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Gainsharing

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GAINSHARING

by

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TABLE OF CONTENTS

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ABSTRACT

Many companies are implementing gainsharing plans to help reverse the declining productivity in the United States. This study examines the recent upswing in companies adopting these plans. It describes the six most common gainsharing plans in use today and discusses what is necessary in order for an organization to enhance its chances for a successful plan. Details of the various roles involved in implementing and controlling a plan are presented. The specific roles include those of the supervisors, managers, and the unions.

The results from three surveys are shown that indicate how the companies perceive the gainsharing concept and how successful they have been. Also, some individual cases are presented to get a first-hand look at gainsharing and to see the effects the plan has had on their productivity. The paper concludes with a look at the long-term possibilities of the gainsharing programs.

CHAPTER I

INTRODUCTION

Gainsharing isn't a new concept. Yet more and more companies are looking at gainsharing plans to solve economic and human resource problems. What is gainsharing? How can it solve these problems? This paper will attempt to answer these questions. It will examine the six most common gainsharing plans in some detail explaining the major differences among them and their benefits. When a gainsharing plan is to be implemented, one thing is certain, the usual roles in an organization are going to change. The roles of the supervisor, manager, and the union will be explored. Finally, some results achieved will be shown and a look will be taken into the future of gainsharing.

While all the questions about what a gainsharing plan is will be discussed in the next chapter, a general definition is in order. Gainsharing plans can be defined as:

> Programs designed to involve employees in improving productivity through more effective use of labor, capital, and raw materials. Both employees and the company share the financial gains according to a predetermined formula that reflects improved productivity and profitability. The emphasis is on group plans, as opposed to individual incentives.[1]

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[1] Carla S. O'Dell, Gainsharing: Involvement, Incentives, and Production (New York: American Management Association, 1981), 10.

The important aspect of the definition is the increased profitability through the improved productivity.

Gainsharing vs. Profit Sharing

Gainsharing is also known as production sharing, cost-saving sharing plantwide incentive plans, and participative management programs among others. The term profit sharing is sometimes used in literature to describe the same concept as gainsharing, however, most literature differentiates between the two. Profit sharing generally refers to a group reward plan that either puts a predetermined share of the profit into a pool and distributed to eligible employees in cash, usually annually, or profits are deferred into a retirement program, or a combination of the two.[2] There is almost never an employee involvement system employed in a profit sharing plan. So although the two terms gainsharing and profit sharing are sometimes used interchangeably, that isn't the case in this paper.

Interpreting the Surveys

Just how popular are gainsharing plans? Analyzing the different surveys available is difficult because of the varying interpretations of the term gainsharing and the types of organizations surveyed. One survey of 504 large companies showed 199 of them having a gainsharing program with another 191 of them saying they were in the process of studying them.[3] In another study, 1,598 organizations were studied with only 211 of them participating in a gainsharing plan. What makes this statistic

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[2] Ibid., 22.

[3] James E. Hamerstone, "How To Make Gainsharing Pay Off," Training and Development Journal 41 (April 1987):80.

so misleading is that one-half of the organizations in this study were service organizations.[4] Although gainsharing is catching on with service organizations, most of the current plans implemented are in manufacturing organizations. The only conclusion to be drawn from the two studies is that gainsharing plans are increasing, to what extent is hard to tell.

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[4] Carla O'Dell and Jerry McAdams, "The Revolution in Employee Rewards," Management Review, March 1987, 30.

CHAPTER II

GAINSHARING PLANS

There are six basic gainsharing plans: Scanlon, Rucker, Improshare, Productivity and Waste Bonus, Group/Plant, and DARCOM. However, because all organizations have unique needs, each of the plans can be tailored to fit these needs. This essentially means that there can be innumerable variations of the six plans. This chapter covers the basic principles of each plan, discussing the original philosophy behind the plans, and briefly explaining the bonus calculations.

There are key differences among the six plans and they evolve from different philosophies, productivity measurements, and provisions for employee involvement.[5] They all have the primary goal of productivity improvement. The selection of which plan works best for which organization depends on the work environment. The Scanlon and Rucker Plans are appropriate in organizations where prices are inelastic and labor costs are relatively high. They are also favored if management goals are not limited to productivity increases.

If management only wants to supplement base wages with bonuses on productivity increases, Improshare is particularly attractive. Rucker and Productivity and Waste Plans help control excess scrap or quality

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[5] Michael Schuster, "Gain Sharing: Do It Right the First Time," Sloan Management Review, Winter 1987, 22.

problems. Scanlon should be avoided if quality control is a major factor. Scanlon and Rucker Plans are good if both direct and indirect labor are to be included in the program.[6]

Improshare, DARCOM, Productivity and Waste Bonus, and Group/Plant measurement systems don't require any divulgence of proprietary information that could be used to the union's advantage or fall into a competitors hands. The Scanlon and Rucker Plans, being financially measured, could very well have this happen. Also, the formulas of these four plans can be applied to small groups within the plant. Scanlon and Rucker are applied to the entire workforce. However, the formulas for both the Scanlon and Rucker Plans are relatively easy to understand while the others can get pretty involved.[7] These are only a few of the differences among the plans, there are numerous others. It's easy to see there are many advantages and disadvantages to each plan. A company has to study hard the intricacies of each and determine which fits best in their environment.

Keys to Success

The success of a gainsharing plan appears to have four keys. The first is defining the plan's strategic objectives. The next is devoting sufficient resources to feasibility assessment and plan design. Third,

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[6] Christopher S. Miller and Michael H. Schuster, "Gainsharing Plans: A Comparative Analysis," Organizational Dynamics, Summer 1987, 66.

[7] Ibid., 63.

commitment to the concept must be made at all managerial levels. Lastly, the plan must be successfully implemented.[8]

The objectives and commitment of managers are self-explanatory. The plan design and implementation are briefly discussed below. In planning the design the following questions should be asked to define a company's position.

1. Which groups of employees should participate in the gain-sharing plan?
2. How much employee involvement should there be and under what ground rules? How can the employee involvement best be structured?
3. How should the bonus be measured?
4. How often should the gain sharing be measured?
5. What other human resource strategies should be employed to effectively complement the plan and maximize its effectiveness?
6. When should the gain sharing begin?[9]

The answers effectively narrows down the choice of which plan to use.

The most important part of implementation is the familiarization of the plan among all levels of management and workers prior to its introduction. This includes an understanding of how the bonus formula works. It's best to start the gainsharing plan when business is going good. This will help the programs credibility by yielding bonuses the first few months. This leads to greater worker support when times are not so good.[10] If a nongainsharing company wishes to implement a gainsharing plan, they usually don't have the knowledge and skills required to make the change. Outside assistance is almost assuredly

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[8] Schuster, 17.

[9] Ibid., 22.

[10] Hamerstone, 81.

needed. If the workers are not prepared for the plan, there will be a big price to pay in unmet expectations and conflict. They also run a higher risk of seeing the plan fail.[11]

The Scanlon Plan

In 1935, Joseph Scanlon developed what has become the classic gainsharing plan. It's known simply as the Scanlon Plan and has become a generic term for a gainsharing plan which encompasses a management philosophy, an employee involvement system, and a gainsharing bonus formula. There's no one Scanlon Plan, rather many variations on the basic structure.

Scanlon's original philosophy involved the knowledge and constructive capacity of the average worker. He had a positive view of the workers potential, their willingness to express themselves, and of the benefits gained by both the worker and the organization by emphasizing the development of effective workers in an effective organization. The philosophy closely follows the Theory Y management philosophy. The basic principles include:

1. The expenditure of physical and mental effort in work is as natural as play or rest.
2. External control and the threat of punishment are not the only means for bringing about effort toward organizational objectives. People will exercise self-direction and self-control in the service of objectives to which they are committed.
3. Commitment to objectives is a function of the rewards, tangible and intangible, associated with their achievement.
4. The average human being learns, under proper conditions, not only to accept responsibility but also to seek it.

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[11] Timothy L. Ross, Larry Hatcher, and Ruth Ann Ross, "Training for Performance Gainsharing," Training and Development Journal 41 (November 1987):65.

5. The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in a population.[12]

More specifically, the philosophy of the Scanlon Plan is that the organization should function as a single unit, that workers can and will contribute ideas and suggestions, and that all improvements should be shared. It has been noted by several authors that the general Scanlon philosophy is the crucial aspect of the program. Only when the philosophy and structure are integrated into a system and the structure serves to implement the philosophy can an organization's plan qualify as a Scanlon Plan.[13]

The Scanlon Plan provides a highly structured employee participation system. It involves two levels of committees, the production committees and the screening committees. The production committee is on the lowest level of an organization. They are found throughout an organization with jurisdictions generally corresponding to departmental and shift responsibilities. The committee, usually composed of a department foreman or supervior and two to five elected workers is initially responsible for explaining the details of the plan to the other workers. After full implementation their functions are to encourage idea development and evaluate employee suggestions.[14]

Each production committee is encouraged to meet frequently, usually monthly, in order to act upon all suggestions quickly. If the

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12 O'Dell, 24-26.

13 Miller and Schuster, 46,47.

14 Ibid., 5Ø.

suggestion only affects the department or requires little expenditure, the production committee can accept or reject the suggestion without any further approval. If they reject the suggestion, a full explanation must be given. The supervisor has the right to veto any decision made by the production committee, however it's subject to employee appeal to the screening committee along with any suggestion that can't be agreed upon unanimously. Also, expensive or interdepartmental changes are passed on to the screening commitee.[15]

The screening committee is the next level of involvement in the employee participation system. It's a plant-wide committee composed of one-half elected workers and one-half key management personnel. All the various units of the plant will be represented and, if applicable, union leadership will also have representation. The committee's first function involves handling suggestions from the production committee, accepting or rejecting the expensive or interdepartmental changes or employee appeals.

They also act as a liason between management and the workers, communicating management issues to the workers and relaying feedback to management. The third function is very important. They review and analyze the previous months performance and reasons for success or failure. Of prime importance is the calculation of the bonus and clearly explaining all variables going into the calculation to the employees.

The reward system serves to show the workers that their involvement and effort are worthwhile. It needs to meet the following criteria in order for gainsharing to be possible:

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[15] O'Dell, 27.

1. Goals must be measurable.
2. Employees must know and accept the goals.
3. Goals must be attainable.
4. There must be a short time interval between performance and reward.
5. Employees must have resources to accomplish goals.
6. The bonus system must be compatible with organization values and individual values.
7. The system should reward both the process of involvement and the results.[16]

The typical Scanlon Plan bonus formula relates net sales to labor costs. Three common formulas are the single ratio, split ratio, and multicost ratio. All three ratios equal sales (plus inventories minus discounts and returned goods) divided by labor costs. The difference being what is included under labor costs.

A bonus pool is calculated at the end of each bonus period. When actual costs are less than expected costs, the difference is put in the bonus pool. Often 25 percent of the pool will go to the company and 75 percent to the employees, after a portion is held in reserve to offset when actual costs exceed expected costs. If anything remains in the reserve at years end it's distributed according to a prescribed formula.[17]

The Rucker Plan

The Rucker Plan is mainly designed for use in manufacturing companies. Under the Rucker Plan the measure of productivity is based on the value of goods produced minus the cost of goods sold. This difference is called the production value.[18]

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[16] Ibid., 31.

[17] Miller and Schuster, 60.

[18] O'Dell, 37.

Rucker Plans also have a suggestion program, but with a more limited committee system than the Scanlon Plan. The Rucker philosophy is considered a comfortable midpoint for managers unsure of the most effective level of employee participation in their organization. The reason is because it has a primarily economic incentive with little reliance on employee participation. While some Rucker Plans have both a production and a screening committee, many have only a screening committee. If a production committee is wanted, only one is used. It consists of ten to fifteen workers and some managers. Their main function is communication, with little problem solving taking place. The screening committee's main purpose is to supervise the bonus program.[19]

The first step in determining a bonus is calculating the production value. Then the percentage of the production value that is paid out for wages is calculated. This is the value added to a product per dollar of labor cost. A long-term average of the production value is used to install stability since seasonal factors, market trends, and other variables must be accounted for. The actual formula is hard for most employees to understand. Essentially, the value added is multiplied by the production value percentage to determine the allowed employee labor cost. Subtracting actual labor cost leaves the bonus pool. The split of the bonus pool is usually 50 percent for both management and workers.[20]

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[19] Miller and Schuster, 53.

[20] O'Dell, 39-42.

Improshare

The basic philosophy of an Improshare Plan is quite different from that of either the two previous plans. Improshare Plans make no provisions for any type of involvement system. It's an incentive program organized on a plant or large group basis, tying economic rewards to performance.[21] Many times a suggestion system evolves after implementation of an Improshare Plan. This addition to the system has been effective in sustaining the plan over a period of time.[22]

Productivity gains are measured in employee-hours, not dollars. The formula uses what is called the base productivity factor to establish an overall labor input standard. The actual calculations and explanations are beyond the scope of this paper. Bonuses are not based on the output of an individual, but rather on the overall productivity of the group. The goal of the plan is to produce more finished goods per hour of personal input. Any gains in productivity are usually split 50-50 between the workers and management, regardless if they were only indirectly involved in the production. It's part of Improshare's philosophy that indirect contributions to production are just as vital to the finished product as direct labor.[23]

Productivity and Waste Bonus Plans

Unlike the previous plans, Productivity and Waste Bonus Plans, the Group/Plant Plans, and DARCOM Plans offer no opportunities for

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21 Miller and Schuster, 46.

22 O'Dell, 44.

23 Ibid., 44,46.

employee involvement. However, labor management committees, quality circles, or ad-hoc employee-participation teams can be set up to run parallel with the bonus plans. The Productivity and Waste Bonus Plan is primarily an economic incentive program with the additional requirement for employees to focus on productivity and quality. This ensures quality doesn't suffer when productivity increases.[24]

The bonus plan calculates the bonus on the basis of output units per actual hours plus or minus total rejects per output units. This allows the employees the opportunity to enhance their bonus earnings through improved quality while the company is protected from giving a bonus for increased productivity when the quality drops.

During integration of a Productivity and Waste Plan two factors are stressed to employees: only good production is recognized in accounting for productivity and bad production is scrapped and adversely affects waste. Management and workers split the gain in performance.[25]

Group/Plant Plan

The Group/Plant Plan has the unique feature of measuring productivity on a departmental or shift basis. The particular department receives two-thirds of the gains calculated with the other one-third being shared among all employees. The plan was designed to improve intragroup cooperation and intergroup competition. Each group develops a goal standard, usually in terms of output per hour, and productivity is calculated separately for each group. Dollars saved is what gets

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24 Miller and Schuster, 45,47.

25 Ibid., 62.

allocated. Dollars saved equals hours saved multiplied by the group's average cost per hour. Hours saved equals expected hours minus actual hours worked. Bonuses are calculated each month but are usually paid out quarterly.[26]

DARCOM

The last gainsharing plan to discuss is the DARCOM Plan. It's use has been limited to intraplant operations with the bonus calculation applying to work centers and individual performance. The philosophy of DARCOM follows the Improshare philosophy. Productivity is measured in terms of a gain or loss in direct labor hours. Earned hours is defined as units produced times standard hours, representing the number of direct labor hours that should be expended to complete the units produced. The difference between this and Improshare is that DARCOM only measures direct labor hours as opposed to all hours worked for Improshare. Like Group/Plant Plans, DARCOM calculates bonuses monthly and distributes out quarterly.[27]

Because there are literally thousands of variations, it's almost impossible for an organization to copy a textbook gainsharing plan and expect it to work. The best management can do is to find the framework that best reflects the company's desires and build around it, making adjustments continually.

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[26] Ibid., 46,47,63.

[27] Ibid.

CHAPTER III

ROLES IN GAINSHARING COMPANIES

When an organization opts to install a gainsharing plan, they can count on many changes. Not only does the plan allow workers to become more involved with the success of the organization, but the traditional roles assumed by first-line supervisors and middle- and upper-level managers are going to change dramatically. If it's a union shop, the unions too will have to alter somewhat the way they handle business with the firm.

Supervisor

The role of the supervisor changes only if the gainsharing plan is a participatory plan (Scanlon and Rucker). The supervisor would have no direct role in a nonparticipatory gainsharing plan. In the Scanlon Plan, supervisors serve as meeting chairpersons in the production committees. Since the Scanlon production committees are key operating mechanisms, the supervisors' effectiveness is pivotal in the committees' success.[28] The supervisor in a company which elects to go with the Rucker Plan has only a small role as far as directly working with the commitees. He may serve as a production committee member or be asked to

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[28] Miller and Schuster, 55.

comment on suggestions affecting his area, but he doesn't have the responsibility as in the Scanlon Plan.[29]

Because the supervisors' role is so important in a Scanlon Plan, a commitment to and understanding of the plan is essential to its success. The working relationship between supervisor and workers requires some adjustments. The employee suggestions will have to be dealt with objectively, even if it challenges their own opinion on the way something is done.[30]

As mentioned in the description of the Scanlon Plan, the supervisor can veto ideas and suggestions. With the employee having the right to appeal the vetoes, this puts the Scanlon philosophy to the test. For the plan to work properly the supervisor can't hesitate to reject the ideas if he feels it's justified and he can't take it personally if the screening committee overturns his veto.

In a 1985 study of twelve organizations with participative programs, supervisors voiced the greatest dissatisfaction and frustration with the new approach, mostly due to the loss of power, control and authority.[31] Besides feeling threatened by the increased employee involvement, another problem that could negatively affect supervision is employee suggestions that may expose supervisory inadequacies or challenge their authority to upper management. Care must

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[29] Ibid., 56.

[30] Zane Goggin, "Two Sides of Gain Sharing," Management Accounting, October 1986, 49.

[31] Michael H. Schuster and Christopher S. Miller, "Employee Involvement: Making Supervisors Believers," Personnel, February 1985, 24.

be taken to ensure supervisors don't wield moral influence or force over their employees which could dismantle the involvement plan.[32]

Sometimes what seems to be a supervisory problem really isn't. In one case a firm installed a plan to enhance employee involvement. The problem was that upper-management never changed from their highly autocratic decision making style, resulting in an inaffective committee because the supervisors were unable or unwilling to make decisions. The answer to these problems is considerable supervisory training and development along with getting supervisors more involved in planning and organizing work with middle- and upper-level management to help ease the resistance.[33] If management doesn't have the confidence in their supervisors, a gainsharing plan with less employee involvement should be considered.

Manager

The middle- and upper-level managers role is key in all six gainsharing plans. Management must first justify the need for change. They should fully disclose the facts and consider the short-term and long-term consequences of the program on the work force and the business.[34] Once its announced that a gainsharing plan is being considered, the managers education about gainsharing should begin. They must be able to answer questions once the formal announcement is made.

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[32] Miller and Schuster, 56.

[33] Schuster, 23.

[34] Raymond E. Majerus, "Workers Have the Right to a Share of Profits," Harvard Business Review 62 (September-October 1984):44.

After the plan is implemented the managers must be able to assess the plans effectiveness and deal with problems under the plan.[35]

More specifically, the manager is responsible for calculating the bonus, coordinating the program, and serving on screening committees for Scanlon and Rucker Plans and in bonus committees in the other plans. One or more managers are responsible for the bonus formula. They must assemble, prepare, and compute the data needed for the bonus. In choosing a manager for this role, it's critical to have one that is highly visible and has high credibility with the unions and workers. There are four major reasons why this is important. First, the workforce generally perceives a serious commitment to the program, in turn the workers put forth a similar commitment. Second, a manager who's known for his honesty and integrity can help ease the confusion during the early stages. Next, when bonuses are not being earned, he can reassure workers that the formula is being fairly and accurately applied. Lastly, when a plan fails, its association with a credible manager helps employees feel that it wasn't for a lack of commitment.[36]

As a coordinator of the programm the manager will try to maintain high levels of employee involvement. He must also be available to respond to employee questions and concerns. The four points mentioned above are also applicable here. Ideally, the role should be assumed by someone with significant organization experience along with a high energy level.[37] The manager should also have confidence in their

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[35] Ross, Hatcher, and Ross, 65,66.

[36] Miller and Schuster, 57.

[37] Ibid., 58.

employees' capabilities. This is especially important if they expect to retain the plan indefinately because without the confidence, employee participation is unlikely.[38]

The managers role on the committees is to give direction and to stimulate further efforts. They use this forum to inform the employees about the organization's financial performance, its position in the industry, and the market place forces. This helps bring the employees into the company culture and gives them a personal stake in the organization's success. It also allows them to become better contributors to planning and helps them to better understand slow progress or setbacks. The level of trust in the organization is greatly increased as a result.[39]

A manager must be adequately prepared for the changes that will occur. The plan depends on his ability to adapt to the new approach. If the organization isn't ready for the plan, frustration, resentment, and ill feelings will all contribute to the downfall of the plan.[40]

Unions

The last group that plays a critical role in the development and maintenance of a gainsharing plan is the unions. Where do the unions stand on this issue of gainsharing? This section examines why unions oppose or favor gainsharing in their organizations, how they can benefit from gainsharing, and under what conditions management can expect union

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38 Schuster, 23.

39 Miller and Schuster, 59.

40 Ross, Hatcher, and Ross, 67.

cooperation. The answers must be understood before implementing a gainsharing plan in an union shop.

A study was done in 1984 that showed national unions taking one of four positions regarding worker participation and gainsharing plans. The first is general opposition, the national leaders will clearly state their opposition, discouraging local unions from participating. However, this doesn't prevent the local unions from going ahead with the plan. The second position is one of decentralized neutrality. In this position the national leaders will not take a stand for or against the plan. The local unions are on their own to make the decision. If the locals decide to go ahead, they will not get significant staff support from the national union. It's estimated that the majority of unions are in this category. The third position is decentralized policy with national union support. Everyone at the national union will advocate the plan except the president. The national union will support and advise the local unions. The last position entails support from the national union president. Few unions take this position.[41]

It is far easier to start a gainsharing plan in a nonunion organization. However, union involvement will give the program greater credibility if a reasonable relationship already exists between the union and the organization. The mere presence of the union isn't enough, it's the attitude of both parties about working together that's critical.[42]

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[41] Timothy L. Ross, Larry L. Hatcher, and Dan B. Adams, "How Unions View Gainsharing," Business Horizons, July-August 1985, 16.

[42] Schuster, 21.

The five most important reasons why unions oppose gainsharing are:

1. Management may try to substitute it for wages.
2. Management cannot be trusted.
3. Peer pressure to perform may increase.
4. Bonus calculations are not understood or trusted.
5. Union influence is undermined.[43]

Gainsharing in principle allows for a bonus to serve as an added incentive to improve productivity. It's almost always kept seperate from the compensation package. The only time wages will be cut in conjunction with a gainsharing plan is when it's part of a concessionary package worked out between union officials and management. Therefore, unions need not fear wage cuts if they get involved with the setting up and planning of the program. This also applies to the second opposition, if union officials are there to help set the ground rules, management will not be able to get away with dealing in bad faith.[44]

In regards to the third reason, there's definitely a potential for peer pressure to increase. If someone performs inadequately it hurts everyone's chances at receiving a bonus. However, in the opinion of the authors in a Business Horizons article, substandard performance usually resulted in pressure directed at management to correct the problem, not fellow workers.[45]

The fourth argument is an important one. The financial data used in the bonus calculation must be fair and reliable. A big change for management is that they must allow the unions to share in this information on an

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[43] Ross, Hatcher and Adams, 17.

[44] Ibid.

[45] Ibid., 17,18.

ongoing basis.[46] Using bonus calculations that are tied to the financial reports will minimize the lack of trust because the figures could then be attested to by a public auditor.[47]

The last opposition is unfounded. Research has shown that in most organizations a strong attempt is made to maintain union contract provisions. The only way the union would lose influence was if the workers believed the new program was more effective in handling the issues than the unions grievance procedure, this doesn't happen often though.[48]

A lot of unions are either neutral or slightly in favor of gainsharing plans. The five most often given reasons for favoring gainsharing are:

1. Increased recognition
2. Better job security
3. Increased involvement in job activities
4. More money
5. Increased feeling of achievement of contributing to the organization[49]

The only one that really needs to be addressed is better job security. The other four are obvious from previous discussion. In discussing job security, the secretary-treasurer of the United Auto Workers Raymond E. Majerus states:

> Since financial rewards are tied directly or indirectly to increases in productivity, the plans tend to reduce the level of employment that would otherwise be needed ... Thus, it's

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46 Majerus, 44.

47 Ross, Hatcher, and Adams, 18.

48 Ibid.

49 Ibid., 19.

> vital that, when designing these programs, the employer and the union address the job security needs of workers.[50]

The union officials who chose better job security as a benefit to gainsharing understand that a successful company will lead to greater job security.

When a union company does install a gainsharing plan there are potential benefits to the union in addition to those mentioned above for the employees. First, a productive firm will grow and bring more employees into the company and the union. If the workers favor the gainsharing concept, the union benefits by being associated with something the workers want. Third, because the union has representatives actively involved in the plan, they become more visible to the employees who aren't usually involved with union affairs. Fourth, communications will improve under a gainsharing plan. This provides the union with better knowledge of company finances, decision-making processes, and plans for the future. This will enable them to be more effective in labor-management negotiations and grievance-handling. Lastly, the union will be better suported in its demands if they have actively supported the plan.[51]

The unions active participation in the gainsharing plan has been mentioned previously, but in what capacity do they serve within the organization? In Scanlon and Rucker Plans they will have representatives on the screening committees. They directly influence the programs operation. The union needs assurance that the plan will not affect the

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[50] Majerus, 44.

[51] Ross, Hatcher, and Adams, 19,20.

collective bargaining agreement. The main task of the union representative is to ensure that the agreement isn't invaded by the cooperative process, especially the grievance procedure. In the other plans, the union will normally accomplish this through representation on the bonus committees.[52]

It can be very difficult to bring the union into the planning of a gainsharing program. However, labor relations are bound to improve if management brings them in. A gainsharing plan will not break the union and any company that tries it will see that the gainsharing plan will die first.[53]

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[52] Miller and Schuster, 64.

[53] O,Dell, 67.

CHAPTER IV

RESULTS ACHIEVED

The interest in the use of gainsharing plans has picked up over the past fifteen years because of declining productivity growth rates, erosion of position in world markets, a perceived need to improve the quality of work life, and an inability to continue to pass along increases in compensation costs.[54] The necessary productivity increases needed to compete in todays business world can only be obtained if all employees cooperate more fully. This has led to the situation in 1987 of one out of four manufacturing companies employing a type of gainsharing or bonus system.[55]

Even with the increasing numbers, actual reports of the results are not plentiful. In a 1984 Human Resource Management article, R. J. Bullock and Edward E. Lawler could only find thirty-three reported cases with at least moderate detail.[56] The same problem exists today to some extent. One big reason for this is that almost 73 percent of the existing gainsharing systems have been implemented since 1980.[57] In the four years since that article more results of gainsharing programs have

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[54] Schuster, 17.

[55] Hamerstone, 80.

[56] R.J. Bullock and Edward E. Lawler, "Gainsharing: A Few Questions and Fewer Answers," Human Resource Management 23 (Spring 1984):25.

[57] O'Dell and McAdams, 31.

been published. Some individual results will be discussed after a broader perspective is presented through three reports.

The Broad Perspective

In 1981, the U.S. General Accounting Office (GAO) conducted a study of thirty-eight companies with gainsharing plans. The company size seemed to have little affect on cost savings. In companies with annual sales of less than $100 million the workforce cost savings was 17 percent. This compares to a 16 percent cost savings in companies with sales over $100 million. Improved labor management relationships were reported by 81 percent of the companies. Almost half stated they had fewer grievances and less absenteeism and reduced turnover were both reported by 36 percent of them. The GAO conclusion was that the plans "offer a viable method of enhancing productivity at the firm level."[58]

Bullock and Lawler analyzed the thirty-three cases they found which contained some detail into the gainsharing companies. Of these, twenty-two, or 67 percent, were reported as being successful. Improvement in productivity, quality, cost reduction, or customer services was reported in 73 percent of the companies. Individual attitudes, morale, or quality of work life improved at 64 percent of them. Better communication resulted between labor and management, management and unions, or supervisor and worker at 18 of the firms. Some bonuses and pay increases based on performance improvements occured at all but three of the organizations. So although these thirty-three cases provided little evidence about the dynamics and results of gainsharing

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[58] Larry Hatcher and Timothy L. Ross, "Gainsharing Plans- How Managers Evaluate Them," Business, October-December 1986, 30.

plans, the results indicate that gainsharing in an organization can have major systematic effects.[59]

The third report is a survey of 108 managers in gainsharing companies. All the organizations were production firms with between 100 and 450 employees. The survey questioned the managers on their adjustment to the plan, the changes in subordinate behavior, and overall satisfaction in the plan. In the first group of questions the managers perceived improvement in every aspect of their job after implementation of the gainsharing plan. They felt they had more influence over their jobs, had greater ability to get work done, were able to handle crises situations better, got better cooperation from the workers, their workload became more reasonable, and they developed a greater understanding of their job duties and goals. The most dramatic change occured in the cooperation of the workers. Before implementation, 48 percent reported either "good" or "very good" cooperation. After plan implementation the figure went up to 80 percent.

In the evaluation of subordinates, the managers reported that major improvements were seen in employee concerns about costs, output, and quality. They were also more willing to accept change, felt more involved in their jobs, and were more committed to avoiding abenteeism. All six areas showed substantial increases, ranging from 31 to 46 percent more firms indicating "good" or "very good" responses after the gainsharing implementation.

The overall satisfaction with the gainsharing plan showed similar results, with 77 percent agreeing in some degree to being satisfied with

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[59] Bullock and Lawler, 25,31. 27

the plan. When asked if the company should continue with the plan, 91 percent agreed.[60] The results of all three surveys show a general success rate among the companies studied. A few individual results are briefly discussed next.

Individual Results

Dana Hilliard is a heavy truck axle manufacturer in Hilliard, Ohio. The plant was designed from the beginning to utilize a gainsharing system. After working with the plan for three years, the benefits started to show up. With a variation on the Scanlon Plan, Dana Hilliard has been able to cut scrap and rework costs in half from the time of implementation. Job security is very much in evidence. Not one person has ever been laid off, even when everyone else was laying off. Finally, labor efficiency was 45 percent higher three years from implementation. This led to a 12 percent and 16 percent average monthly bonus in 1984 and 1985, respectively. In addition, year end bonuses of 11 percent and 16 percent were earned in the same time periods. During the first 6 months of 1986, monthly bonuses were averaging over 20 percent.[61]

In 1984, Dixie Industries in Chattanooga, Tennessee implemented a gainsharing plan. Searching for productivity gains, Dixie, a manufacturer of forged chain hardware accessories and attachments, decided an incentive system for all factory and salaried workers was needed. The overall gross bonus for the first year of implementation was 23 percent, half of which was attributed directly to the cost

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[60] Hatcher and Ross, 33-35.

[61] Larry Hatcher, Timothy L. Ross, and Ruth Ann Ross, "Gainsharing: Living Up To Its Name," Personnel Administrator, June 1987, 153,162.

improvements suggested under the gainsharing plan. In 1985, sales volume was down from the previous year but a bonus of 18 percent was still realized. The 1986 results were expected to be between 15 and 20 percent. Most of the credit has been given to Dixie's formal idea program. They had 680 ideas submitted through June 1986. They believe it's not so much the financial reward that makes it so attractive, but the psychological reward of employees seeing their value to the company. Dixie Industries has seen an improvement in morale and team work. Employees are more aware of costs and less in quantity. Scrap has decreased and quality has increased.[62]

More than 800 suggestions were made during the first two years of a gainsharing plan implemented at Peabody Galion, a manufacturing plant in Ohio. As a result of those suggestions, $500,000 was estimated to have been saved. In 1982, Peabody Galion was in danger of being closed down. They didn't show a profit in most months and layoffs were common. An individual incentive system was in place at this time, but it wasn't working. Complaints averaged about 160 a year. A new president was appointed in the middle of 1982 and started turning things around with the new gainsharing system. In August 1983 the plan went into effect. The market for their products, trucks and truck bodies, was very slow and employees saw no bonus for the first year. Because the employees were involved and could see where the problems were, dissention towards the plan didn't develop. As more and more suggestions came in and were implemented, costs began to decrease. In October 1984 the first bonus was given. Bonuses were earned a total of four out of eleven periods. A

[62] Goggin, 47-51.

period covered two months. Given the competiveness of the economic environment, that was considered quite good. After two years under the plan, Peabody Galion was profitable. Quality control was the biggest reason for the profit. Product recalls dropped, plant inspectors dropped from sixteen to two, and what was once a service staff of nine became a staff of one. Plant personnel increased by 180 people and complaints were down to thirty in 1984. In February 1985, 98.3 percent of the employees voted to continue with the gainsharing plan.[63]

Although most companies who employ gainsharing plans are manufacturing companies, they have been implemented successfully in service firms as well. If managers can accurately measure the costs of production, a gainsharing plan could prove effective. In a service firm, bonuses would usually be based on labor costs as a percentage of sales.[64]

In all three studies discussed earlier, the success rate for companies installing gainsharing plans wasn't 100 percent. However, no specific cases can be found that details the companies which failed. One of the general reasons mentioned for a plan failing is the use of a canned program instead of a specially designed one.[65] This and most of the other reasons given for failure are avoidable if the firms would take the time to learn more about the plan before implementing it.

Whether or not gainsharing will be successful in a particular

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[63] Hatcher and Ross, 31,35-37.

[64] Patricia Amend, "At Your Service," INC., November 1985, 162.

[65] Schuster, 24.

organization is hard to predict. For a plan to effectively motivate performance, it needs to have an objective measure of performance for the group. The workers must believe that they can affect the measure by their performance. The plan also must reward cooperation as well as group performance and needs to be perceived that way by the individual workers. If these conditions exist, the plan has a good chance of being quite successful.[66]

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66 Randall S. Schuler and Stuart A. Youngblood, Effective Personnel Management, 2d ed. (St. Paul: West Publishing Company, 1986):337.

CHAPTER V

CONCLUSION

Gainsharing is one of the techniques used to increase employee interest, involvement, participation, and productivity. Other techniques tried include quality circles, work cells and shop productivity committees. While these techniques are used by many U.S. companies, they haven't received the attention that gainsharing is now starting to receive. Gainsharing is showing some very good results, but will it be the savior for the long-term?

Most of the gainsharing plans in use today haven't been in place long enough to determine if it will be a long-term plan. Every indication shows that if a firm does a thorough study and analysis of the plan, implements it properly, and does continual evaluations of the system, there is no reason it can not continue to be successful for many years.

A nationwide study of fifty-four companies showed the ones that had a gainsharing plan for over five years averaged a labor savings of 20 percent as opposed to 8.5 percent for those with younger plans.[67] Much more research will need to be done in order to obtain the answers to making gainsharing a long-term success in all types of companies.

There's a lot of excitement being generated about gainsharing. Much of the optimism is warranted. It has proved to be quite successful

[67] O'Dell, 60.

in bringing some companies from the brink of bankruptcy, however it must be stressed that gainsharing will not work for every firm. Although there's no guaranteed formula that will tell one if a gainsharing plan will be successful, time and hard work will make the decision a lot less risky.

Gainsharing isn't a cure-all for an organization's problems. It can, however, be a step in the right direction towards solving the problem of decreasing productivity growth present today in the United States.

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