

**CASE STUDY OF SWEPCO TRADING LTD,
MALAYSIA: LINKING ORGANIZATIONAL
COMMITMENT TO THE PERFORMANCE
MANAGEMENT SYSTEM AND THE SHORT
TERM INCENTIVES PLAN**

IKMAL ZOFRIZAL HAMIDI
DILEEP KUMAR M.
Universiti Utara Malaysia

ABSTRACT

Performance Management and the Organizational Reward Strategy have a linear influence to the employee motivations which would demonstrably be used to promote the organizational value proposition in their retention strategy. This can be seen as part of the employee motivation and organizational commitment to ensure that the performance management system remains a significant valuing the rewards and incentive plan. The design of the rewards and the strategy would subject to the organizational commitment and compensation trend benchmark to the industry practices. Evaluating the current scenario, the performance management system in this context shall be observed as the instrument that assess the employee performance which has direct linkages to the relevant performance management consequence and reward strategy. This is part of the motivational incentives that promote differentiated rewards system based on performance merit of the individual. The performance descriptors have to be clearly defined to ensure comprehensiveness of the targeted deliverables and the employee shall be able to understand the implications and the reward linked to the individual performance. This case study provides insight into the adoption of the short term incentive plan as strategic initiative that enhance the performance and motivation of employees in SWEPCO Trading (UK) Ltd is an international Oil Trading company. (SWEPCO Trading UK*: the name of the company is changed for anonymity and confidentiality)*

**SWEPCO TRADING (UK) LTD. – THE
ORGANIZATIONAL PROFILE**

SWEPCO Trading (UK) Ltd is an international Oil Trading company under the downstream portfolio of SWEPCO Trading Corporation Sdn. Bhd. (wholly subsidiaries owned by SWENCAS) which was in operation

since 2009 in London, United Kingdom. The company has been the marketing and trading arm of the SWEPCO Trading Corporation which act as intermediaries in managing commercial transaction and trade for West of Suez and Europe Region which specifically accountable to secure the Joint Marketing Agreement (JMA), International Trade for equity crude sourcing and Petroleum Products. The company was set up with the intent to enable smooth operationalization of the trading and marketing activities in Europe region specializing in oil trading. SWEPCO Trading (UK) Ltd has emerged as one of the Oil Trading players at international level which remains competitive in the global arena conveying the SWENCAS mission to be a Global Champion.

THE SCENARIO

The Performance Management System shall be designed based on the objective target measures (relevant indicator linked to the task). The defined targeted deliverables shall be clearly configured based on the performance target link to the organizational scorecard. Bridging fundamental principles and objective values in the performance management is highly essential in moderating smooth conveyance of business performance and organizational strategy which can be translated into a comprehensive reward system. Often during a the performance management cycle an organization will face difficulties to bridge the gaps and differences between organizational performance and individual scorecard due to uncertain measures in organization plan and strategy which impaired the effectiveness of performance evaluation. In the nutshell, the organizational performance management system is designed to provide clear guidelines on the expected task and deliverables based on the accountability designed in reference to the targeted role perform by each individual. The designed task shall be clearly demarcated and cascaded to ensure it definitely spelled the set of target of each of the individuals that need to be complied with. Throughout the performance evaluation process there might be a potential shift to the organizational strategy which would require modification and variation to the performance measures. Such changes may have a direct impact to the performance management undertaking.

It is assumed that organizational commitment shall be one of the prominent elements that will use as a measure in determining the effectiveness of the Performance Management design. In measuring the performance management effectiveness, the organization needs to ascertain the standard and comprehensive measures in adjudicating the design of individual performance. Notwithstanding, there are few

measures in the key performance indicator which can't be translated or quantifiable which denotes subjectivity to the evaluation mode. This has caused the organization to measure the relativity of the given indicator to ensure it reflects the objectivity of the set of measures for equitable performance evaluation. On the other hand, the instrument shall capable to govern and scrutinize the applicability of the individual performance based on the design key performance indicator map to the organizational scorecard cascaded to the employee.

This case study has been with in reference to the employee motivation and organizational commitment valuing the underlying principles and organizational theories. Based on the research background, this study is conducted to further examine the practicality of linking organizational commitment to the Performance Management System and the Short Term Incentives Plan (STIP).

COMPANY SHORT TERM INCENTIVE PLAN

The Short term incentive plan strategically aimed to provide objective measures on the staff performance link to a comprehensive performance reward system for continuing profitable growth and motivate short-term performance for each of the fiscal years during the term of the Plan Year. Key strategic objectives include (a) Performance Achievement (b) productivity, cost reduction and quality, (c) attracting, developing and retaining exceptional people, (d) improving infrastructure and systems and (e) global expansion. This policy shall be treated as a guidance document on the SWEPCO Trading (UK) Ltd Bonus Scheme is made applicable to all respective employees. The performance related reward strategy includes the payment of performance related bonuses to employees. This scheme contains the rules that govern the operation of the bonus scheme, although the contents do not form part of any employee's terms and conditions of employment. The scheme gives information on the year, performance ratings, scheme principles, eligibility for participation in the scheme, the treatment of special groups (e.g.. employees on maternity leave, part time staff, staff on long term sick leave), scheme payment date, scheme cutoff date, calculation of the overall budget, distribution of the budget, and bonus payments.

CASE BACKGROUND

Under the Short Term Incentives Plan, the KPI has to be objectively designed and shall not deviate or varied and to be treated as an

individual performance contract. The issues outlined in the Performance Management during the Performance Cycle in SWEPCO Trading (UK) Ltd has been recorded from the Management as follows:

No	Area of Concern	Operational Issues and Limitation	Issues in STIP Integration
1	Change of the Business Strategy during the Performance Period (PP) impacting the business model	Inability to identify the explicit KPI composition due to resolution performance indicators upon dissolution of the organizational strategy. Non –measurable objective composites based on the KPI defined.	Variation to the organizational scorecard impacting the Individual Performance based on the KPI target setting.
2.	Unclear definition of the Performance Management Requirement which depict inconsistency in the KPI cascading Process (Top - Bottom KPI Cascading Approach) – Non Linear Objective .	Subjective measurement approaches caused a disintegration between the strategic and operational execution standard which deviate of the initiatives from the high level corporate strategy to the low level which leading to a complexity towards supporting the organizational KPI	KPI Design doesn't materially support the targeted objective as per the organizational scorecard.
3	Unclear delineation of the role prospect between organizational stakeholder . Duplicity or replication of the KPI resulted from the shared accountability	Accountability securitization is not explicitly defined in context which cause non-structural impact in managing performance distribution based on portfolio management. The issues caused a difficulty in governing the responsibility of the stakeholder at higher levels during the performance review.	KPI of the stakeholders and the individual is not clearly defined which cause inconsistency

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No	Area of Concern	Operational Issues and Limitation	Issues in STIP Integration
4.	KPI changes resulting from the organizational review	Authority deregulation required expeditious realignment to support the organizational changes. In most cases, there is unclear designated to monitor the relevant KPI's to the authorized stakeholder due to organizational realignment or restructuring.	The design of the KPI and accountability would change subject to the defined roles and accountability of the stakeholder. Impact to the STIP design where the performance indicator required to be changed accordingly.
5.	KPI doesn't align to the organizational scorecard	The accountability is not translated objectively which cause conflicting views on the shared KPI. Lead towards inconsistent implementation in sustaining the objective in reference to organizational strategy . Segregation of the shared KPI doesn't anchor the operational strategy and objectives.	A Major deviation to the organizational strategy which impact the performance distribution
6.	Performance Assessment Calibration - Non -calibrated parameters of the KPI indicators and performance Intensity	Different parameters in KPI which required a different set of calibration in measuring the assignment of accountability efficiently. Performance objective setting reflected different balance scorecard and featured a strategic proposition which is indefensible and not supporting the business plan and strategic needs. The formulation on the deliverables have indicated different stakeholder requirement which reform the set of performance standard.	The performance evaluation process can't be objectively been done impacting the STIP design and rationale.

OBJECTIVES

In reference to the above literature review and the case background, few problematic concerns have been formulated extracting from the case context and literature for further observations. The above research objectives have been formulated as the principal problem statement of this study. The research questions and the sub – questions have been designed to address the following gaps:

Objective 1: *To explore the materiality of the organizational commitment in Performance Management System on the Short Term Incentives Plan per the define operational scope and limitation.*

Objective 2: *To empirically model the facet of the strategic operational policy domain for STIP based on the defined organizational commitment and strategy*

Objective 3: *To design the STIP based on the design performance measures in reference to the set of governance and operational control*

Objective 4: *To define the magnitude of Performance Management System under the STIP Design to govern its applicability*

METHODOLOGY

In deriving towards the above information the following methodology and approach has been used as a basis for the case study.

The study was designed in 2 stages. The first stage, content analyzes based on the secondary data based was developed with reference to the existing literature. The information obtained through the secondary data was reviewed with special reference to the organizational issues, which was extracted as per the case narrative. The data further analyzed to identify the integral factors which contributed towards deficiency and failure of the Performance Management in supporting the organizational strategy. Particular extend this information was used for descriptive analysis applying the variance in correlations with cause and effect relationship. The value of the case study approached was used to establish the rationale as part of the process of developing the logics of the of the Performance Management implementation link to the Short Term Incentives Plan based on the identified variables. In reference to the above, the different set of case studies was used as part of the methodological description where the domain of the findings will be further discussed and explained to substantiate the rationale and findings.

In measuring the relativity of case studies, the 2 tier measurement procedures will be used. One would be to ascertain the applicability and dynamics of the organizational commitment towards performance management. Secondly to infer the observation that potentially would negate the performance management implementation in reference to the explanation on the related problem based on the differentiated factors. Notwithstanding in defining the qualities of the case, the changing relationship in reference to the set of the variable was further explored in rationalizing the above segment and the cases were mapped to the factors outlined in the dependent variable which has been exemplified in the study. This is objectively to identify the relativity of the documented instances for exert rationale based on the empirical findings. Semistructured interview and pilot survey was used to as part of the methodology in exploring the above context. Specific questionnaire has been designed to test the above correlations in validating the identified variables. For the purpose of the studies, 10 respondents have been identified through purposive sampling to comparatively benchmark the practices. The semistructured interview process was used be as a mechanism to explore the above context.

FINDINGS

Below are the details of the Findings which have been extracted from the semi structured interview:

No	Area of Concern	Operational Issues and Limitation	Issues in STIP Integration	Most Prominent Findings factoring the variable under Organizational commitment
1	Change of the Business Strategy during the Performance Period (PP) impacting the business model	Inability to identify the explicit KPI composition due to resolution performance indicators upon dissolution of the organizational strategy. Non – measurable objective composites based on the KPI defined.	Variation to the organizational scorecard impacting the Individual Performance based on the KPI target setting.	Organizational would not be able to adapt to the changes due to lack of commitment and understanding of the performance review which required specific interventions and change management strategy.

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No	Area of Concern	Operational Issues and Limitation	Issues in STIP Integration	Most Prominent Findings factoring the variable under Organizational commitment
2.	Unclear definition of the Performance Management Requirement which depict inconsistency in the KPI cascading Process (Top - Bottom KPI Cascading Approach) – Non Linear Objective	Subjective measurement approaches caused a disintegration between the strategic and operational execution standard which deviate of the initiatives from the high level corporate strategy to the low level which leading to a complexity towards supporting the organizational KPI	KPI Design doesn't materially support the targeted objective as per the organizational scorecard.	Stakeholders has not been clearly informed of the requirement and would not be able to adapt the performance management process due to the lack of analysis
3	Unclear delineation of the role prospect between organizational stakeholder . Duplicity or replication of the KPI resulted from the shared accountability	Accountability securitization is not explicitly defined in context which cause non-structural derivatives impact in managing the contextual integration of portfolio management. The issues caused a contraction in governing the responsibility of the stakeholder at higher levels during the transition.	KPI of the stakeholders and the individual is not clearly defined which cause inconsistency	Unclear delineation of the roles and strategies which resulted towards inconsistency of the performance management approach
4.	KPI changes resulting from the organizational review	Authority deregulation required expeditious realignment to support the organizational changes. In most	The design of the KPI and accountability would change subject to the defined roles and	Organization Business Plan failed to adjudicate the risk based on forecasted business analysis

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No	Area of Concern	Operational Issues and Limitation	Issues in STIP Integration	Most Prominent Findings factoring the variable under Organizational commitment
		cases, there is unclear designated in cascading the relevant KPI's to the authorized stakeholder due to organizational realignment or restructuring .	accountability of the stakeholder. Impact to the STIP design where the performance indicator required to be changed accordingly.	
5.	KPI doesn't align to the organizational scorecard	The accountability is not translated objectively which cause conflicting views on the combinative KPI. Lead towards inconsistent implementation in sustaining the objective and the corporate mission statement. Segregation of the shared KPI doesn't anchor the operational strategy and objectives.	A Major deviation to the organizational strategy which impact the performance distribution	The pattern of the performance distribution does not align with the high level functional strategy and direction which deviate the scorecard and organizational conformance
6.	Performance Assessment Calibration - Non-calibrated parameters of the KPI indicators and performance Intensity	Different parameters in the KPI framework which required a different set of calibration in measuring the assignment of accountability efficiently. Paradoxical objective setting reflected indifferent	The performance evaluation process can't be objectively been done impacting the STIP design and rationale.	Inequitable performance measures based on the designed parameters on the KPI distribution which was dis-conjunctively measured from the targeted performance design.

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No	Area of Concern	Operational Issues and Limitation	Issues in STIP Integration	Most Prominent Findings factoring the variable under Organizational commitment
		balance scorecard and featured a strategic proposition which is indefensible and not supporting the business plan and strategic needs. The formulation and deliverables have indicated different sets of KPI hierarchy in modeling the stakeholder requirement which reform different pathways on the stakeholder performance standard.		

STRATEGIC DIRECTION

The Short term Incentive Plan (STIP) strategically aimed to provide objective measures on the staff performance link to a comprehensive performance reward system for continuing profitable growth and motivate short-term performance for each of the fiscal years during the term of the Plan Year. Key strategic objectives include (a) Performance Achievement (b) productivity, cost reduction and quality, (c) attracting, developing and retaining exceptional people, (d) improving infrastructure and systems and (e) global expansion. Based on the above factors it can be observed that, in order to integrate the above performance management system with the STIP design, the below consideration has to be undertaken in ensuring the STIP design remain significant for its implementation:

- SWEPCO Trading (UK) Ltd is recommended to provide a clear delineation of the role direction and operational performance prospects based on the set of performance distribution. This is to avoid any issues pertaining to the KPI Design doesn't materially support the targeted objective as per the organizational scorecard.

- Organizational Forecast on the Business Planning and Strategy shall be mapped accordingly to the organizational performance management requirement and organizational scorecard.
- Organizational Intervention and Change Management Strategy are highly essential to determine the organizational commitment in performance management setting.
- Stakeholder commitment in the performance management system has to be maximized to govern the accountability of the parties in the performance management process.
- Equitable performance measurement shall be used as an indicator to measure the applicability of the performance rewards system.
- A structured cascading process based on the performance area shall be done to ensure the dynamics an integration of the performance distribution is comprehensively covered under the organizational scorecard.
- Organizational performance shall conjunctively be translated into the individual scorecard through a role modeling process where such measures shall depict the mainstream of accountability of the individual which can be determined based on the accountability factors and business requirement.
- Business performance segment shall adjudicate the intensity of the risk and vulnerability in business strategy based on the identified assessment factors

In governing the above process, SWEPCO Trading (UK) Ltd is recommended to provide the Business Plan for the Planned Year for Board Directors approval and review during the Planning Cycle to obtain official approval and endorsement on the company scorecard before 31st March of the financial year. The approved KPI and the targeted deliverables need to be confirmed and endorsed officially by the Board of directors to allow SWEPCO Trading (UK) Ltd to design the strategy in accordance to the expected performance deliverables. This is to ensure that the organizational forecast and business planning strategy is mapped accordingly to enable comprehensiveness in performance setting.

In addition, in reference to the Key Performance Indicator and Scorecard, SWEPCO Trading (UK) Ltd is required to set of KPI and the relevant indicator as per the targeted deliverables for the plan year. This is to streamline and identify the individual and/or team objectives which linked to the organizational mission and strategic objectives. The set of KPI shall be composed within the set of accountability pursuant to the designed functionalism as per the position profile. The set of KPI's shall reflect the scorecard and departmental expected deliverable which then be cascaded to the individual employee for KPI's development.

GOVERNANCE

As part of the intensified performance reporting approach, SWEPCO Trading (UK) Ltd. shall objectively govern the followings under the STIP implementation:

- SWEPCO Trading (UK) Ltd is required to set of KPI and the relevant indicator as per the targeted deliverables for the plan year. This is to streamline and identify the individual and/or team objectives which linked to the organizational mission and strategic objectives.
- The set of KPI shall be composed within the set of accountability pursuant to the designed functionalism as per the position profile. The set of KPI's shall reflect the scorecard and departmental expected deliverable which then be cascaded to the individual employee for KPI's development.
- The KPI needs to be translated into the individual balance scorecard. The scorecard shall quantitatively/ qualitatively contain a definite measure incorporating multiple financial and non-financial indicators. Proponents of the balanced scorecard concept contend that the approach and methodology should link to the organizational strategic goals.
- The scorecard should contain relative weight to ensure the given indicator and the targeted performance deliverables can be mapped to the agreed performance bonus as per STIP.
- Based on the plan parameters , in order to reward the employee, taking into account the Company's financial objectives the STIP is structured with 2 specific areas to measure the company performance.
- Financial Objectives - Adjusted earnings before interest, taxes, depreciation, amortization (Adjusted EBITDA). For purposes of this plan , Adjusted EBITDA consist of earnings (net income or loss) available to common stockholders before interest expense , income tax expense, non-cash back stock compensation , non-cash impairments, depreciation and amortization of other non-cash items.

To implement the STIP, SWEPCO Trading (UK) should confirm on the KPIs for each individual through an objective KPI cascading session during the planning cycle based on the approved balanced scorecard which has been tabled to the Board in view of the strategic planning direction of the business plan for the year to ensure that the KPI's do align with the SWEPCO Trading (UK) Ltd organizational objectives as defined. The method of monitoring overall performance under STIP shall

focus on the strategic objectives based on qualitative and quantifiable performance measures to enable the staff to manage their performance in accordance with the determinable indicators given.

The purpose of the Short-Term Incentive Plan (the "Plan") is to include STIP component as part of reward system to qualify as performance-based incentive bonus. The staff should be informed up front on the targeted performance measures by virtue of the STIP and the agreed performance weighted as per the scorecard to determine the incentives given for each of the KPIs. This is to ensure the STIP incentives variables are objectively measured by the company's based on the company's and individual target. Such details shall be endorsed and approved by each of the Heads of department based on the Individual Performance Contract (IPC) for each of the planning cycle.

The KPIs shall be the absolute reference for the Performance management and the company shouldn't outweigh the IPC which has been agreed unless there is a strategic change in the business plan to support the design objective. In monitoring and tracking the performance SWEPCO Trading (UK) Ltd is advisable to undertake a periodic review on a quarterly basis to assess and evaluate the updated performance accomplishment of the staff. Should the staff has not achieved the expected targets during the mid year review the staff need to be informed of the consequence of the STIP and the immediate superior is obliged to observe should there is any intervention required in managing the above circumstances.

SWEPCO Trading (UK) Ltd. is required to update on the company performance every quarter to allow the Board members to review the company's performance standing for the year. Such report should be endorsed and approved by the Board of Directors as per the jurisdictions in the (LOA). The Incentive plan measures must be both objective and quantifiable and the performance plan measures can be subjective and qualitative. In determining the quantitative and qualitative approach in the performance measures SWEPCO Trading (UK) Ltd. has to adopt the following standard as a guideline in determining the set of KPIs and the indicative performance incentives.

Should SWEPCO Trading (UK) Ltd decided to apply 100% variance in KPI setting based on wattage and the incentives tag to the target achievement plan, the performance increment incentives shall denote the targeted variable for the amount of the base salary and adjustments to the merit. Should the staff do not achieve the target as decided at the end of the performance review process the performance increment will

stagnate. The performance increment shall primarily base on the merit incentives as per the targeted performance result.

CONSLUSION

This case study reflects the company's strategic initiative to bridge the organizational commitment to the performance management system and the short term incentive plan. The company has incorporated the qualitative and quantitative performance parameters that are part of the KPI's to determine the reward. The Short Term Incentive Plan thus streamlines and identifies the individual and/or team objectives which linked to the organizational mission and strategic objectives.

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