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| HUMAN RESOURCE ECONOMICS | November 22  2013 | |
| The report reflects on  1. Detailed economic literature on OCBC Bank Group  2. Overview of Team Theory | |  |

**Section A – Report 1**

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**1. Executive Summary**

The rationale of this report is to give a comprehensive breakdown for OCBC Bank Group in terms of team and performance management. OCBC Bank Group provides various financial services, from personal and business banking, insurance to asset management. This report is based on the economic literature of pay for performance programs in achieving better economic growth internally and externally. It shows the importance in examining and applying the five main ideas on implementing inducement pay and related assessment frameworks for OCBC Bank Group.

Although performance assesment may be hard to measure and can be expensive as it consumes a lot of the managerial time, it is still an essential element of a good reward system. The main reason for assessing performance is to instil an incorporated energy to achieve the strategic objectives and promote organizations’ goals and values.

The five elements of quantitative performance measures like risk report (controllable and uncontrollable), distortion, potential for manipulation, scope and match with job design are vital to the performance measurement. It is well significant to the strength and balancing of motivations.

The report also addresses the importance of pay for performance programs. In this case, performance is not only affected by ability but also by effort, as workers will work hard to ensure job promotion. Therefore, promotion plays a major role in the incentives as well.

Lastly, the report will analyse the types of incentives and how they are relevant to the performance of the workers as well as the different types of inducement that can be used as a form of reward structure.

**2. Company Profile – OCBC Bank Group** **(OCBC)**

OCBC Bank Group is the longest established Singapore Bank founded in year 1932 from merger of 3 local banks, namely Chinese Commercial Bank, Ho Hong Bank and Oversea-Chinese Bank. It spans over a network of over 500 branches and representative offices in over 15 countries operating as OCBC Bank, Bank OCBC NISP and Bank of Singapore, with its main markets located in Singapore, China, Malaysia and Indonesia.

To address the diverse needs across local communities and internationally, OCBC Bank has expanded beyond the realm of commercial banking and along with its subsidiaries, offers a wide array of financial and wealth banking services ranging from investments, asset management, insurance, global treasury, consumer and business banking.

Among its subsidiaries include Great Eastern Holdings, one of the largest insurance group in Singapore and Malaysia and also Lion Global Investors, one of the largest asset management companies located in Asia.

In 2011, OCBC announced a 5-year strategy named “New Horizons” which aims to drive performance improvement in its’ key elements namely, sustomers, products, risk management productivity, people and shareholder value. The board aims to deliver 10% earnings per share growth annually and to strive to sustain 15% revenue contribution from new products annually. It also plans to maintain economic stability promote growth operating countries internationally.

**3. Performance Evaluation**

Performance assessment is the provision of feeback to employees in an organization. Although evaluating performance is hard to be implemented as well as costly, as it needs a lot of time and effort from the management, it is an important part of a successful reward system (Lazear and Gibbs, 2009). It is through these evaluations that managers have the opportunity to gauge employee’s performance standards and provided necessary feedback for improvement. This benefits employees, management and the organization as a whole. Employees can voice out and convey feelings on what they feel about their work and organization and provide feedback on certain implementations by the organization. Appreciation can be shown to good performers as an intrinsic reward while guidance and supervision can be given to those who are not coping well. In general, there are 2 types of approaches in evaluating performance, which is further divided into 5 sub categories.

**3.1 Quantitative Performance Measures**

Quantitative Performance Measures covers five general properties.

**(a) Risk profile**

Each company usually face two types of risks, this include either controllable or uncontrollable. In this case, OCBC needs to include whatever it takes to be controllable by the workers, but exclude what is termed as uncontrollable when measuring the performance

* **Uncontrollable Risk**

This includes all the environmental factors that affect the performance of an employee which are beyond their control. They cannot be foreseen, avoided, or controlled. For instance, this can be in form of macroeconomic factors like inflation, increased interest rate, foreign exchange rates, or the rate of unemployment in a given country. Generally, these are essential challenges, which can hinder the reward plans. OCBC must be quick when taking appropriate actions against these barriers.

* **Controllable Risk**

The uncertainties that will influence the performance of an organization can be managed, evaded, and controlled by the workers. This is also important when measuring worker’s performance. This type of risk has the contrary impact to the incentive programs. The performance measures usually have uncontrollable risk.

Performance assessments, which have plenty of uncontrollable risks, are high in costs as the risk –adverse agent has to be paid back for carrying out an investigation. Therefore, the highest level of uncontrolled risk shows that there will be little inducements. Nevertheless, if the worker could provide good suggestions that are considered valuable to the company, the output-based inducements can be used to motivate the workers to make use of this knowledge (Ruth, 2008).

**(b) Distortion**

Generally, for any performance evaluation, there must be some modification. Distorting in this case refers to the situation where an agent‘s actions present some impacts to the performance of the assessment and the objectives of the company. The main causes of distorted inducements are the measures of performance that affects some work and leaving out other like measuring the quantity of work but forgetting the quality (Lazear and Gibbs 2009, 242).

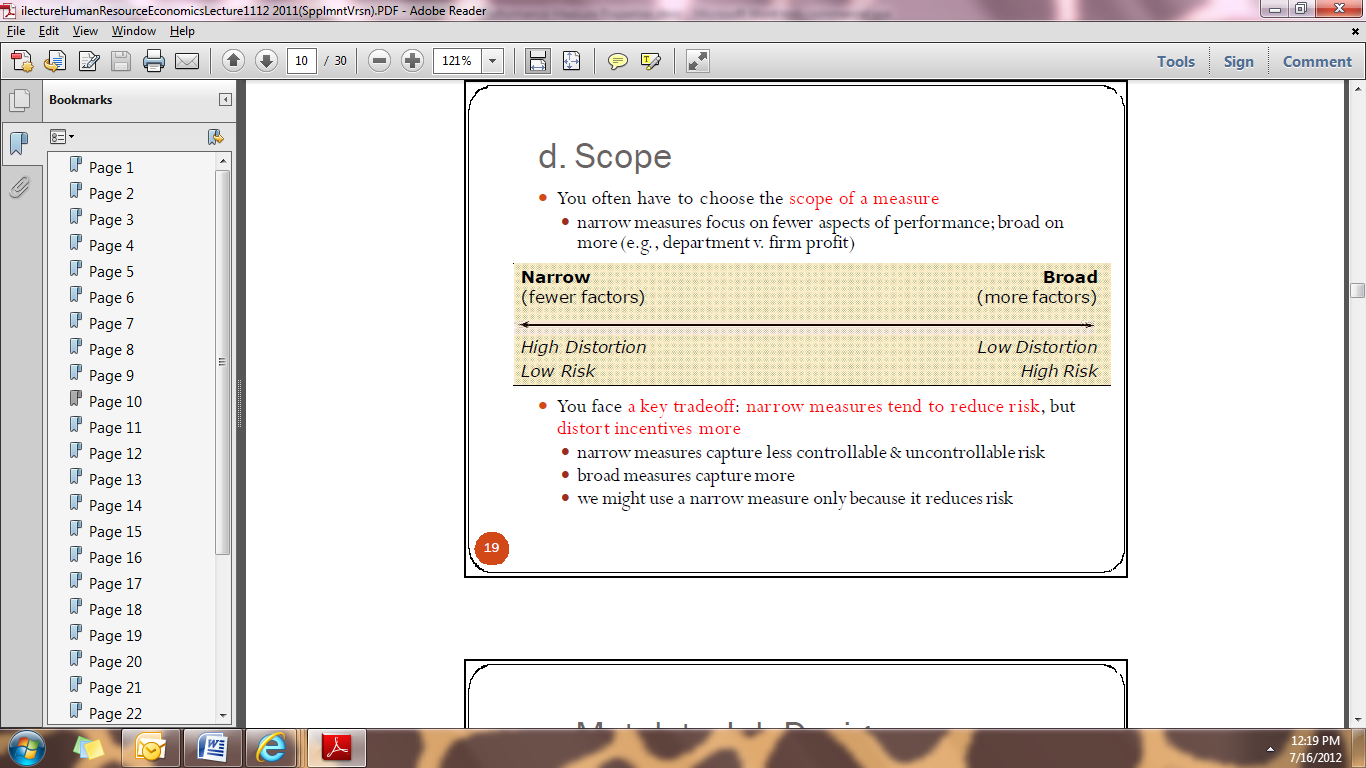
The problem of distortion leads to wrong measures of some job performance, making the workers emphasise some elements too much than others. This comes as a result of unequal inducement across the many jobs set at a given period of time

An effective performance measures would lead to minimal risks on the workers and would eventually assess the employees’ contribution to the goals and objectives of the company .in this case, OCBC’s workers can be given a string inducement depending on the assessment which will lead to a higher performance in the other role given. Nevertheless, the chances of having undistorted measures that consist of the uncontrollable risks , that leads to the trade-off between the two distortion and the risks are usually higher, the performances in this case is really distorted but there are more risks to the employees. This then indicates that the wider measures lead to more controllable and uncontrollable risks (Feltham and Xie 1994).

**(c) Potential for manipulation**

The managers may be able to control the performances of the workers; this can be applied when the workers or employers have some particular knowledge of period and place. It is likely that there will be little performance since it is easier to control (Lazear and Gibbs 2009).On the other hand, what can be easily measured done not indicates a good performance. Through manipulation, the workers are now induced to improve on the measures value. The many time the worker is given the bonus depending on the measures, the more the problem. This indicates that measures just decrease with time when used for long times.

**(d) Scope**



Companies often choose the scope of evaluation. A wider measure will always consist of more elements of performance (Lazear and Gibbs 2009). This will also distort the motivation little since it consists of many dimensions on the worker’s job in the assessment under control. The limitations about tis is that they consist of most uncontrollable risks which makes the distortion to the measurements and even make the inducement program dangerous. a poor performance measure is applied to reduce the risk as well as it is easier to measure and they will sieve out the uncontrollable risks without affecting the controllable risks by the workers. Therefore, the smaller the measures, the lesser the risks, but the higher the distortion

**(e) Match to job design**

This is the way the duties are combined to make a complete work. Using this type of design, the principles applied give a clear picture of the job descriptions, a motivated working group, and the successful completed work. People are give a duty since they can help fill in the gaps required. From the worker’s point of view, the worker knows what to do and what he is accounted for. This way the requirements of the work are clear to every individual employee. Either there is a contractual element-through the position description or the employment contract- ensures that the worker and the employer have same understating of the work assigned.

A small job design is associated with a small job performance. If the employee is assigned more work y the authority then there will be little performance, which can lead to distortion. All the am, the more the work is given the wider the performance measures to be applied. Nevertheless, when the performance measures are more there will be little constraints and more work will be done. The best measure is to ensure that the duties of the worker are shown in the evaluation.

**3.2 Subjective Evaluation**

This is based on the supervisor’s point of view on the performance of the workers. This can be used to reduce flaws in quantitative evaluation. This can also reduce the distortions as well as the manipulations of the inducement program. The manager uses a thoughtful subjective assessment to give lessons to the employees from the management’s point of view. If this is practiced well and regularly, then it can be good to be done on a daily basis (Lazear and Gibbs, 2009).

**4. Pay to Performance Program**

This model assesses the performance of the individual, group, or company’s performance. It also gives different reward programs on various performance results (Coulter, 2012). Therefore, this is a monetary incentive: its main objectives include:

* Attain strategic goals
* Motivate performance of the individual, group, and organizational level
* Appreciate workers’ contributions to the organisation

**4.1 Input / Output Based Pay**

**4.1.1 Input-Based Pay**

This is the reward by evaluation of the performance of the worker’s input. This is measured in terms of time such working hours. The workers usually get a fixed salary or the hourly wage. Usually, the less performing workers will choose to work with an input-based pay where they are assured fixed salary

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**4.1.2 Output-Based Pay**

This is the payment based on the measurements of the employees output , for instance, sales personnel always get commission on the sales made, the shareholders are paid through share based on the company’s performance. Mostly, output based pay attract workers to apply more concentrations in order to receive the best pay. OCBC could use Output-Based Pay to retain workers who desire to be paid better salary in future rather than relying on fixed salary.

**4.2 Incentive Pay System**

An incentive is always an important design that an organization can implement. The following are the five main reward types for OCBC.

**4.2.1 The Simplest Pay-Performance Shape**

OCBC can apply various types of pay- performances to pay their workers. The diagram below indicates the payment according to the grades and the experiences, and the worker’s general performances.

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High Productivity

Low Productivity

PAY

PM

The rise on the pay –performance relationship attracts the inducements. This indicates that when the intrinsic motivation appears weak then a stronger incentive should be used. The effort application is more expensive to the worker but it is very important to the value of the company.

.**4.2.2 Other Pay-Performance Shapes**

The following diagrams indicate the penalties or the rewards given to OCBC workers after completing the work.

Reward

Punishment

Bonus w floor / Cap

Lump-Sum, demotion and promotion

The reward figure indicates that the worker earns a basic salary for the low level of performance. Whereas the bonus figure indicates that, there can only be the bonus if the performance exceeds the standard set. The figures can be of use a times but has little impact on the assessment of the worker’s performance.

The bonus figure above shows that when the performance is above the set standard, the there will be discrete increment in the rewards. Then for promotion, it will come with a return or possibly other job amenities. Nevertheless, if the performance is very low, below the standard that is, they will reduce the rewarding plan or get sucked which then leads to the worker’s loss.

The last diagram indicates the bonus with floor/cup, it depends on the merit and how the benchmark depends on the payout of the job grades, which determine the amount of money to be paid to every employee. There is an argument on the job cap, whereby the level of payment may be decreased without affecting the worker’s salary.

**5. Conclusion**

In spite of the important theoretical interests in the incentive programs and the performance assessments, empirical study has been limited. Most of the research have been limited to the incentive contracts for the people at the top in the management, whereas, the contracts for other workers have been given very little attention. In addition, this research has not considered the basic performance measures but has concentrated on the aggregated performance measures classes. The recent theory suggest that the optimal incentive programs depends heavily on the work design, especially in terms of the depth of the work and the decision rights and the importance of the specific knowledge

Most of the performance assessments are based on the profitability, productivity, quality as well as development goals. Motivation programs particularly apply various performances, and are mostly combined to with the profitability, narrower, measures. Performance is then assessed at various levels, starting from the personal level to the organizational level.

The inducements are always given once in a year, and the inducement intensity is always very low, with an average of 4 -8 %of the normal earnings. Most of the programs always have a cap on the rewards. The results indicate are all related to the other studies that had been done earlier, even though the population used differ. It is evident that economic programs are not only the way of giving incentives but also improves the flexibility of the wages.

**Section B – Report 2**

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**1. Introduction**

Being in a team is the grouping of individuals or group who work in a related or complementary scope. Teams are appropriate for handling complex tasks or have high inter-dependent sub-tasks. Teams aim to work towards a common goal and objective in order to achieved a significant output and reap desired rewards among team members. In this context, output refers to the combined product of more than one individual’s work effort.

# 2. Types of Teams

There are differents types of teams that exist in different forms. They can be duely classified into categories such as functional, cross-functional and self – managed team. The main goal of forming a team of individuals or groups is to achieve specific tasks goals and at the same time ensure quality of the work done is up to standard as a team.

## 2.1 Functional Teams

Forming a functional team is the inclusion of individuals from different levels of the organization’s hierachy system. The team can consists of high-level to mid-level managers and their subordinates for particular functional tasks. Examples of a functional team would include Purchasing, Accounting or other personnel departments within the organization.

## 2.2 Cross-Functional Teams

## Forming a cross functional team is the inclusion of individuals from various sectors with expertise collaborating together to complete a project tasks. These individual members are usually sourced from Engineering, Information and Technology, Design or even the Marketing department. Team members are usually given the empowerment to make decisions on their own accord, and are not obliged to seek consent from higher management.

## 2.3 Self – Managed Work Teams

Forming a self-managed work team is the inclusion of individuals as a group who operate on it’s own without the presence of a higher authority or manager. They are responsible for the completion of work tasks and decide among themselves the segregations of work processes in order to deliver their products and services to either internal or external customers within the stipulated time frame. Self-managed teams are deisgned to enable individuals to have a sense of ownership over their job scope allocated to them. This promotes a strong sense of belonging to the organization, which is benefial to both organization and employees.

# 3. Benefits of Team Production

There are many benefits gains from working as a team, regardless of what kind of team that was formed. The first benefit would be utilizing employee’s full potential in his or her own expertise skills. Some may complement each other, overpower each other or make up for one another’s skills. A majortity of project tasks allocated among teams often need a coordinated and combined effort from employees and usually requires a team and not an individual contribution. Therefore, indivduals in teams are grouped on a comparative advantage ground that complement one another with their specialization of skills at the lowest opportunity costs to achieve a greater result from working with coordinated effort rather than working on the project on an individual basis.

The second benefit of teamwork would be the ease of transfer of knowledge to one employee to another. This scenario often occurs when one team member has access to complete information gathered based on a certain project work. He/or she then shares the information to other team members in a mid to enhance efficiency and productivity.

Working in a team also helps promote innovation and creativity among team members. Being in a group, individuals are accustomed to regular brainstorming sessions, which stimulate team members’ brain productivty. Members in the group have idiosyncratic information and information can be beneficial to the team as knowledge is being transferred to one another and pull together to form new ideas. Sharing of ideas in a team can stimulate unique ways of thinking and different views and ideas arises within the team can lead to a well-developed idea.

**4. Cost of Team Production**

There are many benefits of working as a team but it also brings about costs that affect team production concurrently. A main primary cost is the incentive dilution through the free-rider effect. In this context, the free rider effect refers to team members who have gained rewards from the organization even though they did not contribute effort to the team. As it is difficult to measure the effort and contribution of individuals, some team members may not contribute as much as other members especially when they are aware that they will still be included in the rewards given even if they do not contribute as much.

The larger the team the more it will lead to such incentive dilution. Another cost of team production may be the high transaction costs of coordination, especially if the members do not understand one another well and there is no legal or standard framework to guide and run the team. Congestions cost can also arise in teams, where conflicts and quarrels occur and hinder the progress and results of the output of the teams.

It is important to come up with an optimal team size in order to balance the costs and benefits. Although benefits such as specialisation and knowledge transfer increase as the team gets larger, costs of team production such as the free-rider effect tend to increase as well which diminishes the returns of team production. To reduce the problem of free riders, one way is to allow the teams to determine its members as the team would have specialised knowledge of role suitability. They might also have relationships beyond the confinement of team situations and are able to put pressure on members to get things done. If the members are close knit, they will tend to build a more collaborative and positive team strength as they are more concern of each other’s well-being and development.

There are also transaction costs of coordination if the team members do not understand the way how the other members work or have not establish substantial mutual trust among themselves. This will affect the team to fair poorly and team work will be deemed ineffective in achieving objectives. There would also be high chances of incurring congestion costs if the team size is too large and the members are getting into each other ways (Hu 2009).

# 5. Team Design

## 5.1 Team Size

It is critical to select desired team strength wisely. A team consisting of too many members may bring about the free-rider effect and cause communication breakdowns if team members are not well managed. There is also a high chance of formation of cliques, which is detrimental and may harm team effectiveness and efficiency. Even though the transfer of information and knowledge would increase with a larger number of members in the team, it will also diminish returns if they are not coordinated properly. On the other hand, if a small team size is produced, it may seem that team members depend on each other greatly. However, the benefits of informtion shared are limited to a member capacity. Thus, it is important to choose critically the right number of members to include in specific teams as it can determine how well the team fares in work productivity.

## 5.2 Team Composition

It is important to choose wisely the right type of team members to include in certain project teams. By filtering out members, this reduces the possibility of occurrence for free riders. It is benefecial if team members have their own specialized knowledge about which employee would be more suitable for a specific job role in the team. They can also be awarded a certain degree of control over how the team is run and constructed to avoid and minimize potential costs of team production and to maximize productivity.

**5.3 Rotation**

Having member/job rotation facilitates the filtering of members to form best-matched teams and when information sharing has become the subject to diminishing returns. With member/job rotation, this helps to increase the flow of information.

**6. Why Team Work?**

The main reason we have chosen to opt for a team effort instead of individual is because we strongly feel that by working together as a team, we can enhance productivity and increase effeciency upon completion of our tasked assignment. As team members, we are fully aware of one another’s specialisation and understand each other’s strengths and weakness well. Hence, we are able to coordinate and convey well.

Most importantly, there is no occurrence of the free rider effect in our group. Thus, if we were to revisit the methods employed above for future assignments, we would have better understanding and mutual trust established among us.

# 7. Conclusion

Therefore, with the above team implementations, it gives us a better understanding in working as a team and why team work can affect the performance of work quality or even the organization as a whole. However, not all teams can produce quality work if there is an issue with large team size or free riders problem. In conclusion, members should make wise decisions with regards to group formation and consider the pros and cons on the types of groups and benefits.

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