried out by Korea, Malaysia, The Philippines and Chinese Taipei. All these economies have also given emphasis to the growth of SMEs within their economies. Various plans and policies are emplaced to ensure that SMEs are on the same growth path as other industries in the economy as SMEs comprise more than 90% of business establishments in these economies.

In all the economies studied, Performance-based Remuneration Systems had been developed by the economies concerned. The systems used included the Balance Scorecard, Management by Objectives, Key Performance Indicators and benchmarks, High Performance Work Systems, Excellence Models and performance evaluation based on set objectives and targets. Basically, both the fixed component and the variable component were present. The fixed component comprises the basic wage or remuneration while the variable component or performance element is linked to productivity improvement, profitability or determined through specific performance measures.

2.0 Developing Key Performance Measures

In the economies mentioned, key performance measures not only determine performance improvement of the firm but also establishes the contribution of employees towards the improvement processes. As a result it was determined that the contribution of both management and employees through cooperation and teamwork will improve organisational performance. Among the key performance measures identified include job competency, targets and goals achievement, piece-rate, zero defect, cost savings, productivity based on set standards and targets, financial measures such as return on equity and profitability, job knowledge, job quality, communication skills, teamwork,

dependability, initiative, commitment, multitasking and innovation.

The key performance measures allowed for progressive growth and were specific, quantifiable, achievable as well as able to make long term projections. The overall business objectives and strategies were tied in with the measures set so that they can be cascaded down to all levels of the organisation for effective implementation.

3.0 Performance Based Rewards

Based on the two components in such remuneration systems, the variable component of such schemes could include cash incentives, shares and the concept of self-funded performance bonuses. However, any incentive given should not be an over-skewed compensation where there is no internal equity and the payout has no linkage to performance. As for long term incentives such as gains sharing options, it is considered as an opportunity for companies to attract talent and often recommended as a tool for firms to support their improvement programmes. In the concept of self-funded performance the payout is based on the ability to pay. Therefore, the performance bonus should only be given out from profits earned for superior performance.

Other forms of rewards may be linked to the performance assessment where quantitative targets are set and independently computed by the supervisor that solicits inputs from peers, subordinates and clients which will determine the increments, bonuses and promotions. Some firms also linked quantitative and qualitative aspects of evaluation which were weighted in terms of importance to determine the competence of employees in areas of strategic thinking, business acumen, drive and resilience, innovation and change agents.

4.0 Practices among SMEs of Selected Economies

The common features of Performance-based Remuneration Systems among SMEs in these economies include systems that are target based. Merits or incentives that are awarded are based on what is achieved. The threshold is also set so that performance below the threshold level will not qualify for any incentive. Most of the SMEs studied used job functions as a criteria to develop

their performance measures. These enabled the firms to identify their strengths and areas for improvement as well as reengineer business processes for continuous improvement.

The KPIs that were selected such as improving sales and revenue, customer retention and satisfaction were used to capitalise on expansion of market share. In all the firms studied the evaluation criteria and KPIs were reviewed from time to time. Both employers and employees engaged in sharing of information and transparency to ensure that there was no mistrust among them. These exemplary cases will enable other SME firms to adopt and adapt the systems mentioned and improvise on them for greater competitiveness.

5.0 Impact of Performance-Based Remuneration Systems

From the study on individual firms by the economies, vast improvements had taken place. Some firms had recorded an increase in profits by two fold within a short span of 2-3 years. Productivity improvements were more than double over a three year period. Other areas that impacted the implementation of Performance-based Systems included expansion of sales, reduction in the cost of sales through creative and innovative means, improvement to motivation and staff morale, and a sense of commitment and dedication. Pay for performance became an acceptable norm while multitasking to reduce unwarranted recruitment of staff were initiated. At the same time, result oriented teamwork, increased employee satisfaction and change in mindset and culture resulted in a more productive workforce.

The positive impact of implementing Performance-based Remuneration Systems was that both employers and employees cooperated. Through this system the sense of ownership and responsibility was instilled as rewards were real and reflective of performance. Each therefore found ways to support and contribute towards improvement which will ultimately lead to a better quality of life for all.