



Improving Breakthrough Business Results With Gainsharing

Introduction. Many of us who work in Human Resources have seen or heard the term “gainsharing” in the context of our work. When someone says “gainsharing”, what do you think of? Complex formulas? Scientific measures of productivity? Team-based incentives? Gainsharing can be all those things; but if applied properly in your business you can “dramatically improve your business results.”

Background. Let us start with a bit of background and history. As a general definition, gainsharing is a system that “involves a measurement of productivity combined with the calculation of a bonus designed to offer employees a share of any increases in total organizational productivity.”(1) Gainsharing plans have been around for a long time. Traditional gainsharing plans are fairly complex programs that are geared towards reducing costs or increasing productivity. Called Scanlon, Rucker or Improshare, these plans each have unique features, but are commonly linked through measures of increased labor productivity and reduction of waste. They typically require some history or baseline of labor or other costs. Awards are the same for each group member, and generally don’t recognize individual performance. Elements of employee involvement are weaved into many plan designs.

Over the past fifty years, many companies have implemented or experimented with gainsharing plans, with varying degrees of success. Many traditional plans have not lived up to expectations, and thus were generally judged to be ineffective. The difference between successful plans and unsuccessful ones does not lie with plan design but depends upon employee involvement and, most importantly, employee commitment. Of the traditional types, Scanlon plans are probably the closest to true employee involvement, since their design is based on suggestion systems that ferret out ideas for changes to organizational systems, tasks and/or business processes.

New Designs. Within the last fifteen years, there has been a resurgence of interest in gainsharing as organizations came to realize that true competitive advantage comes not from technology, patents, proprietary systems or programs, but from the knowledge carried by employees. W. Edwards Deming states the case very succinctly for this new way of doing business when he says, “The greatest waste in America is failure to use the abilities of people. One needs only to listen...to learn about [workers’] frustrations and about the contribution they are eager to make.”(2) Newer plan designs recognize this as significant and are more aggressive in seeking employee involvement and commitment. The key distinguishing features of these new types of gainsharing plans are:

- A design is based on measurable, quantifiable gains;
- An identified mechanism for self-funding from a dollar standpoint;
- A change management driver, not primarily a compensation device;
- A way to enhance employee commitment for the success of the business team and organization.

If organizations truly value their employees as a repository of competitive advantage, gainsharing plans represent a way to motivate them – in effect to harness the knowledge and skills that all employees have and to focus it on specific actions that drive business success in very tangible ways.

While traditional plans were used mostly within manufacturing environments, new designs are being implemented in a variety of industries. Each has a common denominator of being focused on quantitatively measuring savings or productivity gains. Examples include:

- Call centers measuring effectiveness of customer service;
- Financial service companies measure cost per transaction;
- Retail organizations measure inventory velocity and product margins.

Some organizations have implemented a variant of gainsharing, called "goalsharing". These plans provide for more qualitative measures, and generally focus on smaller groups or work teams with a function, business unit or plant facility. Goalsharing plans still generally provide for self-funding of awards, however.

Plan Objectives. As we have stated, gainsharing plans are focused towards engaging employees in improving the productivity of the business and sharing in associated rewards. From an organizational perspective, however, these programs need to be based on an integrated change management process rather than simply creating a new pay program for employees. If designed and implemented correctly, these programs promote and reinforce organizational change rather than entitlement. The emphasis should be on changes in the culture and management practices (including pay) that create an environment where employees can commit to their best work. This is the most difficult aspect of the gainsharing plan to be achieved, and it is particularly difficult in large-scale gainsharing programs that involve all segments of the company. Take the time to plan the project and to marshal the needed resources to do it right.

Favorable Pre-Conditions (4). There are a number of factors that the organization should consider before embarking on this type of initiative. A "no" answer to more than one or two of these pre-conditions means that a gainsharing plan should probably not be implemented until those pre-conditions are addressed.

- Are you willing to share specific financial and operating information with your employees (this does not mean you need to have implemented "open book" management)?
- Are you interested in what employees have to say about how they work, and are you willing to use their ideas?
- Can you keep gainsharing out of any union contracts (use informal agreements)?
- Are your current base pay and benefit programs competitive with the relevant market?
- Are you willing to involve employees in the design, implementation and administration of the plan?
- Are there opportunities for the plan to be self-funding with real dollars?
- Can you measure performance in tangible, quantitative ways?
- Can you identify employee "champions" who are willing to go to bat for the initiative?

If at all possible, pilot the program at one or more locations that substantially meet these pre-conditions.

Barriers (5). There are some substantial barriers to implementation, including:

- Management attitudes toward the capabilities of the workforce;
- Lack of corporate or top management support;
- Union or employee resistance;
- Risk of failure;
- Skipping the necessary preparatory legwork;
- Lack of an implementation plan or follow through.

Any one of these barriers can de-rail an otherwise successful initiative.

Critical Success Factors. So how can you create a successful gainsharing system if you are considering it? Since gainsharing is a process intended to engage employees in improving the productivity of their business unit, a company that wishes to implement Gainsharing needs to pay critical attention to three areas: Education and communication;

- Commitment, and;
- A results orientation.

A project plan that incorporates the proper amount of attention to each of these three areas is critical for success.

Education. Management must be willing to provide employees with information about the current state of the business and the need for change. Unless your organization has a history of participative management and open communications, employees generally do not have much knowledge of business processes, even within their own functional area. They may not understand the priorities of management, or the challenges of the business. In many organizations, management has historically shown little concern for the needs of employees. Consequently, moves on the part of management to affect this relationship are generally greeted with suspicion and mistrust. Define right up front what the company is trying to achieve. If you have a union environment, they will not be happy about the fact that you are attempting to tap into employees for participation in business processes. It tends to make them think you are trying to undermine the union.

Commitment. This goes hand-in-hand with education. Just because employees understand what you want to do does not mean they will agree to it. If this is something that the company feels strongly about, then you need to make employees believe in it as well. The best way to do this is to create a win-win situation for employees and management. Lay out the specific business rationale for implementing the program, such as competition, declining productivity, high cost of manufacturing, etc., and why gainsharing is an effective solution. Choose areas of greatest receptivity to employees. You will have to deal with all of the negative perceptions that will arise, such as, "Is management trying to fire people?", "Is this a sneaky way of eliminating pay increases?", "Do we have to give back pay?", "What is the company trying to hide?" As you discuss and work through these issues, don't focus your efforts on the fence sitters. Focus on the skeptics, because if they can be convinced, everyone else will come along. One important point to note – management's commitment and credibility is absolutely key to gaining employee support. Half-hearted management commitment means little or no employee support.

All that being said, management can commit until they are exhausted and won't get anywhere if employee relations are not workable. You may need to back up a few steps and make the change effort part of a focused communication strategy. If this is the case, your managers and Human Resources staff members need to educate the employees and build their commitment to the concept. Be prepared - as it may take a long time.

Results Orientation. We're not talking about gainsharing results, but the logical follow through on company commitments. Employees will be extremely interested to see whether management will deliver on its promises. Follow through builds trust. Companies need to involve employees at all levels of the process, and management must be willing to provide more open business performance communications. What you want to create with employees are feelings of responsibility, control, and participation. Achieving this will be the hardest part of the change process. It requires constant on-going attention on the part of management throughout the design and implementation process. That is how true gains are made – in partnership with employees.

If you are successful at implementing a plan that has achieved the goals of these three areas, you will have created the type of lasting processes that you will need to move your business forward. It takes time, and a willingness to move into management practices that can be unfamiliar or uncomfortable, but the benefits are tremendous.

Portions of this article were written by Robert J. Fulton, Jr. and originally appeared at www.workforce.com and in *Workforce Magazine*.

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Footnotes:

(1) Brian Graham-Moore and Timothy L. Ross, *Gainsharing: Plan for Improving Performance*, Washington, DC 20037, BNA Books, 1990, page 20.

(2) W. Edwards Deming, *Out of the Crisis*, Cambridge, MA, MIT, 1986, page 53.

(3) Harold N. Altmansberger and Marc J. Wallace, Jr., "Gainsharing: Plan for Improving Performance", *WorldatWork Building Block Briefings*, Scottsdale, AZ 2001, page ix.

- (4) Brian Graham-Moore and Timothy L. Ross, Gainsharing: Plan for Improving Performance, pages 37-43.
- (5) IBID, pages 100-101.