

**PERFORMANCE BONUS AS ENTRY VEHICLE
TO PERFORMANCE MANAGEMENT**

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PERFORMANCE MANAGEMENT**

**A thesis presented in partial fulfillment of the requirements for the
degree Master of Business Administration in the Faculty of
Management at the Cape Technikon**

**BY:
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ABSTRACT

The purpose of this research is to answer the following fundamental question: "*Is the performance bonus approach a viable alternative methodology for implementing a Performance Management and Development intervention in South African companies?*"

PREFACE

The problem, which is the topic of research in this document, is the fact that a high number of Performance Management and Development interventions fail or do not reach their intended successes due to the manner in which they are implemented.

TABLE OF CONTENTS

	PAGE
Acknowledgements	2
Abstract	3
Preface	4
Table of contents	5
List of figures	7
List of tables	8
List of annexures	9
Clarification of basic terms and concepts	10
 Chapter 1. Introduction	11
The purpose of this study	12
Research methodology	12
 Chapter 2. Literature review	13
Significance of the study	18
Defining Performance Management	20
Purposes of Performance Management	21
Performance Management and Organisational Culture	22
Organisational Learning	22
The link between pay and performance	23
 Chapter 3. Case Study	24
Section 1. An overview of the organisation	24
Introduction	24
Pathology	24
General organisation background and background to the current structures	26
Background to the problem	27
Section 2. Introduction to the Performance Bonus	28
Introduction	28
The Performance Bonus	28
The Process	31
The Procedure	34
The Instrument	35
Section 3. Response to the Performance Bonus	35
Findings	36
Summary and Recommendations	45
 Chapter 4. Evaluation of the Case Study against the Literature Review	46

Chapter 5.	Results and Findings	48
Section 1.	Integration and Findings	48
	Findings	48
Section 2.	Highlighted points to be considered	50
	Findings	50
	Summary	51
Chapter 6.	Conclusion	52
	Recommendations for further studies	52
	Extending the scope of the issues studied	52
Bibliography		53

LIST OF FIGURES

		PAGE
Figure 1.1	Personal Goals Alignment	17
Figure 1.2	Traditional Job-Based Design	19
Figure 1.3	Skill-Based Pay	20
Figure 1.4	Top Down Change Process	32
Figure 1.5	Bottom Up Change Process	33
Figure 1.6	Total Errors	41
Figure 1.7	Total Forms Captured	41

LIST OF TABLES

	PAGE
Table 1.1 Comparison between Kaizen and Innovation	14
Table1.2 Results of Departmental Survey	36
Table 1.3 Total Log-in Department Scores	38
Table 1.4 Reports and Scanning Section 38	
Table 1.5 Primary Tracing Section	39
Table 1.6 Data Capture Section	39
Table 1.7 Accuracy Scoring Table for Data Capture Section	41
Table 1.8 Suggested Accuracy Scoring Table for Data Capture Section	42
Table 1.9 Quantity Scoring Table for Data Capture Section	42
Table 1.10 Suggested Quantity Scoring Table for Data Capture Section	43
Table 1.11 Quality Scoring Table for Log-in Department	43
Table 1.12 Log-in Department Sick Leave	44
Table 1.13 Summary of Results	51

LIST OF ANNEXURES

- Annexure 1 Template – Individual Standards
- Annexure 2 Performance Bonus Assessment Quarters
- Annexure 3 Performance Bonus Form
- Annexure 4 Performance Management Survey
- Annexure 5 Pathcare Organigram

CLARIFICATION OF BASIC TERMS AND CONCEPTS

BOTTOM-UP: An alternative method to the traditional top-down approach followed with most change interventions.

PERFORMANCE MANAGEMENT AND DEVELOPMENT: A process of managing and improving performance on all levels within an organisation.

NQF: National Qualifications Framework.

SAQA: South African Qualifications Authority - a national body that will, *inter alia*, define levels, formats for unit standards and requirements for qualifications.

COMPETENCE: The capacity for continuous performance within specified ranges and contexts resulting from the integration of a number of capabilities.

OUTCOME: It is a statement of the required capabilities which a learner must be able to demonstrate.

CHAPTER 1.

INTRODUCTION

The problem, which is the topic of research in this document, is the fact that a high number of Performance Management and Development interventions fail or do not reach their intended successes due to the manner in which they are implemented.

THE PURPOSE OF THIS STUDY

Introduction

As is the case with most organisational development initiatives, the first step in the process is management commitment, especially at the highest levels. Unfortunately, failure to achieve this, either totally or in part, is often the main reason why Performance Management and Development interventions fail.

Traditionally, one would begin the implementation of a Performance Management and Development intervention at the highest level, being organisational goals. However, this can be resisted for many reasons. These reasons include, but are not limited to the following:

- resistance to change,
- failure to recognise the underlying business issue,
- lack of understanding of the intervention,
- lack of understanding of the benefits of the intervention,
- restrictive ownership structure,
- organisational culture, and
- organisational politics.

Many organisations in South Africa are currently embarking on performance management interventions, beginning with employees below the level of management. Renton (1998: 19) confirms this by stating “the focus all too often is on improving the management of jobs or individuals”.

Bennett and Minty (1999: 63) point out that “performance management, including all the activities associated with business planning, communication and goal-setting, as well as feedback about business, team and individual performance has an enormous role to play in organisational success. Traditional performance management systems are inadequate for this role”.

In light of the above, there is a need for an alternative methodology which will increase the chances of attaining successful implementation by taking into account the above mentioned constraints.

The purpose of this study

The purpose of this research is to answer the following fundamental question: *“Is the performance bonus approach a viable alternative methodology for implementing a Performance Management and Development intervention in South African companies?”*

The intention is to use the performance bonus as an entry vehicle for the establishment of a fully functional performance management and development system. The introduction of a performance based bonus system is intended to instill the recognition of “the pay for performance” concept as opposed to one of entitlement.

What is expected is that a culture of performance will develop encompassing standards of work performance, goal orientation and a level of individual responsibility for recognition and reward.

Understanding and acceptance of the performance bonus will create a platform for the introduction of further levels of remuneration, being increases and finally basic salary becoming performance based.

Furthermore, this will allow the development of the further necessary levels of a fully functional integrated performance management and development system. This would entail the inclusion of management levels within the system as well as operational levels (departments, divisions and regions) and finally the organisational level thereby linking all aspects of the system to overall strategy.

Research Methodology

The research methodology followed included the following qualitative analysis.

Qualitative Analysis

Qualitative analysis was undertaken to indicate the level of success and acceptance the intervention has achieved. It assisted in indicating a change in culture and attitude. This analysis involved collecting of information, conducting interviews, perusing records and observing behaviour and processes.

Sustainable success in this manner, firstly in the form of acceptance of the performance bonus system by staff and secondly the resultant increase in performance on an individual level, answered the research question and enabled the reaching of the purpose of the study.

CHAPTER 2.

LITERATURE REVIEW

In the search for increased productivity over the last century, one has seen a plethora of ideas about how to ensure that people put more effort into their work. The 20th Century began with Frederick Winslow Taylor, the so-called father of Scientific Management and so Time and Motion Study was born. The last ten years have seen an explosion of ideas and formulae, including Total Quality Management, Business Process Re-engineering, Kaizen, Benchmarking and World Class Best Practice. The development of ideas and thinking continues with concepts such as “Empowerment” and Values-Based Management receiving attention.

What follows is a more in-depth study of some of these concepts mentioned above.

Total Quality Management (TQM)

TQM is an approach to continuous quality improvement. The process is very comprehensive and comprises many activities and absolutes to establish total quality. It is customer focused and strives for zero defect in output production. The process usually contains the following aspects:

- specifying output requirements,
- planning problem prevention,
- determining zero defects,
- calculating the price of quality in terms of price of non-conformance and price of conformance,
- developing teamwork,
- measurement,
- troubleshooting and problem elimination, and
- development of customer and supplier relationships.

Work is defined as a process comprising a series of activities. All units of activities will have inputs supplied by suppliers and an output that should meet certain customer standards.

All the elements mentioned above have as their aim the improvement of these work processes to achieve zero defect. However, according to Huysamen (1999:139) before this aim of zero-defect output can be achieved there are three critical building blocks in the form of two so-called pillars and a foundation that must first be put in place.

The two pillars are firstly the knowledge and skill to implement TQM and secondly the TQM programme itself. The foundation below this comes in the form of the desire to fully participate in TQM. He cites the main reason for TQM programmes losing

momentum or never getting off the ground in the first place as not being in the structural pillars but rather that the foundation structure is not strong enough to support it. In other words, there is an insufficient desire from the employees in the organisation to make it part of their working lives.

Lawler et al's (1995:6) extensive study of TQM and Employment Involvement (EI) practices revealed that 76 % of Fortune 1000 companies practice TQM. Empirical evidence supports the fact that TQM, when practiced appropriately, has a positive effect on a company's performance. Yet according to Allan and Killman (2001:110) reports of the failure and imminent death of TQM are surprisingly common in popular and business press.

While there are various reasons for these failures, a potentially important reason has received very little attention according to Allan and Killman. They argue that it is possible that the type of reward practices used by an organisation may play an important moderating role on the relationship between a TQM-based strategy and organisational performance. Traditional reward systems typically compensate organisational members based on their individual accomplishments and relative position within the organisational hierarchy. These types of reward systems are generally not considered to be congruent with participative, team-based, knowledge-orientated, quality-focussed organisations.

This supports the fact that TQM, like all other approaches to organisational improvement, must be integrated within a total approach taking into account vital considerations such as reward strategy and structures to support the specific improvement initiative.

Kaizen

Kaizen is a key word used to explain various forms of continuous improvement made by groups of employees in Japanese industry.

Kai = Change
Zen = Good (for the better)

Therefore Kaizen = Continual Improvement

Kaizen differs from innovation in the following aspects:

Table 1.1 Comparison between Kaizen and Innovation

Kaizen	Innovation
Small steps	Big steps
Conventional know-how	Technological breakthrough
Efforts	Investment
Process-orientated	Results-orientated
Slow-growth economy	Fast-growth economy

Kaizen can therefore be seen as small but continuous improvements to work practices, processes and the work environment in order to assist continuous productivity improvement.

There are two very distinct Japanese words in the kaizen word namely, muda and gemba. Muda means waste and gemba means “on the spot” usually associated with the shopfloor. One kaizen objective is to eliminate waste and the best way to do this is to go to gemba and let the people participate in providing the solutions.

Benchmarking

Benchmarking can be explained as a continuous process for evaluating products, services and work processes of organisations that are recognised as representing best practices for the purpose of organisational improvement.

Benchmarking is predominantly an externally focussed component of performance improvement for comparing business operations to the best-in-class in any industry. Because the process involves setting goals and developing operational plans to surpass current best-in-class performance, it stands to reason that benchmarking can only be introduced to an organisation which already has a performance improvement system in place.

The main objective of benchmarking is organisational improvement and some key concepts are:

- comparison of performance and practices,
- continuous process,
- systematic process,
- adapting, and
- open exchange of information.

As has been stated above, benchmarking is best used in conjunction with an existing productivity improvement system to achieve optimum results and is therefore more suited to the mature organisation that understands where it is compared to its competitors and where it wants to be.

It is normally used when more than incremental improvement is required, when large technology gaps exist and when productivity growth seems to stagnate. It must be part of an integrated improvement strategy and therefore should be considered in the absence of clear strategic direction or if management is not committed to productivity improvement.

The introduction of the above mentioned concepts have not come without a price according to Creelman (1995:6). Middle managers were once viewed as the oil that lubricated the top-down flow of corporate commands and information and thereby ensured the smooth running of the organisation. This was the case until new engines

were introduced with names like total quality management and business process re-engineering and so the once great lubricant became a pollutant. Middle management became the enemy and had to be eradicated if the new engines of corporate change were to work.

It is the author's opinion that these developments, rather than be treated as fads and after investigation discarded, be viewed as stepping stones on the road to increased, effective performance in its widest sense. They are, in fact, all very necessary components when implementing performance improvement on an organisational scale. If the improvement intervention is going to be conducted on anything more than a superficial level, by implication one is going to have to critically examine and interrogate many aspects of the business, on the lowest level what people do (job analysis), work flow and business processes, "hand-over" points and linkages, alignment of business units and on the highest level, strategies and goals.

The latest thinking in the area of performance management includes the so-called *balanced scorecard*. The Balanced Scorecard, developed by Robert S Kaplan and David P Norton (1996:1) in the 1990's at the Harvard Business School is best described in their own words, as a tool to "Translate Strategy Into Action". As this methodology has been in existence now for a number of years, it appears to have a proven track record. Companies who have benefited from it internationally include Virgin Atlantic, Sears Roebuck, Mobil and locally the likes of Shell and The Automobile Association of South Africa.

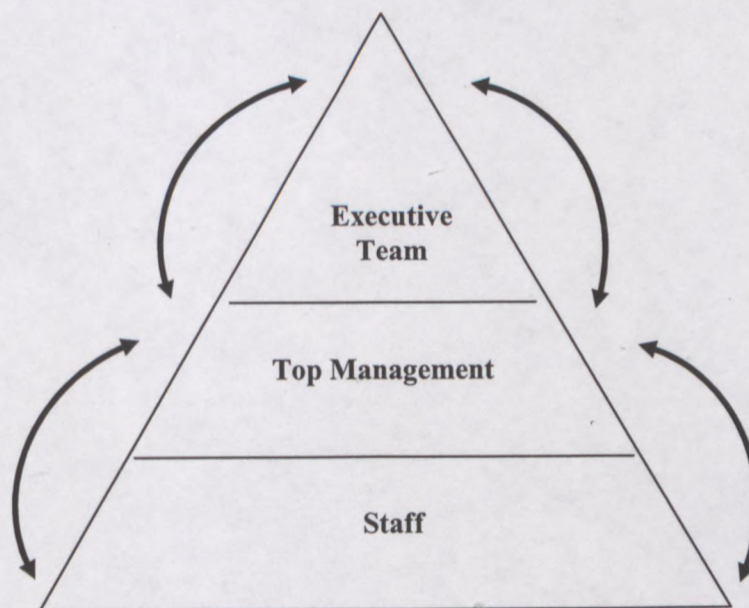
The thinking behind the balanced scorecard is that firstly and most importantly it provides the "missing link" of an implementation plan, bridging strategy (the ideal) with the organisation (current reality). Most companies have a vision of where they want to go and where they need to grow but not always how they are going to get there. As a person requires a map of a terrain he or she is visiting for the first time, the same can be said of a company planning for the future. Here the balanced scorecard serves as the navigational tool to guide a company successfully towards its intended future.

Kaplan and Norton work from the premise that measuring a company's performance utilising the traditional financial indicators like turnover, cost and net profit alone does not provide the most useful and comprehensive "snap shot" of performance at any given time. They argue that a more balanced picture including *customer*, *internal process* (key business processes required to achieve the company's goals) and *learning and growth* (people, systems and procedures) will highlight lead indicators as opposed to lag indicators. An example of a lag indicator is being given a report by a person's superior on the expenditure of that department, a month after it occurred. Receiving this critical information at that stage offers no chance of doing anything about it, as it has already happened. Examining these additional aspects as mentioned above, also takes into account qualitative measures in addition to the quantitative ones normally used.

Although “balanced”, these four quadrants (*financial, customer, internal process and learning & growth*) should not be viewed as of equal importance and cannot be agreed upon independently. For most organisations, because they are in business to make a profit, defining financial goals on an organisational level remains the most important and is therefore the starting point. Secondly, a person would examine the *customer* quadrant and ask questions like, “If these are the financial goals we want to achieve, what new markets must we move into, what percentage of the market do we want to capture?”. The following level is that of *internal business process*. Here, a person would critically review key business processes in light of the markets and customers identified above. Finally, given all that must be achieved under financial, customer and businesses processes, what has to be developed, improved or changed by way of people skills and information systems, to support and facilitate its successful achievement.

This organisational scorecard is typically then cascaded down from the Executive Team to Top Management and finally to the lower levels of staff as indicated in Figure 1.1 below.

Figure 1.1
PERSONAL GOALS ALIGNMENT



Source: Kaplan, R., Norton, A (1996). *The Balanced Scorecard. Translating Strategy Into Action.*

1. Top-Down Management Rollout

- Establish context for BSC (balanced scorecard) as a means to communicate shared objects.
- Build understanding and acceptance of the BSC.
- Engage managers to adapt the measures to fit their area of responsibility.

- Engage managers to track performance to establish a baseline of information for establishing targets.
- Engage managers to develop and execute an implementation plan for cascading the BSC down within their organisations.

2. Employee Rollout

- Communicate context, organisational strategies, and initiatives.
- Introduce the BSC – What is it?; How is it being used?; What is the implementation plan?; What has been accomplished?; What are the next steps?

3. Profit Plan / Target Setting

- Implement top-down process for defining financial targets.
- Implement bottom-up process for establishing targets for non-financial measures.

4. Personal Goals Alignment

- Each employee establishes a strategy-aligned goal by identifying an activity which he/she performs (and/or measure) which will impact a measurement on the scorecard.
- Personal goals established through negotiation process with management.

However, when it comes to implementation, there are certain constraints and restrictions as mentioned under the heading “The purpose of this study” in chapter 1. Therefore, there is a need for an alternative implementation methodology that will succeed in cultures prevalent in South African companies today. This method would have to take into account resistance to the concept of “pay for performance”. Recent industrial action in large companies such as Telkom SA when attempting this change proves that a slower, incremental approach is probably required as opposed to the “big bang” approach favored up to now.

The significance of the study

The significance of this study lies in the fact that performance management is currently a highly topical and important item on most South African companies’ agendas. Sheldrake, in the Drake Business Review (2000: 2) supports this in the statement “Productivity is the issue of the 21st Century”. This is evident within national government, parastatals, large and small business alike. The Unicity, a new local government structure in the Western Cape has as one of its cornerstones of transformation, the introduction of performance management.

Issues such as globalisation and technology in the form of the internet are forcing companies to examine not only who they do business with and how they do business but how can they do business better, namely, improved quality and turn-around-times with reduced costs. Venter (1998: 46) supports this in the statement “Key words in this bustling and burgeoning environment are production, competitive edge, quality and excellence. Successful organisations must provide quality products and services,

demonstrate flexibility and adaptability to changing customer and client needs, and manage the performance of their resources cost effectively and efficiently”.

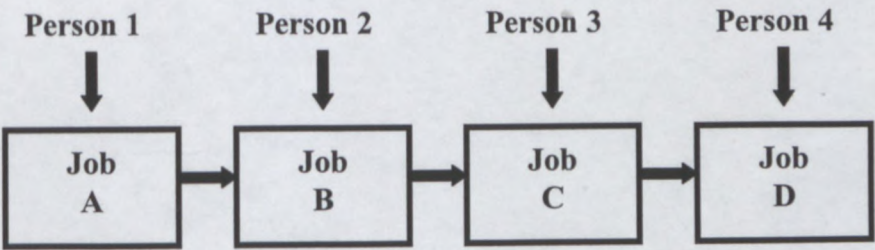
Viedge (1999:10) states that “a company strategy is their recipe for success in dealing with their targeted customers or clients. The challenge for business leaders is to ensure that all employees’ performance is contributing to the fulfillment of the company strategy. Performance management is the means to this end.”

Furthermore, with the advent of legislation such as the Employment Equity Act, companies are looking to performance management to provide standards necessary for effective implementation of the Act. The South African Breweries (SAB) pioneered this approach, almost twenty years ago. SAB’s management realised that implementing affirmative action in isolation would be an additional cost (in the form of mentoring, training and development, etc.) and therefore implemented performance management to not only set standards but ensure the improvement of these standards. This improvement helped offset the costs associated with affirmative action.

The use of performance standards can also act as an aid to employment equity by appointing the right people to real jobs using clear, measurable output criteria. Cook (1998: 40) states “all of these flow automatically from a good performance management system, based on performance contracts”.

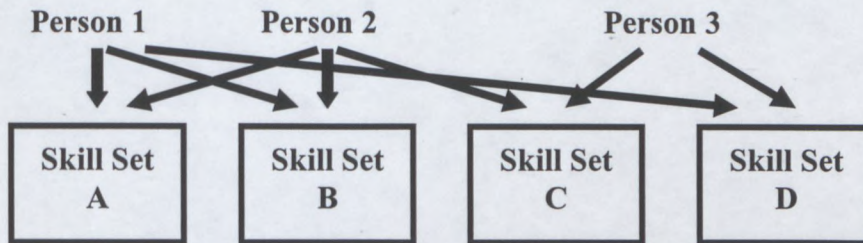
Traditionally, pay is based on job classification and seniority and increased through demand by employee and/or employee representative bodies. Although this reinforces allegiance to a particular job, it may not promote the high levels of flexibility and performance required of employees in most modern day organisations wishing to succeed. Demand-based pay can therefore according to Flannery et al. (1996: 83) be viewed as the so-called “traditional” approach to pay. In skill-based systems, employees are paid based on the number of skills they have mastered or jobs they can supposedly perform. Performance-based pay links rewards directly to measurable performance outcomes.

Figure 1.2
Traditional Job-Based Design



Source: Flannery, T., Hofrichter, D., Platten, P., (1996). People, Performance & Pay.

Figure 1.3
Skill-Based Pay



Source: Flannery, T., Hofrichter, D., Platten, P., (1996). People, Performance & Pay.

Organisations can use this system to specifically reward both individual and team performance. This is achievable as long as other critical factors such as the organisation's management philosophy, organisational culture and training and development function support this approach.

This approach is also in accordance with current practices in Education, Training and Development as spelt out in the National Qualifications Framework (NQF) and the related South African Qualifications Authority (SAQA) Act of 1995.

In South Africa, it appears as if some organisations are following the European and New Zealand trend in moving away from *content learning* (i.e. assuming that once you study the characteristics of an effective manager, you will become one) through *competency-based learning* (competency being a combination of knowledge, skill and attitude) to *outcomes-based learning* (i.e. the demonstrated result or outcomes determine success) with success.

DEFINING PERFORMANCE MANAGEMENT AND DEVELOPMENT

When most people hear the term "performance management", the first image that springs to mind, is performance appraisals. While it is true that performance management has at its core the challenge to all managers to differentiate the way that employees are treated in response to their work performance, the value of an effective performance management system extends far beyond a purely individual level.

Performance management may rather be conceived as a process of managing and improving performance on all levels within the organisation.

Another misconception that requires dispelling is that performance management resides purely in the realm of corrective behaviour enforcement. The negative connotations surrounding the term “performance management” conjure images of control and punishment. These perceptions may be valid due to past practice. Sadly, much of what is known surrounding these interventions indicates that they were ill conceived and the implementation worse still.

As a direct response to this, companies have added two significant words in the form of “and development”. The negative connotations are thus counter balanced with the positive development aspect. After all, it stands to reason that if, for example, an individual’s performance is not up to standard and he/she forfeit the immediate reward at hand, should development in some form not be forthcoming he/she would be doomed to repeat the cycle.

Sutherland (1999:10) breaks the concept down further with her explanation that the term performance management has two components to it, which are more often than not confused in management parlance.

Firstly, the performance management system in place in a company: These are the agreed on procedures for:

- performance contracts being established,
- performance being measured consistently across the organisation,
- the type of performance appraisals that are carried out,
- the linking of reward allocation to performance evaluations,
- the system by which training needs are identified and acted on in the company, and
- the formalised system for career pathing of identified high flyers.

The degree to which each of these is aligned to corporate strategy will determine the effect of the systems on driving company performance.

Secondly, performance management is a day to day, ongoing, highly interpersonal activity. Employees do not work for companies, they work for their bosses. They expect and long for daily acknowledgement of their presence, contributions, successes and failures.

PURPOSES OF PERFORMANCE MANAGEMENT

There are generally three major purposes, according to Bennett and Minty (1999:58), for implementing a performance management system:

- it is a process for strategy implementation,
- it is a vehicle for culture change, and
- it provides input to other HR systems such as development and remuneration.

Traditionally organisations viewed performance management to be for human resources purposes, resulting in performance management being perceived to be owned and driven

by the human resources department. In organisations today it is of critical importance that the primary purpose of performance management is seen to be as both a process for implementing the business strategy and as a vehicle for changing and creating the desired culture. The human resources purposes of performance management should be secondary. By doing this an organisation will elevate the status of performance management to that of a key business or management process implying that it will be placed on the business calendar and integrated with other business processes such as strategic planning and financial budgeting.

Finally, there are the financial "bottom-line" considerations. One often hears the question: "Are performance management systems worth the effort?". Viedge's (1999:10) response to this, is that studies have shown improvements of between 10% and 25% in performance when an effective performance management system is in place. From this, it can be seen that every rand spent on implementing performance management will be repaid many times over.

PERFORMANCE MANAGEMENT AND ORGANISATIONAL CULTURE

The performance management process in itself has a powerful influence on the culture of the organisation. In fact, McLagan (1999:88) states that "how an organisation manages performance is its culture". This happens because people come together or meet at different stages of a performance management process such as target, goal and standard setting, agreeing on development plans or reviewing performance.

It is the way these different stages are approached and implemented that inculcates core values of the culture. For example, if managers drive the stages of performance management processes in a top-down paternalistic manner, then these actions will perpetuate a culture of paternalism. In many organisations striving to develop high performance, participative cultures, the performance management process is being carried out on a partnership basis, in which the process is shared between manager and employee.

Organisational Learning

Learning on an organisational level, as with any learning, can occur along a continuum from superficial to substantial. If change activities such as the introduction of a performance management system merely create a flurry of activity without substance, learning remains at a superficial level.

When such a system becomes a means of shaping the fundamental values and culture of not only employees but rather the organisation as a system, it moves towards substantial learning. This, according to Ulrich et al. (1994:56), may be conceived as the difference between change and the capacity for change.

The link between pay and performance

Mills and Friesen (1992:153) point out that in most hierarchies, compensation is fixed by rank and determined largely by length of service (often equated to experience). Pay grades are set based on analysis among carefully defined "comparison" jobs inside and outside the company. In theory, this system should work well but, in practice, people who have been around tend to be promoted as their service mounts and thus they build up compensation based on tenure, not necessarily performance.

The effects, generally speaking, of economic plenty today have lessened the incentive effect of a regular pay cheque. Employees increasingly view base compensation as a form of entitlement and more is necessary to bring forth extraordinary effort. In some instances, the "more" may be incentive pay, in others, it may be individual recognition. Pay beyond what is simply "owed" and personal attention or "caring" are necessary to generate real commitment in today's workforce. Variable bonus schemes designed to augment salary based on performance implicitly recognise this.

CHAPTER 3.

CASE STUDY

SECTION 1. AN OVERVIEW OF THE ORGANISATION

Introduction

The study has been conducted using a particular company and specific methodology as a case study. The company in question is *Pathcare*, an international employer group in the Pathology industry.

For the purpose of this study only subsidiary companies of the group within the Western Cape of South Africa have been included.

The Pathcare Group has over 2000 employees and is owned by 56 partners and therefore has a unique ownership form for such a relatively large organisation.

What follows is a brief overview of the various disciplines of pathology, general organisational background and background to the current structures at Pathcare and finally background to the problem which led to the introduction of the performance bonus.

Pathology

Pathology is one of the biological sciences of medicine, which deals with the scientific study of diseases and disease processes.

The aim of the study of pathology, is understanding the nature of disease, its causes, and the effects of those diseases on the structure and function of the body organs and tissues. This is achieved by observing samples of blood, urine, cerebro-spinal fluid, sputum and faeces, and diseased tissue obtained from the living patient or at an autopsy, by use of various laboratory techniques.

Histology

Histology is the study of the minute structure of normal tissues, (microscopic branch of anatomy). Histopathology is the microscopic study of tissues affected by disease, histology biopsies, bone biopsies, or surgical removals. Tissues from any organ or part of the body, such as breasts, bowels, kidney, stomach, etc. may be examined. Histopathologists, for example, examine ulcerations, infections, or tumour formations in tissues. Extremely thin strips of tissue, through which light can be transmitted, are prepared in the laboratory by technologists so that the histopathologist can examine the relationships of various cells to each other and find abnormalities.

Cytology

Cytology is the study of the structure and function of cells. Cytologists examine cells which become detached (exfoliative cytology) or are deliberately removed from the surfaces or linings of body cavities or hollow organs such as the bladder or stomach or cervix, etc. Fixation and staining techniques are used to preserve the cells and prepare them so that they can be examined for abnormalities. Cytology has become an established aid for the diagnosis of malignancy in various organs, particularly those of the respiratory, urinary, and female genital tracts.

Bacteriology

Microbiology is the branch of biological science which is concerned with the study of micro-organisms. Microbiologists are mainly concerned with the isolation and identification of the micro-organisms that cause disease. These micro-organisms may be protozoa, fungi, viruses or bacteria.

Bacteriology is especially concerned with the study of bacteria, particularly those that cause disease. Bacteria are microscopic unicellular plants. In the bacteriology laboratory, bacteria are grown in artificial culture media for study and identification. (Viruses are unable to multiply in artificial culture and can be grown only on living tissue. Viruses are examined rather in the serology laboratory.)

Serology

Serology is the study of bloodserum and its constituents, particularly their contribution to the protection of the body against disease.

Serum is a clear, slightly yellow opaque fluid which separates from blood upon clotting. It resembles plasma but with the protein and fibrinogen removed. Serum containing antibodies and antitoxins against infections and various toxins are used extensively in the prevention and treatment of various diseases.

In the serology department, much work is dedicated to the aim of studying and treating sexually transmitted diseases and other diseases spread by viruses.

Haematology

Haematological pathology is concerned with the breakdown and structural formation of the different types of blood cells, which make up blood.

The first category, the erythrocytes or red cells, carry oxygen from the lungs to the tissue. The second category, the leucocytes or white cells, is made up of three types:

granulocytes, lymphocytes and monocytes. In their different fashions all the leucocytes are concerned in the body's defence against infection and other noxious influences. The third type of cell is the thrombocyte or platelet. These are minute non-nucleated bodies, which play an important part in the coagulation and in the control of haemorrhage.

There are norms or values for each type of blood cell for both adults and children respectively. Should the values be out of range, depending on the extent, deficiencies and blood abnormalities can be determined e.g. pernicious anaemia and leukaemia.

In today's modern- world technology, haematology has become more automated.

Endocrinology

This is the study of the endocrine glands and the substances they secrete (hormones). Endocrinology is thus concerned with the abnormalities and deficiencies related to the different hormones of the body.

Examples of tests, which are performed in this branch of pathology, are thyroid functions, b-HCG test for pregnancy, progesterone and prolactin to name a few.

Clinical Chemistry

The discipline of chemical chemistry was established primarily as a result of physicians who attracted chemists to their laboratory to perform quantitative chemical analyses on fluids from patients suffering from such common diseases as diabetes and renal disease.

The body fluids, which are tested for chemistry are blood, urine and faeces.

General organisation background and background to the current structures

The origins of this pathology group date back to 1923 when Dr Patrick Mulligan opened a small laboratory in offices on Church Square, Cape Town. The practice grew and by 1934 it was necessary to move to larger premises in the National Mutual Building, also on Church Square.

In 1951, Dr Terence Mulligan, son of Dr Patrick Mulligan, joined his father's practice. At that stage the staff complement comprised of one receptionist/typist/secretary; two chemistry and bacteriology technologists; one technologist in haematology and one in histology. Two messengers were employed to deliver reports.

During these years the practice was run very differently from the way today's group is run. No sisters were employed and the pathologists took blood samples themselves. After one daily collection from the hospitals, only urgent specimens were accepted during the course of the day. At that time even surgeons brought their own histology specimens to the laboratory.

The Mulligan practice moved to the Fountain Medical Centre in Adderley Street in 1961. Far reaching changes took place during the early 1970's. Dr Dietrich joined the practice in 1973 and introduced the idea of collecting specimens from doctor's surgeries in the suburbs.

The Mulligan practice's name was changed to Dietrich, Street and Partners (DSP) when Dr Mulligan retired in 1990. Rapid growth followed after Dr Dietrich became Managing Partner. Prior to 1989 the practice employed just over 300 people. By 1991 this amount doubled, and by 1992 it had tripled.

After the 1992 amalgamation with the Voigt, Le Roux and De Villiers partnership, the Pathcare group now boasts a national network of laboratories including international operations in Namibia, Ireland and England.

Background to the problem

Traditionally, the organisation has paid bonuses to staff in the form of the so-called "thirteenth cheque", albeit in a slightly varied form. Dependant on an increase in the profitability of the group as a whole, comparing quarters year-on-year, a 20% of basic salary bonus was paid to staff in the month or months following the end of that quarter. If four consecutive bonus payments were made then a fifth payment was made to staff, thereby equating to the "thirteenth cheque" or 100% bonus.

This has been the case for a number of years with the attempt of several intermittent performance type bonuses, which for a variety of reasons were not successful or sustainable.

The main problems with the aforementioned previous bonus system are firstly, that if a payment is made, it is made to all staff irrespective of whether that particular staff member had been performing well or not. Therefore it was not perceived to be equitable.

Secondly, the criteria upon which it is based (being group profitability) was perceived as too "out of reach" as a target or objective for the ordinary staff member. Therefore it was not perceived to be a motivating force. Staff simply hoped that come each quarter, a payment would be made without much direct influence over this final result.

The third main criticism of the past system from staff was that with the bonuses being paid out in a piece-meal approach, its effect as a single significant lump-sum payment was diluted, the result being that the smaller 20% was either hardly noticeable or not sufficient to utilise as vacation funds or debt repayment.

SECTION 2. AN INTRODUCTION TO THE PERFORMANCE BONUS

Introduction

The introduction of a performance-based performance bonus was successfully concluded during the wage negotiations with HOSPERSA (Hospital Personnel Trade Union of South Africa) in April 1998.

The broad criteria and general process to be followed where also part of these negotiations with the agreement that the new system would be implemented in October / November backdated to 1st July 1998.

The Performance Bonus

The New Performance Bonus System consists of the following three major components:

(1) Component 1

This section relates to how the individual should be measured against expected performance standards agreed upon for his/her specific job.

(2) Component 2

Under this section the individual is measured against defined standards in the areas of punctuality, sick leave, etc.

(3) Component 3

This component contains departmental targets and related measures set for that specific department or laboratory.

Component 1

Here the individual's performance of his/her specific tasks is usually assessed under the broad headings of "accuracy", "quantity" and "quality".

Performance standards will probably differ from department to department but there is normally a distinction made between so-called "major" and "minor" errors, and as the term implies, a more "strict" approach will be followed with the advent of "major" errors.

The standards should be meaningful (do they have an impact on the department/laboratory and in turn the functioning of the organisation), realistic, measurable and then effectively communicated to all staff in that department/laboratory.

The guiding principle in the application of these standards should be, as in the case of day-to-day management, one of fairness and consistency with each case being investigated and a decision made based on the circumstances and merits of that particular case.

There should be a review of the standards on at least an annual basis, as jobs as well as the business environment are constantly changing. When conducting the review, it is essential that standards and the related measurement system be critically evaluated to determine firstly if they are functioning and secondly whether they are contributing to performance improvement.

Component 2

2.1 Punctuality

On a quarterly basis, at the time of evaluation the individual will be scored according to the evaluation form, i.e. 0 minutes late (per quarter) = 10 + 2 (bonus), < 60 minutes = 10, etc. However, late coming due to a valid reason (circumstances beyond the individual's control), for example a national transport strike, an emergency like a motor vehicle accident or trains and buses being late will not penalise the employee. Note that punctuality also applies to late coming at lunch times, tea times and all other breaks.

Punctuality must be reviewed at the time of bonus payment taking into account the following criteria:

- the employee's punctuality record, and
- reasons for late coming.

Therefore, at the time payment is due the individual's punctuality record will be examined to determine if the employee has abused his/her time keeping, i.e. coming in late more than twice a year. If this is the case, the punctuality scored on a quarterly basis will remain. If this is not the case, the isolated occurrence(s) of late coming, i.e. a maximum of (2) two for the year may be disregarded and the score of 10% reinstated for the year.

2.2 Sick Leave

It is important to note that for the purposes of the bonus system, sick leave is taken to include both that which is accompanied by a medical certificate **and** that which is not. The intention here is not to take the individual's right to sick leave away but rather, that to qualify for a bonus, the employee should not abuse this right.

On a quarterly basis, at the time of evaluation the individual will be scored according to the evaluation form, i.e. NO SICK LEAVE per quarter = 10 + 3 (bonus), 1 day = 7, etc. However, sick leave due to an operation or emergency treatment as a result of, for example, a motor vehicle accident will not necessarily penalise the employee. If a manager sends an individual to the doctor or home as he/she is visibly ill and not fit for work, he/she cannot then penalise the individual in terms of the sick leave criteria. However, it should be noted that an individual merely staying at work until 10:00 a.m. and then going home will be counted as sick leave.

Sick leave must be reviewed at the time of bonus payment taking into account the following criteria:

- the employee's sick leave record, and
- whether the sick leave was due to a serious illness (e.g. pneumonia).

Therefore, at the time payment is due the individual's sick leave record will be examined to determine if the employee has abused his/her sick leave, i.e. taken sick leave more than 4 (four) times a year. It should be noted that this is "occurrences" and not "days". If this is the case, the sick leave scored on a quarterly basis will remain. If this is not the case, the isolated occurrence(s) i.e. a maximum of 4 (four) occurrences for the year may be disregarded and the score of 10% reinstated for those quarters in question.

This means that 10% will be reinstated for each and every quarter that was previously affected by being scored down. (If after reviewing the entire period, i.e., one year and it is felt that 10% should be reinstated, then this ruling must be applied to each quarter within that year).

Note that vacation leave, unpaid leave and time-off in lieu of overtime must be applied for **in advance** and therefore may not be used to cover any absence due to sick leave. Therefore, should an employee be off sick, he/she cannot use leave, unpaid leave or time-off in lieu of overtime.

2.3 Absenteeism

Absenteeism is defined, for the purposes of this bonus system, as **any absence** from the workplace during normal working hours without prior arrangement. This excludes sick leave and family responsibility leave.

Despite the fact that the company would still prefer the individual to inform them should he/she require time off, one would obviously be reasonable in the event of an extraordinary incident, for example, a death in the family.

2.4 Disciplinary Action

Disciplinary action for the purposes of this bonus system includes action from and including the "written warning" stage and does not include "informal verbal warnings" and "confirmation of verbal warnings".

Note that the quarter that is affected by the disciplinary action, is only that in which the offence was committed, and **not** the duration that the warning is in place for. For instance, if an employee receives a written warning in the first quarter this will result in minus 10% during that particular quarter only. If however, the employee commits the same offence in the following quarter, he/she will then be penalised in the following quarter as well.

Component 3

This component contains departmental targets and related measures set for that specific department or laboratory.

After June of each year the full 20% or part thereof will be paid out to employees of that department/laboratory if the targets and standards are achieved. This payment can only take place once it is determined that targets have in fact been reached, given that it takes at least two months to process and collate the necessary information.

Note: Only those employees who first qualify for their individual bonuses will benefit from this component of the bonus system.

These departmental bonuses will be paid using the individual's average gross salary for the previous year.

It must be noted that there are many variables that may impact on and influence the attainment of departmental targets. These include, but are not limited to:

- reagent cost due to fluctuations in the exchange rate,
- RAMS increase,
- salary increases,
- staff movements, and
- purchases of capital equipment.

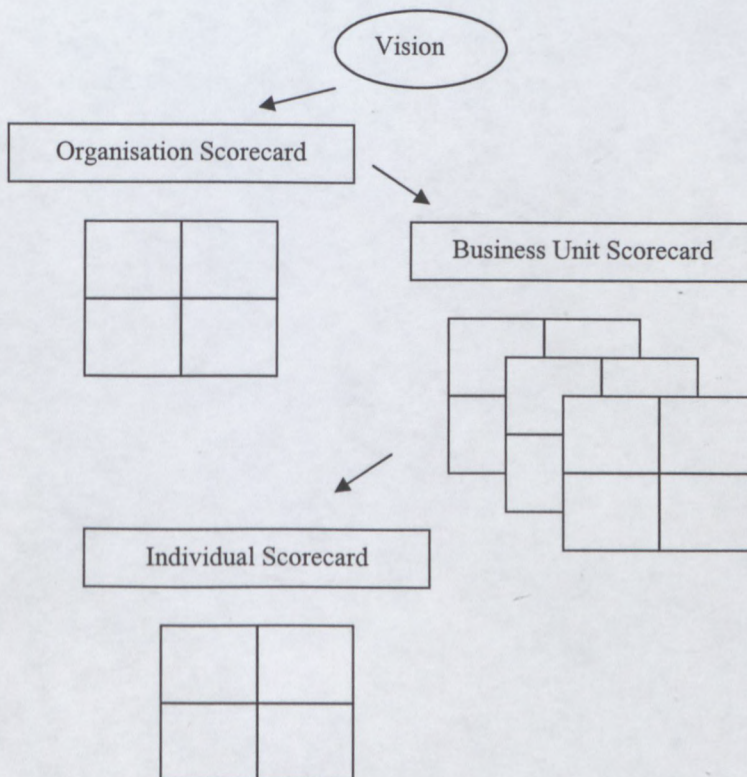
The above mentioned criteria must be taken into account when gauging whether departments have, in fact, met their targets or not.

The process

The traditional approach to any major change intervention would require beginning with examining the organisations vision/mission and then cascading this change downwards to business units and sub-business units and finally down to an individual level. This method is reflected in the balanced scorecard approach as indicated in Fig 1.4.

Figure 1.4

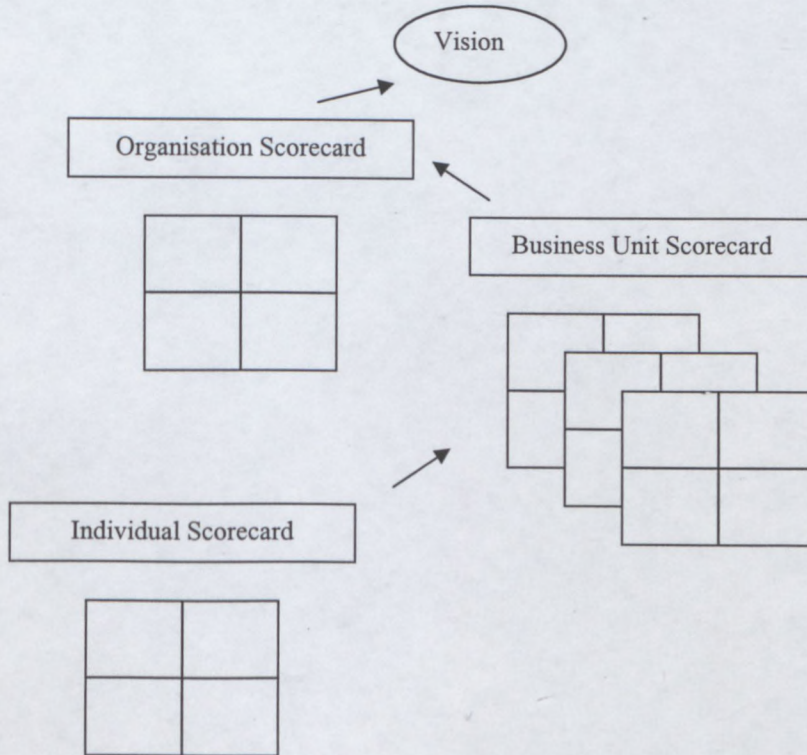
TOP DOWN CHANGE PROCESS



The method that was followed within this study is to begin at the level of the individual and then cascade this upwards to sub-business unit level and then to business-unit level and finally to the organisational level.

Figure 1.5

BOTTOM UP CHANGE PROCESS



Phase One

The process that was followed, was to begin the intervention at one location initially, namely, Drs Dietrich, Street and Partners, Main Laboratory, Fountain Medical Centre, Cape Town. This was done using a Performance Bonus System as the entry vehicle and initially only at the level of staff below the level of Head of Department. This was possible at this level of employee, as one can determine so-called *Job Standards* (See Annexure 1) in the absence of top-down direction. It is only later in Phase two, when job standards are required at the level of managers, that clear direction will be required as to where and how managers, should be focussing their energies in managing the direction of their departments.

In the absence of job descriptions these job standards were fashioned on three areas, *task* (what must be done, utilising general criteria headings such as quantity, accuracy and quality), *standard* (how the tasks must be completed focussing on how much, by when,

etc.) and measurement (how the manager will know that the task has been completed successfully as per the relevant standard).

The Performance Bonus System was then implemented further afield within the Technical Division of the group of companies. This roll-out occurred first throughout the Western Cape at peripheral laboratories and then in Phase two, will be taken to all other national regions such as the Eastern Cape, Free State, Northern Cape and Gauteng.

The purpose of this initial phase is to give the system a good foundation, utilising Cape Town as a learning ground and then building a critical mass, using the lessons learnt to ease further implementation and enable benchmarking within the group. It is recognised that Cape Town is the only location with the status of a Bargaining Unit, as the union is sufficiently represented here. In order to accommodate these stakeholders, the process involved the negotiation of certain bonus criteria and system frameworks within this forum. This foundation, with the bonus as entry vehicle will introduce the concept of performance in a less threatening manner.

The present study focuses primarily on Phase one of the total project.

Phase Two

Once this new culture is in place, has taken root and a common language is in existence, the bonus system will be taken to the next higher level of staff, being first line managers or Heads of Department. The system will also be implemented in the remainder of the Technical Division in the northern and eastern regions of South Africa.

At this point there will be a need to return to the traditional approach, in that organisational goals and direction will have to be cascaded down and form the basis of managers' job standards.

Phase Three

The system will then be expanded horizontally, to include support divisions such as Human Resources, Finance and Information Technology and continually upwards through the higher levels of management.

Summary

In fact, the essence of the approach will be to implement the balanced scorecard from the bottom-up within an incentive scheme as opposed to the traditional method of implementing an incentive scheme as a component of a top-down balanced scorecard intervention.

The procedure

Performance assessments are carried out informally during the course of operations on a daily basis and formal on a quarterly basis. Assessments are carried out by the

employee's immediate supervisor / manager at a pre-determined appointment preferably in the privacy of an office.

Quarterly assessment periods were chosen, as assessing once only on an annual basis does not allow for improvement by the individual before payment is due. Bi-annual assessments may be an option for the organisation in the near future but it was also decided that due to the fact that a performance-orientated approach was new to the organisation, a quarterly programme would assist in entrenching the required behaviours and culture.

Bonus payments are made once annually for the individual bonus component, paid on the individual anniversary of their date of appointment. These quarters are therefore dependent on each individual's original appointment date (See Annexure 2). The amount paid is the average of the four quarterly assessments taking into account the various reviews mentioned above.

The reasons for paying individual bonuses on date of appointment are two fold. Firstly, having staggered quarterly assessments during the year lessens the burden on those managers who have large departments of twenty or more staff members in that they are not performing all of the assessments in one month. Secondly, there is an advantage to the organisation in terms of cash flow, with smaller monthly payments as opposed to a single large payment in one particular month.

Bonus payments are made once annually for the departmental bonus component, paid after June of each year. The reason for payment of this component at one point, as opposed to paying together with the individual component is one of practicality. It would be impossible to match individual cycles and payment months with results of the departmental targets and objectives.

The instrument

The assessment instruments consist of two main documents, being the bonus form (See Annexure 3) and the job standards mentioned previously. In most cases the job standards are not lengthy documents but rather indicate the key performance areas of each particular job. It attempts to highlight the performance drivers that will ensure increased performance in that particular department. The job standards refer to and are supported by all other company policies, procedures, rules and regulations including all SOP's (Standard Operating Procedures).

There are extensive SOP's for most departments and job types due to the nature of the work and for accreditation purposes with clients such as drug companies and the national pathology accreditation body.

SECTION 3. RESPONSE TO THE PERFORMANCE BONUS

During the month of June 1999, being a year since inception, an in-depth review of the standards set for the Log-in Department as a sample department was conducted.

This review was conducted within the so-called “Balanced Scorecard” framework of Performance Management. “Balanced Scorecard” refers to the approach that acknowledges that performance should not only be measured by, for instance, financial criteria alone, but requires a more balanced spread of criteria including such aspects as the perception of clients, etc.

The findings will therefore be discussed under modified headings of the Balanced Scorecard framework and have been separated between the whole department and sections within the department for practical purposes. This framework includes the following:

- **Customers Perspective**
This refers to how performance is perceived by both external clients, i.e., supporting doctors and internal clients in the form of other departments (See Annexure 4).
- **Operational Perspective**
This looks at performance from an operational perspective, i.e. who does what, how, when, how much and how quickly, etc. It should also include reviews of aspects such as workflow and the number of “hand-overs”, etc.
- **Employee Perspective**
Employee perspective refers to the degree to which the workforce is motivated and satisfied by the bonus system and other related performance enhancing tools.
- **Shareholder Perspective**
This perspective is traditionally a financial one, focussing on aspects such as return on investment, increasing profit and minimising costs, etc.

Findings

1. Customer Perspective

Out of the five Departments/Laboratories polled, the results are as follows:

Table 1.2 Results of Departmental Survey

Criteria	Results
Errors made during Log-in.	3 departments indicated improvement 2 departments indicated it remained the same 0 departments indicated it had worsened 0 departments answered “don’t know”
When entering results in the laboratory, the	2 departments indicated improvement

form had not yet been captured.	3 departments indicated it had remained the same 0 departments indicated it had worsened 0 departments answered "don't know"
Primary Tracing's handling of queries.	2 departments indicated improvement 1 department indicated it had remained the same 0 departments indicated it had worsened 2 departments answered "don't know"
Log-in errors resulting in external customer complaints.	2 departments indicated improvement 1 department indicated it had remained the same 0 departments indicated it had worsened 2 departments answered "don't know"
Indexing and related enquiries.	0 departments indicated improvement 2 departments indicated it had remained the same 0 departments indicated it had worsened 3 departments answered "don't know"
Microfilming and retrieval.	1 department indicated improvement 1 department indicated it had remained the same 0 departments indicated it had worsened 3 departments answered "don't know"

From the above information it can be said that there is a perception, from most of the departments polled, that the number of errors made during the log-in process has decreased since the introduction of the new bonus system.

It appears as if there is a slight improvement in the situation of forms not yet being captured when laboratory staff is in the position to enter the related specimen results.

Two of the five departments polled indicated an improvement in the manner in which the Primary Tracing Department handled queries.

There appears to be a reduction in the number of Log-in errors which, result in external customer complaints.

The areas of microfilming and retrieval shows a slight improvement while the function of indexing and related enquiries remains unchanged.

Over time, the same questions will be asked and it will thereby be possible to determine if this improvement is continuing.

A summary of additional comments provided, reveals the following:

There appears to be a problem with Log-in of work from the Industrial Health Department and especially from the periphery. The fact that of the five departments polled, three made mention of a problem with log-in in the periphery, emphasises that this area requires specific attention.

2. Operational Perspective

2.1 Actual Scores

Actual scores compared with the related possible maximum scores are as follows:

Table 1.3 Total Log-in Department Scores

Criteria	Average Score	Maximum Score
Section 1		
Punctuality	11.47	12
Sick Leave	11.62	13
Absenteeism	-0.02	0
Disciplinary Action	9.82	10
Health and Safety	5.00	5
Total Section 1	37.89	40
Section 2		
Total Section 2	56.71	60
Grand Total	94.60	100

Note: this table above refers to the whole of the Log-in department, i.e., including Scanning, Enquiries and Data Capture. See tables below for the breakdown of “accuracy”, “quantity” and “quality” under Section 2. This was necessary as standards for the different sections within the Log-in department are different due to the difference in tasks performed and related measures.

Table 1.4 Reports and Scanning Section

Criteria	Average Score	Maximum Score
Section 1		
Punctuality	11.67	12
Sick Leave	11.33	13
Absenteeism	0	0
Disciplinary Action	10.00	10
Health and Safety	5.00	5
Total Section 1	38.00	40
Section 2		
Accuracy	20.00	20
Quantity	20.00	20

Quality	20.00	20
Total Section 2	60.00	60
Grand Total	98.00	100

Table 1.5 Primary Tracing Section

Criteria	Average Score	Maximum Score
Section 1		
Punctuality	11.00	12
Sick Leave	13.00	13
Absenteeism	0	0
Disciplinary Action	10.00	10
Health and Safety	5.00	5
Total Section 1	39.00	40
Section 2		
Accuracy	30.00	30
Quantity	30.00	30
Quality		
Total Section 2	60.00	60
Grand Total	99.00	100

Table 1.6 Data Capture Section

Criteria	Average Score	Maximum Score
Section 1		
Punctuality	11.50	12
Sick Leave	11.46	13
Absenteeism	-0.03	0
Disciplinary Action	9.75	10
Health and Safety	5.00	5
Total Section 1	37.68	40
Section 2		
Accuracy	36.00	40
Quantity	9.92	10
Quality	9.50	10
Total Section 2	55.42	60
Grand Total	93.10	100

The abovementioned results are now commented on in detail below. It should also be noted that a certain degree of leniency was shown with the implementation of this new system. Standards will now, after the review, be decreased or increased accordingly and management of the system will be improved.

2.2 Punctuality

According to the Head of Department of Log-in, this aspect was not a significant problem area within the Data Capture Section. This may be attributed to the fact that staff work according to a shift system. However, with every minute of late coming now being taken into account in a cumulative manner with the new bonus system, employees are more aware of their timekeeping and this has caused an improvement in this regard.

Historical data on timekeeping is not readily available, as the new electronic timekeeping system was brought into effect at the same time as the new bonus system. A manual measurement system is kept due to the fact that the Data Capturers take a thirty-minute lunch break as opposed to the hour catered for in the electronic system. This manual system aids in both the recording of actual time worked as well as serving as a verification tool.

2.3 Sick Leave

This aspect is discussed under paragraph 4.1.

2.4 Absenteeism

Again, this aspect has proven not to be a real cause for concern within the Data Capture Section, the reason for this being that the Section's Office Rules state that anyone not telephoning the Head of Department before 10:00 (irrespective of what shift worked) will receive a verbal warning.

The Office Rules also cover aspects such as procedures to follow in the event of Sick Leave having to be taken, as well as work procedures. These rules are available in electronic form on each individual's computer within the MediTech main frame computer system.

2.5 Disciplinary Action

Historical data is not readily available for this aspect. However, since the inception of the new bonus system there have been three "confirmation of verbal warnings" and one "final written warning" within the Data Capture Section.

2.6 Health and Safety

This aspect is perhaps not as relevant in this department as it is in the analytical laboratories. However, with the move of the Data Capture Section to the present location, the wearing of laboratory coats, washing of hands and prohibition of eating and drinking at the work station came into effect.

With regards to the measurement and enforcement of these health and safety factors, the laboratory coats and eating and drinking are easily observed. With the washing of hands, the necessary facilities are provided and appear to be used. However, the onus remains on the individual to utilise the facilities in the appropriate manner.

From an examination of Workmens Compensation Act claims, as one indicator, there was one claim for the Log-in department for the period July 1997 to June 1998 being twelve months prior to the implementation of the new system and none for the period July 1998 to June 1999 twelve months after implementation of the new system.

2.7 Accuracy

Prior to the implementation of the new bonus system there was a standard in place for the Data Capture Section in terms of accuracy, this being a minimum level of 95%. With the advent of the new bonus system the aspect of accuracy was expanded to a scale, with an individual having to score 100% for accuracy to qualify for full marks, i.e. 40% tapering down to a score of less than 90% for accuracy equaling 0%. (See table 1.7).

Table 1.7 Accuracy Scoring Table for Data Capture Section

	Percentage of accuracy achieved	Percentage of bonus scored
EXCEEDS REQUIREMENTS	100%	40%
	99%	38%
	98%	36%
	97%	34%
MEETS REQUIREMENTS	96%	30%
	95%	25%
NEEDS IMPROVEMENT	94%	18%
	93%	15%
	92%	13%
	91%	12%
	90%	10%
	<90%	0%

Unfortunately, no statistics are available on the actual number and type of errors made prior to May 1998. However, after the process of definition of standards, measurement, implementation and evaluation and from the resultant data available a person can clearly see, in figure 1.6 and 1.7, a direct correlation between the number of errors made and the number of forms captured, i.e., the more forms that are captured, the higher the incidence of error. This has certainly been the case to date. What would be preferable however, is that despite the increase in data capture, the number of errors made (at the very least) remains constant. This is a prime example of what can be identified in the review process, as this certainly requires attention.

Figure 1.6 Total Errors

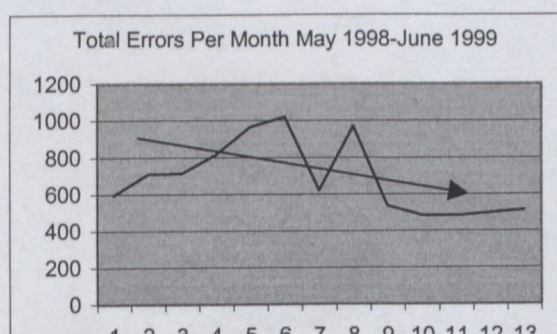
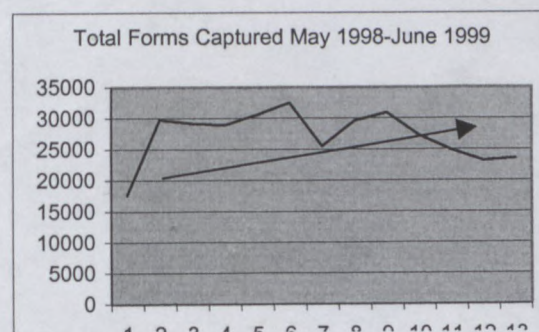


Figure 1.7 Total Forms Captured



Statistics for the number of forms checked are only available from November 1998 and figures for the period November 1998 to June 1999 reveal that the actual average number of forms logged and checked by staff for this period is 198 forms per day. In the month of February 1999, this figure increased to 251.

The average score from the data available for this criterion is 9.92% with all but one of the twelve individuals figures analysed, scoring the maximum of 10%, i.e., logging and checking more than 180 forms. A suggested scoring appears in table 1.10.

Table 1.10 Suggested Quantity Scoring Table for Data Capture Section

	Number of forms logged and checked	Percentage of bonus scored
HIGH OUTPUT	250>	10%
CONSISTENTLY TURNS OUT MORE THAN REQUIRED	220	8%
FINISHES ALLOCATED WORK	200	5%
AMOUNT OF WORK DONE IS INADEQUATE	<200	0%

It should be borne in mind that, despite the fact that statistics were previously available on a daily basis in the form of graphs generated by the MediTech system, these were indicating the number of forms captured for the department as a whole. This alone proves to be a less than effective measure, as it does not analyse individual performance.

2.9 Quality

In the Log-in Department this is defined as maintaining a high level of accuracy for the entire period being assessed. (See scoring table 1.11).

Table 1.11 Quality Scoring Table for Log-in Department

	Percentage of quality achieved	Percentage of bonus scored
ALWAYS EXCEPTIONALLY HIGH CALIBRE	Above 98% for each month of period being assessed	10%
FREQUENTLY TURNS OUT HIGH QUALITY WORK	95% to 97% for each month of period being assessed	8%
AVERAGE QUALITY OF WORK	Maintains 95% for each month of period being assessed	5%
	Below 95% for any month	0%

The average score from the data available for this criterion is 36%, i.e., 98% accuracy, with all of the twelve individuals figures analysed, scoring 96% and higher.

Therefore, it should be noted that the organisation is rewarding (be it at a reduced rate) individuals for performing below the acceptable level. A suggested scoring appears in table 1.8.

Table 1.8 Suggested Accuracy Scoring Table for Data Capture Section

	Percentage of accuracy achieved	Percentage of bonus scored
EXCEEDS REQUIREMENTS	100% 99%	40% 38%
MEETS REQUIREMENTS	98%	30%
NEEDS IMPROVEMENT	97% 96% 95%	20% 19% 18%
	<95%	0%

This, hereby further illustrates the importance of the review process.

2.8 Quantity

Although, prior to implementation of the new bonus system there had been a standard in place in terms of accuracy, as mentioned above, there was no standard in place in terms of quantity.

The new bonus system set the figure of 120 forms logged and checked per employee per day as “finishes allocated work” and sufficient to score half of the maximum points for that section, i.e., 5%. (See scoring table 1.9).

Table 1.9 Quantity Scoring Table for Data Capture Section

	Number of forms logged and checked	Percentage of bonus scored
HIGH OUTPUT	180>	10%
CONSISTENTLY TURNS OUT MORE THAN REQUIRED	160	8%
FINISHES ALLOCATED WORK	120	5%
AMOUNT OF WORK DONE IS INADEQUATE	<120	0%

	of period being assessed	
--	--------------------------	--

The average score from the data available for this criterion is 9.5% with eight of the twelve individuals figures analysed, scoring the maximum of 10%, i.e., above 98% accuracy for each month of period being assessed.

With "accuracy" being amended, as suggested above, this would obviously result in this criterion being amended accordingly and an ongoing increase in accuracy.

3. Employee Perspective

3.1 Feedback

On-going consultation with staff and specific questioning of Log-in staff and shop-stewards reveal that the initial expected resistance has, in the main, given way to general acceptance.

The fairly recent rethink of the application of the Sick Leave criteria, i.e., an end-of-year review of the individual's sick leave record, has done much to minimise the initial contention surrounding this criterion.

It is also to be noted that any increase (or decrease) in standards would need to involve staff and their representatives, in order to gain acceptance of these changes.

4. Shareholder Perspective

4.1 Sick Leave

The amount of Sick Leave taken by employees in the Log-in Department is as follows:

Table 1.12 Log-in Department Sick Leave

July 1997 to June 1998	July 1998 to June 1999
Total number of days taken = 194	Total number of days taken = 142
Average number of days taken per employee = 9,70	Average number of days taken per employee = 7,10
*Total Amount = R 20 986.42	*Total Amount = R 15 361.20

*Note: Assuming an average monthly salary of R 2 310.67.

From the above figures, it appears as if the new Performance Bonus System has resulted in a reduction of 52 sick leave days and thus a 26 % improvement and a **saving to the Group of R 5 625.23 per annum.**

Summary and Recommendations

Savings

There is a definite improvement in Sick Leave, quantity of work output and a general heightened awareness of the need to minimise errors in all spheres of work. Total direct savings for the reduction of Sick Leave for the Log-in Department alone amount to R 5 625.23. This has probably resulted, in the main, from the phenomenon known as the Hawthorne effect, i.e., the mere fact that an aspect such as Sick Leave is being monitored, will cause it to improve. However, what has also been proven is that monitoring alone will result in an eventual reverting to previous behaviour. Therefore, meaningful analysis and management of the results must follow, i.e., reward good performance and deal effectively with poor performance.

Apart from these reduced costs to the company associated with the new system only those employees who are performing as required, are being remunerated.

However, this is based on current performance standards. Once standards are improved this may not necessarily result in the payment of increased or decreased bonuses but an increase in performance with less staff. What this means is that one is moving the organisation towards being based on quality performance as opposed to being purely driven by quantity.

CHAPTER 4.

EVALUATION OF THE CASE STUDY AGAINST THE LITERATURE REVIEW

The performance bonus system has had a profound effect on organisational culture and organisational development in the following areas:

Punctuality, absenteeism and sick leave

The introduction of the performance based bonus system has directly resulted in a general improvement in the areas of punctuality, absenteeism and sick leave. Fountain Medical Centre in particular has seen a dramatic reduction in sick leave abuse by staff.

Productivity and accuracy

Prior to the introduction of the performance bonus system productivity of the Log-in Department, for example, was monitored only on a departmental basis. The new system required a focus on individual productivity and accuracy and more importantly introduced a system of targets rather than merely monitoring. Furthermore, it has caused an examination of targets on a departmental level in terms of TAT (turn around time) and costs.

Pay for performance

The performance bonus system assisting in changing the culture of “entitlement” to one of “pay for performance”. The bonus was used as the vehicle to introduce this concept with annual increases now also based on performance. This is now possible with an objective, defensible base against which to measure performance.

Re-orientation of Human Resources

The performance bonus system has caused an examination of other Human Resource processes in light of performance management. As an example, prior to the development of Job Standards the Recruitment and Selection department used a standard typing test during the assessment of potential Data Capturers. The problem with this form of assessment is that it fails to adequately simulate the Specimen Request Form which, is a combination of medical terminology and numbers. As a result, there is investigation of an assessment centre focussing on the capture of simulated Specimen Request Forms.

There is also an examination of the links between performance management, training and development and employee services.

Drafting of the job standards and analysis of what should be measured and how has resulted in a critical evaluation of who is doing what, what skills are required by the organisation, for example, the duties of Phlebotomists versus Sisters and Medical Technologists versus Medical Technicians.

This is now a realisation that highly qualified Sisters are not a necessity in pathology companies as the majority of their time is spent drawing blood. An alternate is to utilise Phlebotomists where the training period and certification is considerably shorter.

Similarly, with the increase in computerisation and automation Medical Technicians are now capable of performing very similar if not the same functions as the more highly qualified Medical Technologists.

Decentralisation of financial control

The introduction of the balanced scorecard methodology with its four quadrants of financial, customer, internal process and development created pressure for more detailed financial information and control at department level.

This pressure led to decentralisation of financial control with the introduction of a organisation wide budgeting system.

Organisational culture

The introduction of performance management concepts within the performance bonus system has had direct effects on management style and meeting style. This is evident in the focus on the delivery of specific deliverables and on project management.

Meet formats and agendas have been re-assessed and amended to accommodate the project approach and deliverables in terms of the performance management system.

CHAPTER 5.

RESULTS AND FINDINGS

SECTION 1. INTEGRATION AND FINDINGS

The following findings are a direct result of the investigation into the Log-in department.

Findings

Building Blocks of Performance Management

The review process has shown that the original standards set for the Reports and Scanning and Primary Tracing Sections are ineffective and are therefore currently being expanded upon and improved.

Investigation has highlighted other areas that require further investigation such as the Log-in function at peripheral laboratories.

This review in the Data Capture Section has also highlighted the fact that one should analyse both quantity as well as accuracy on an individual basis. The standard for accuracy and quantity will be increased and statistics monitored ensuring increased performance. Management needs to focus on results that can be measured in financial terms and this increase in performance will allow for a reduction in staff as illustrated in the example below.

EXAMPLE:

20 staff currently capturing and checking 180 forms per day:

$$20 \times 180 = 3\,600 \text{ forms}$$

By increasing the quantity to 220 forms and decreasing staff to 18:

$$18 \times 220 = 3\,960 \text{ forms}$$

Therefore, even with a reduction in staff, it is still possible to increase the number of forms captured by 360 per day.

This reduction in staff will amount to a saving of R 55 200 per annum in direct costs not to mention the resultant savings in indirect costs in the form of desks, chairs, telephone and other support costs. This after all, is the purpose behind performance management, a reduced, more motivated and more productive workforce.

The act of merely replacing staff once a post becomes vacant without focussing on performance standards, as per existing common practice, will never increase efficiency.

It should be borne in mind that such a reduction in staff and the resultant effect of a higher workload on the remaining individuals should be assessed in terms of its sustainability.

All too often when a member of staff leaves his/her salary is distributed amongst the remaining members in the promise of carrying the burden of the additional workload. Unfortunately, this is normally a temporary situation with the vacant post having to be filled at a later stage and the company still paying staff inflated salaries.

In the above mentioned example, the Log-in Department monitors both quantity and accuracy and should therefore pick up a negative trend in either relatively quickly.

All these aspects of the review and shifting of performance have focussed on staff standards. Furthermore, these can and must form this basis for management's standards of performance.

This process of shifting staff into categories of higher performance must form the basis of the Head of Department's own standards and evaluation for bonus purposes. A distinction must be made between the so-called "maintenance" management functions and more meaningful measures as identified by the review **thereby taking the focus away from purely administrative functions such as processing of leave forms to a higher level of "performance improvement" management.**

In turn, only once these building blocks are in place then meaningful standards can be set for the next level, being Line Managers.

Integration within the Organisation

Preliminary discussions have been held with both the Employee Services Administrator and the Training Co-ordinator to ensure an integration of all current and future initiatives as well as to procure their expertise and services with regards to the ongoing training and communication surrounding performance management.

Copies of all performance standards have been handed to the Personnel Administration Section for record purposes and subsequent responsibility of ensuring the annual review of these standards. One cannot overemphasise the importance of this function to ensure continuous improvement.

A policy document as well as a further practical guide for implementation has been developed to facilitate proper, consistent and fair implementation and sustainable development of the bonus system thereby ensuring that what has been learned here can more easily and quickly be transferred to the remainder of the Group.

As can be seen from the abovementioned results, it would appear that the new Performance Bonus System has indeed proved to be a positive measure in the quest for improvement of business practice.

It is now essential that, as performance baselines exist, the process of internal benchmarking continue. Standards and measures should periodically be critically evaluated to ensure relevance and continued improvement.

Therefore, it is accordingly recommended that the review of performance standards and their implementation for all departments continue and that the system be implemented further in other practices within the Group.

It is suggested that this review and further definition of standards be conducted in parallel. This being facilitated and assisted, by further internal capacity building.

SECTION 2. HIGHLIGHTED POINTS TO BE CONSIDERED

The following additional and important considerations have become evident during this study.

Findings

It is important to remember that a performance management system is at its core, a system and therefore is susceptible to the generic system faults. A person can liken it to the computer term of "GIGO" or garbage in – garbage out.

Conversely, a performance management system has proven to be an extremely powerful vehicle for any planned organisational change. This was certainly evident within this study in so far as the Accreditation and Quality Assurance department was concerned.

Prior to the implementation of the performance bonus system, an Accreditation and Quality Assurance (A & QA) programme was introduced within the Pathcare group. This programme required staff to follow stringent procedures such as total compliance with standard operating procedures. The problem being that if staff failed to comply, the A & QA department had no line authority to intervene. With the introduction of the performance bonus system, A & QA procedures were built into the Job Standards and thereby provided a vehicle to ensure compliance.

Care must be taken not to let managers use the bonus system as a "stick" to punish employees in the place of correct management practices. This was evident within certain departments within Pathcare with regards to punctuality. Rather than addressing instances of poor punctuality when they occurred with corrective steps and disciplinary steps if necessary, certain managers fearing direct confrontation left this until the quarterly performance assessment time and thereby blamed their actions on the bonus system.

Summary

After analysis of the performance bonus system within the Data Capture Section of the Log-in Department, it has been found that the organisation is rewarding (be it at a reduced rate) individuals for performing below the acceptable level with regards to quantity and accuracy in particular. Table 1.13 provides a summary of the main results, recommended steps and related anticipated results.

Table 1.13 Summary of Results

Results	Recommended Steps	Anticipated Results
The review process has shown that the original standards set for the Reports and Scanning and Primary Tracing Sections are too low and therefore ineffective.	These standards are therefore currently being expanded upon and improved.	Amending the standards to a more realistic level will improve performance on an individual level and hence departmental level. Constant monitoring of performance and the resultant on going review of these standards will ensure continuous improvement.
The act of merely replacing staff once a post becomes vacant without focussing on performance standards will never increase efficiency.	In the event of a vacancy, current performance levels must be analysed to determine if the filling of that vacancy is absolutely necessary.	Achieving “more with less” is a cornerstone of performance management and will validate the time and energy spent on the implementation of such a system.
A performance management system has proven to be an extremely powerful vehicle for any planned organisational change.	Future change processes and projects should be incorporated into the performance management system.	In this manner change will be co-ordinated and integrated within the organisation in a more meaningful way.

CHAPTER 6.

CONCLUSION

Recommendations for further studies

It is the intention that once the performance bonus is firmly in place at the current level below management, its application be expanded throughout the group. Management of the group has accepted this proposed expansion.

It is recommended that as the application of the performance bonus system is expanded vertically through the levels of management and horizontally to other divisions, as explained in the process to be followed in chapter three, that the success of this approach be further examined.

Extending the scope of the issues studied

The essence of the approach being followed is to implement the balanced scorecard from the bottom-up within an incentive scheme as opposed to the traditional method of implementing an incentive scheme as a component of a top-down balanced scorecard intervention.

The rationale for following this approach is that the current ownership structure of the group and its readiness in terms of culture do not allow for the traditional top-down approach. However, as the system is expanded so will the underlying understanding and inherent benefits become more widely known and appreciated. It is then that a more comprehensive analysis of performance improvement will be possible.

Following the balanced scorecard methodology, a more comprehensive study of the benefits of the system under the headings of financial, customer, internal process and development can be undertaken. However, this will only be practical once the organisation decides on the critical performance levers or criteria within these quadrants together with the measurement systems to track and monitor performance.

It is accordingly recommended that the success and sustainability of the abovementioned approach be further evaluated to determine if it can be applied as an alternative approach for similar organisations within South Africa.

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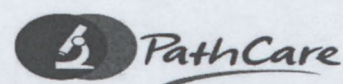
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TEMPLATE – INDIVIDUAL STANDARDS

TASK (what)	STANDARD (how)		MEASUREMENT
Accuracy: (e.g. 20%) • Major errors (10%) No errors = 10 % 1 errors = 5 % > 1 error = 0 % • Minor errors (10%) No errors = 10 % 1 errors = 5 % > 1 error = 0 %			
Quantity: (e.g. 20%) • (10%) • (5%) • (5%)		Y/N Y/N Y/N	
Quality: (e.g. 20%) • (5%) • (5%) • (5%) • (5%)		Y/N Y/N Y/N Y/N	
Total = 65%			



Performance Bonus Assessment Quarters

Appointment Month	1 st Evaluation	2 nd Evaluation	3 rd Evaluation	4 th Evaluation (by 5 th of month)
January	April	July	October	January
February	May	August	November	February
March	June	September	December	March
April	July	October	January	April
May	August	November	February	May
June	September	December	March	June
July	October	January	April	July
August	November	February	May	August
September	December	March	June	September
October	January	April	July	October
November	February	May	August	November
December	March	June	September	December

Note:

The final (4th) evaluations are to be completed, forwarded and must arrive at Buycom Personnel Services Salaries Department by the 5th of that appointment month, to facilitate payment at the end of that month together with the normal salary.

BUYCOM**ASSESSMENT**

COMPANY

LOCATION

DEPARTMENT

EMPLOYEE NAME

EMPLOYEE No.

YEAR

CRITERIA**SECTION 1 (MAX.) 40%**MAXIMUM BONUS
SCORE POINTSFIRST
QUARTERSECOND
QUARTERTHIRD
QUARTERFOURTH
QUARTER

AVERAGE

1. PUNCTUALITY - LATECOMING:

- a. \geq 60 MINUTES = 0
 b. < 60 minutes = 10
 c. 0 MINUTES = +2

10

2

2. SICK LEAVE:

- a. > 2 DAYS = 0
 b. 2 DAYS = 5
 c. 1 DAY = 7
 d. NO SICK LEAVE = 10 + 3

10

3

3. ABSENTEEISM:

- ABSENCE WITHOUT PRIOR
 ARRANGEMENT = MINUS 1
 FOR EACH
 OCCURANCE

-

-

4. DISCIPLINARY ACTION:

- a. VALID WRITTEN WARNING = 0
 b. NO WRITTEN WARNING = 10

10

0

5. HEALTH AND SAFETY:

- a. NO CONTRAVENTIONS = 5
 b. EACH CONTRAVENTION = -2

5

0

MUST SCORE 30/40 IN SECTION 1
 TO QUALIFY FOR A BONUS

35

5

SECTION 2: (MAX.) 60%

LIST RECOMMENDATION, SPECIFIC ACTIONS, TRAINING REQUIREMENTS:

APPRAISAL OF EMPLOYEE - SECOND QUARTER

AREAS REQUIRING ATTENTION / COMMENTS:

LIST RECOMMENDATION, SPECIFIC ACTIONS, TRAINING REQUIREMENTS:

DATE WHEN RECOMMENDATION/ SPECIFIC ACTIONS/ TRAINING SHOULD BE IMPLEMENTED:

APPRAISER'S SIGNATURE: _____ DATE: _____

To be completed by employee:

I, _____, am in agreement with the above evaluation done by my Supervisor/ Manager. He/ She has discussed my progress with me as well as the expected performance standards. The appraisal was fair and I agree to improve in the areas required, as stated above.

EMPLOYEES SIGNATURE: _____ DATE: _____

APPRAISAL OF EMPLOYEE - THIRD QUARTER

AREAS REQUIRING ATTENTION / COMMENTS:

LIST RECOMMENDATION, SPECIFIC ACTIONS, TRAINING REQUIREMENTS:

DATE WHEN RECOMMENDATION/ SPECIFIC ACTIONS/ TRAINING SHOULD BE IMPLEMENTED:

APPRAISER'S SIGNATURE: _____ DATE: _____

To be completed by employee:

I, _____, am in agreement with the above evaluation done by my Supervisor/ Manager. He/ She has discussed my progress with me as well as the expected performance standards. The appraisal was fair and I agree to improve in the areas required, as stated above.

EMPLOYEES SIGNATURE: _____ DATE: _____

AREAS REQUIRING ATTENTION / COMMENTS:

[illegible]

APPRAISER'S SIGNATURE: _____ DATE: _____

I, _____, am in agreement with the above evaluation done by my Supervisor/ Manager. He/ She has discussed my progress with me as well as the expected performance standards. The appraisal was fair and I agree to improve in the areas required, as stated above.

EMPLOYEES SIGNATURE: _____ DATE: _____

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There is no handwriting or other markings on the paper.

June 9, 1999

Performance Management Survey

In order to test the effectiveness of the new Performance Bonus System implemented w.e.f. 1 July 1998 and to assist in the process of reviewing standards that were set, kindly complete the following questionnaire. Please answer the questions as honestly and comprehensively as possible. Please make a tick in the block that best reflects service now compared to before 1 July 1998.

Remember when answering to compare performance now to before 1 July 1998.

1. Errors made during log-in are

Worse	The same	Better	Don't know
-------	----------	--------	------------

2. When entering results, the form has not yet been captured

Worse	The same	Better	Don't know
-------	----------	--------	------------

3. How do you find Primary Tracing's handling of queries

Worse	The same	Better	Don't know
-------	----------	--------	------------

4. In your opinion, errors arising from log-in resulting in external customer complaints are

Worse	The same	Better	Don't know
-------	----------	--------	------------

5. Reports and Scanning:

(a) Reports i.e. results in incorrect doctors envelopes

Worse	The same	Better	Don't know
-------	----------	--------	------------

(b) Scanning

Worse	The same	Better	Don't know
-------	----------	--------	------------

P.T.O.

(c) Indexing and enquiries

Worse	The same	Better	Don't know
-------	----------	--------	------------

(d) Microfilming and retrieval

Worse	The same	Better	Don't know
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6. Other general comments would be appreciated

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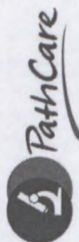
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Kindly return this questionnaire to:

Vaughan Haslett
Performance Management System
10th floor
Fountain Medical Centre
Tel. (021) 410-3150/082 978 25 36

ORGANOGRAM

ORGANOGRAM WITH SPECIFIC REFERENCE TO CHEMICAL PATHOLOGY



Drs Dietrich Voigt & Partners
Managing Partner
Bruce Dietrich

