

All You Ever Wanted to Know About Gainsharing But Were Afraid to Ask

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What is a gainsharing program?

On a tactical level, a gainsharing plan is simply a group incentive plan — a pay for performance program — under which employees as a group earn bonuses for cooperating to improve plant performance.

On a strategic level, gainsharing is a key motivational/reward system which emphasizes using employee ideas and suggestions for improving overall organizational effectiveness. Successful gainsharing plans result in quality and productivity improvements of about 17 to 22 percent annually. When properly designed, they fit admirably in companies attempting to make their continuous improvement and Total Quality Management programs successful.

Why are companies installing gainsharing plans?

Executives are awakening to the fact that the old methods of running an organization are no longer effective in today's world of global competition, short product lives, and high quality requirements, etc. These senior managers are realizing that their employees really *are* human resources, and by tapping the product and technical knowledge of those workers closest to the work, executives can use their ideas to attain quality, productivity, and customer satisfaction goals. ¹

Improved Performance

What do you mean, improved performance?

Measures of "improved performance" vary from industry to industry, and from company to company. There are over 2000 gainsharing plans in existence — mainly among manufacturers, but also in banks, hospital,² insurance companies, government offices and installations,³ and not-for-profit charities. A wide variety of ways can be used to measure "improved performance" in many different gainsharing plans: a reduction in man-hours worked to produce a given volume of goods or services; an increase in the value added by the manufacturing process; a reduction in defects or the cost of rejects and rework; an increase in the level of customer service or satisfaction; a reduction in process inventory; an improvement in raw material yield; a reduction in energy usage; a reduction in downtime and maintenance costs; or a reduction in materials, supplies, and other variable costs, or some combination of the above. The measurement depends upon the organization, product mix, and its goals.

Where do organizations install gainsharing?

Gainsharing plans can be installed where the results of employees' efforts can be measured directly.

For example, gainsharing plans have been used in hospitals with great success to motivate the nursing staff to reduce the use of disposable supplies and other medical paraphernalia. Gainsharing plans have been installed in "white collar factories" of banks and insurance companies, to reward employees if errors in loan applications or insurance policy changes are reduced. Gainsharing plans lend themselves quite readily to assembly line, batch, and continuous process operations in manufacturing. Any organization in which employee efforts can be measured can improve its performance through the installation of a gainsharing plan.

For example, the number of good units (like washing machines or automotive water pumps) produced per man hour worked is often an accurate indicator of productivity in assembly line manufacturing. In batch processing, the number (and quality) of the batches (say, paint or chemicals) produced per work crew per shift may be a good marker of productivity, assuming each batch is the same size. In continuous process operations, like chemical plants, actual yield of the various feedstock fractions produced versus theoretical yield, along with safety and up-time of the chemical reactors, may be good tokens of production efficiency. In all cases, considerable thought has to be given to the measure to ensure that whatever is traced, employee care and effort will influence its outcome.

Your indices all involve some measure of productivity. What about financial measures?

Financial measures can be used, such as return on investment, or profit before taxes. Financial yardsticks are more difficult for the typical employee to understand than a more familiar measure of productivity. Year end adjustments, inventory adjustments, or the financial ledgerdomain used by accountants to reduce tax liabilities can affect an organization's financial results. Asking the average human to understand such financial wizardry is unrealistic.

Then you don't advocate using financial measures?

Organizations willing to undertake the arduous task of educating employees about finance find the use of financial measures in gainsharing can be quite useful. However, many privately held companies are reluctant to share financial statistics with employees. Many publicly-held, multi-location companies do not keep their financials in a way so that they can be easily bro-

ken out, location by location. Thus, the majority of gainsharing plans do not use financial statistics as an index measuring improvement.

Are there other problems with financial measures?

Yes. If a company enjoys a period of windfall profits due to a price hike, or an increase in market share due to a competitor's failure, the company may enjoy some artificial gains, and the employees could receive "windfall" bonuses, which were not generated by their efforts. More frequently, suppliers to original equipment manufacturers receive demands to chop prices, improve quality, and speed deliveries, all at once. Suppliers to General Motors Company are now in this situation. When faced with a sudden price decrease, many companies suffer declining profits. In such cases, employees may be doing their utmost, yet their gainsharing rewards would be reduced by factors over which they have no control. Either way, an employee can make a windfall gain, or suffer an unexpected loss, through no effort or fault of his own. That's not fair!

What's the answer, then?

Some companies use both financial and productivity measures in their gainsharing plans because a true measure of a company's long-term viability is its profitability. They first postulate attaining a certain financial threshold, say, a set return on investment or a particular level of earnings. Once reached, then a gainsharing plan based on productivity kicks in.

What's so good about gainsharing based on some measure of productivity?

Employees are familiar with productivity measures, and productivity can be boosted by employee effort. Workers often know their productivity levels, in the form of widgets produced per man-hour, errors per thousand insurance forms processed, percent of on-time shipments, etc., because many companies already share this information with them. Thus, in installing a gainsharing plan, it is far easier to gain employee acceptance and understanding of a gainsharing plan based on familiar physical levels of productivity rather than on financial yardsticks.

Who should be in a gainsharing plan?

Ideally, a gainsharing plan should be restricted to employees in one physical location. That way, they can see a direct relation of their efforts to a possible bonus in

the plan. Within a facility, sometimes only direct labor manufacturing employees are included in the plan; other times indirect and direct hourly labor are included. Still other organizations include line supervision in their gainsharing plan. Yet other manufacturers include office workers whose efforts have a direct and immediate effect on productivity. Few companies include all employees.

What about our sales force?

Salespeople typically receive some type of commission, which compensates them for their efforts. Hence, the sales force is usually excluded from a gainsharing plan.

What do you recommend?

All employees having a direct impact on manufacturing efficiency normally should be included because, under gainsharing, they all are on a single team, working to beat the competition, rather than each other. This includes scheduling and production control personnel, shop clerks, material handlers, maintenance people, quality assurance inspectors, shipping and receiving employees, all foremen and plant engineers, and maybe the plant superintendent.

What about clerical types and other staff functions in the office, like finance, or human resources?

Quite frequently, these workers are excluded from a gainsharing plan, because they have no direct impact on productivity improvement. When overall productivity increases, these staffers can be rewarded in a variety of ways — most often I advise by simply increased funding on the merit raise pool.

What should a gainsharing plan emphasize?

A company must analyze its cost structure, to see where the big dollars are being spent. If a high percentage of a company's expenses is in raw materials, and a relatively low percentage is employment costs, then a gainsharing plan should aim at some measure of raw material yield, to minimize the usage of expensive raw materials. In a Kraft paper mill, for example, labor is only about ten percent of the facility's total cost. Thus, it would make little sense to aim a gainsharing plan at driving down labor as a percentage of total costs in a Kraft mill. Paper machine up-time, perhaps coupled with machine speed, would be a better indicator of efficiency.

In light bench assembly work (small transformers and other electrical components manufacturing), labor is an important cost — often as high as 40 percent of total cost. In such a factory, productivity per man hour less scrap and rework costs would be good measures for a gainsharing plan. In a producer of sintered metal parts, labor was about 25 percent of total costs, and raw materials (cost of iron and copper powder, and other powdered metal additives) were another 25 percent. In this plant, we designed a two-factor gainsharing plan. Labor efficiency, measured in good pounds per man hour, was an excellent indicator of productivity. The ratio of pounds of finished product, compared to starting pounds of raw powder, was a good measure of yield levels. The two factors were weighted equally, due to the costs. In all of these cases, the measurers were easily understood by employees, who realized their efforts would have a strong impact on the results desired.

Simplicity is the Key

What is critical about the formula from which improvement is measured, and possible payoffs generated?

The most important element of any gainsharing formula is simplicity. Employees and their elected representatives (if any) must be able to readily understand how the gainsharing bonus system works, the impact their efforts have upon it, and what they must collectively do to earn a bonus. If the plan is complex, or its explanation muddled, then it is doomed to failure.

Suppose a company did not have a great deal of detailed data on past productivity or quality. How can it install gainsharing in such a situation?

A company may have poor quality and productivity records. Nonetheless, some overall measures of output must exist, as well as records of the number of employees working, their hours, and payroll dollars disbursed. No matter how poor the records, a company can calculate what percentage of its costs go to blue collar or white collar workers, for purchased supplies, for energy use and for raw materials.

For example, one leading maker of welding torch tips recorded only the number of copper blanks cut from bar stock at the beginning of tip manufacture, and the number of good tips okayed at final inspection. No record was kept of productivity or rejects in any of the five production departments through which

Scanlon Plan Base Ratio

$$\frac{\text{Sales dollars less returned goods} \pm \text{Inventory changes}}{\text{Cost of work and non-work time paid} + \text{pension} + \text{insurance}}$$

Rucker Plan Base Ratio

$$\frac{\text{Cost of all wages, benefits}}{\text{Sales dollar value of product} - \text{goods returned} - \text{supplies, services, materials}}$$

Jackson Plan Base Ratio

$$\frac{\text{Cost of all wages (+ benefits, sometimes)}}{\text{Total costs of good product (less scrap)}}$$

ImproShare® Plan Base Formula

$$\frac{\text{Standard value hours earned (current period)} \times \frac{\text{Total actual hours worked (base period)}}{\text{Total standard value hours earned (base period)}}}{\text{Total hours worked (current period)}}$$

Figure 1.

the tips flowed, as they were machined, swaged, drilled, etc. Nonetheless, there were records of the types and number of torch tips started and finished, the number of employees and their hours worked, and their pay. Once analyzed (a process which uncovered the embarrassing fact that rejects were far higher than management had ever realized) these records were enough for a simple, productivity-based gainsharing program, which generated across-the-board, cents-per-hour bonuses for employees, for higher outputs of good torch tips. Subsequent refinements enable the company to identify those departments in which productivity was low, and those departments with excessive scrap rates, for special remedial efforts.

What are the common types of gainsharing plans?

Several generic types of gainsharing programs are used, most frequently with modifications to tailor them to a specific company's needs. One such plan is called the Scanlon Plan, first devised in the 1930s.⁴ (See Figure 1.) This rewards employees for their improved productivity, defined as an improvement in the ratio of payroll and benefit dollars to sales volume dollars. Thus, if the sales dollars grow while payroll dollars remain the same, this usually means an improvement in productivity (or a price increase of the product). Savings under a Scanlon Plan are usually divided 75 percent for the employees, and 25 percent for the company. A Scanlon Plan is aimed solely at controlling labor costs. If labor costs are relatively low in a company, like a paper mill, a Scanlon Plan will not be particularly effective.

What other plans are there?

Another common plan is the Rucker Plan, which has been used since World War II. Under this plan, bonuses are paid according to the value added in the production process, compared to total labor costs. This includes savings generated by improved employee productivity as well as a more efficient use of purchased materials and services.⁵ Often, the split on this plan is 50/50 between the company and the employee. In both cases — Scanlon and the Rucker plans — rewards are calculated on the company sales. To install a Rucker or Scanlon plan, a company needs to reveal its sales figures to its employees, something some companies do not wish to do, for fear that

the information will leak to competitors who will profit by that knowledge.

Are there other types of plans?

A third type is known as the ImproShare® plan. This plan, devised by Mitchell Fein about 30 years ago, calls for bonuses based solely on improved employee productivity. It is the sole generic plan that measures only changes in employee productivity and I believe it is probably the best engineered of all the gainsharing plans. Under ImproShare, bonuses are based solely on current employee output measured by total hours worked, compared to a similar period and output in the past. Bonuses are not affected by changes in the market prices of a company's products.⁶ ImproShare usually requires extensive work by industrial engineers and detailed productivity data in order to ensure that the information used in the plan is correct. In some cases, companies simply do not have this information.

Why reinvent the wheel? Why not take my neighbor's gainsharing plan, and install it in my company?

It is a cardinal error to assume that a standard, one-size-fits-all gainsharing plan can be taken from a book, or borrowed from one company, and made to work in another company. Each organization has a unique history, culture, and set of procedures, upon which its operating and policies are based. Each organization has executives with their own biases and management styles. Thus, even two metal fabricators pro-

1988 Base (From Previous Year = 28.1)							
Month	Man Hours Worked	Tons Produced	Scrap	Good Tons Produced	Man Hours Per Good Ton	Gain Over Base	Employee Share (50% of Gain)
Jan	20800	807	113	694	29.97	(6.6)	(3.3%)
Feb.	21070	833	112	721	30.1	(7.1)	(3.55%)
Mar.	24760	1012	107	905	27.36	2.6%	1.3%
April	21600	906	82	824	26.21	6.7%	3.35%
May	22300	945	119	826	27.0	3.9%	1.95%
June	23152	1056	111	945	24.5	12.8%	6.4%
July	19803	810	105	705	28.1		
Aug.	24106	1007	109	898	26.84	4.5%	2.25%
Sept.	22301	938	84	854	26.11	7.1%	3.35%
Oct.	21860	1058	94	964	22.68	19.3%	9.65%
Nov.	21300	963	77	886	24.00	14.6%	7.3%
Dec.	21862	989	106	883	24.76	11.9%	5.95%
Yearly Average:					26.47	5.81%	2.91%

1992 Base = 25.01							
Ratchet formula: $25.57 - 24.46 = 1.11$ divided by 2 = .56; $25.57 - .56 = 25.01$							
Month	Man Hours Worked	Tons Produced	Scrap	Good Tons Produced	Man Hours Per Good Ton	Gain Over Base	Employee Share (50% of Gain)
Jan.	23156	1157	144	1013	22.86	8.6%	4.3%
Feb.	19651	1016	192	824	23.85	4.6%	2.3%
Mar.	22940	1184	176	1008	22.76	9%	4.5%
April	21652	1023	196	827	26.18	(4.7%)	(2.35%)
May	20616	1114	203	911	22.6	9.6%	4.8%
June	22843	1209	143	1066	21.43	14.3%	7.15%
July	23016	1256	121	1135	20.28	18.9%	9.45%
Aug.	21356	1087	95	992	21.53	13.9%	6.95%
Sept.	21370	961	87	874	24.45	2.2%	1.1%
Oct.	23418	1135	137	998	23.46	6.2%	3.1%
Nov.	19466	914	96	818	23.8	4.8%	2.4%
Dec.	21962	1106	142	964	22.78	8.9%	4.45%
Yearly Average:					23.0	8.03%	4.02%

Figure 2. Excerpted from a five-year study history of gainsharing at a midwest gray and ductile iron foundry. Full history available from author.

ducing similar products may want different gainsharing plans. What works in a hospital will not work in a steel mill. Or in a gold mine, a gray iron foundry, or an insurance company.

A gainsharing plan must be tailored to the unique needs of each company. It is not as complicated as it may seem, but it is necessary.

What steps are needed in this tailoring process?

First, be clear on why your company is interested in a gainsharing plan. That helps decide whom to

include in the plan — just the hourly employees from the factory, or some combination of hourly and salaried employees. Second, you will need reasonably accurate information about the company's cost structure to know what should be measured in the plan. (Confidential financial figures usually aren't necessary.) In a commercial metal parts heat-treating operation, utilities (gas and electricity for the furnaces) are an important cost, and no doubt would be considered as a factor in a gainsharing program. The cost of raw materials (gold, silver and other precious metals) is very high at a jewelry maker, and would be taken into account in a gainsharing plan. In either of these cases, there is no need to reveal executive salaries or company profitability, items that are especially sensitive in privately held or family companies. Third, spend time reviewing the data before designing a formula for measuring improvements over a historic base. Fourth, determine the employee relations environment within the company. Consider management's credibility among employees, to ascertain whether a gainsharing plan has an immediate chance of acceptance, or if some remedial work is first required.⁷

If employees earn a bonus, how should it be split among them?

There are two ways this is usually done. Some companies base the payout as a percentage of the employee salaries. Say there was \$5000 to be shared and the \$5000 was five percent of the payroll for the period in question. If that were the case, each employee would then receive a five percent bonus, based on his or her salary. This is done most frequently in non-union companies.

Other companies divide the dollar gain by the total hours worked by plan employees, and arrive at a cents-per-hour figure, say 40 cents per hour. (\$5000/12,500 hours worked = \$0.40 an hour.) Then, all employees in the gainsharing plan would receive 40 cents an hour bonus, for each hour worked in the period. This method is more prevalent in unionized companies.

You emphasize hours worked. Why?

The theory of gainsharing is to reward employees for their on-the-job efforts. If the employees are not on the job, where's the effort? Thus, most plans do not reward employees for paid time not worked. Employees

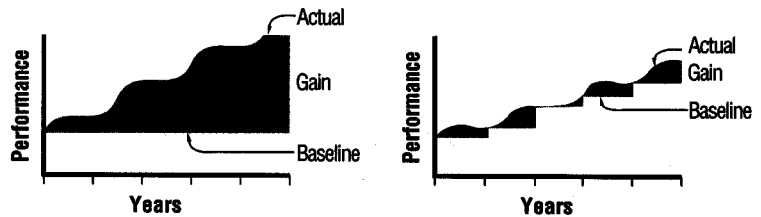


Figure 3.

on vacation, jury duty, or gone due to casual absenteeism, would not be paid for the time they were not actually working.

How often should bonuses be paid?

The period over which improved efficiency should be measured varies, depending upon the fluctuation of what is being measured. Payouts are sometimes made on a monthly basis, which means 12 potential payouts a year. Other companies pay on a bi-monthly or quarterly basis. I rarely recommend a payout period shorter than one month or longer than three months.

How should the bonus be paid?

In all cases the bonus payout should be made by a separate check. The separate check emphasizes that there is a direct payment — a specific payout — to employees for their efforts to improve results. Lumping this payment into the usual ordinary paycheck reduces the impact.

Once set, can the historic base from which improvements are measured be changed?

Sure! Often a gainsharing plan provides that when employee performance rises and stays at a high level for a long period of time, the historic base can be “bought out” and raised. The company raises the historic productivity rate, from which potential bonuses are measured, and pays employees a one-time buy-out bonus, for the right to raise the historic base. I have found this method of raising the base sometimes causes employees’ discontent. It smacks too much of individual incentive rate plans, wherein a high producer’s rate is “restudied,” and arbitrarily raised, thus cutting the individual’s earnings opportunities. Technically, a buy-out is somewhat different than “restudying” and tightening the individual rate of a “rate-buster.” In operation, employees view both the same.

Are there more acceptable ways to raise the historic base?

Yes. Other companies integrate their gainsharing plans with their continuous improvement programs. The gains made in one year of a gainsharing plan become the base from which continuous improvement and potential rewards are measured, for the next year of the plan. (See Figure 2.) One Midwestern maker of metal stampings measured productivity as good pounds produced per man hour worked. Starting in

1989, the plan used actual 1988 production — 84 pounds per man hour worked — as a base, with a 50 percent ratchet. This meant 50 percent of each year’s improvement would be added into the subsequent year’s base.

Following is a record of the last four years of the plan’s operation:

Year	Year Base	Lbs. Actually Achieved	Actual Increase in Lbs.	50% of In-crease	Next Year’s
1989	84 lbs	89 lbs	5 lbs	2.5 lbs	86.5
1990	86.5 lbs	91 lbs	4.5 lbs	2.25 lbs	88.75
1991	88.75 lbs	94.5 lbs	5.75 lbs	2.88 lbs	91.63
1992	91.6 lbs	98.5 lbs	6.87 lbs	3.44 lbs	95.1
1993	95.1 lbs				

Annual increases in the productivity base are called “ratcheting the base.” (See Figure 3.) This concept fits quite well philosophically with continuous improvement programs. Also, virtually all gainsharing plans allow a company to raise the base following installation of new equipment designed to improve productivity, after changes in government regulations, such as environmental procedures, etc.

No Upper Limit

Are you saying that unlike individual incentives, a gainsharing plan has no upper limit?

It depends how the plan is designed. No upper limit or cap is needed, if the base is ratcheted. This year’s large bonuses, based on present high productivity, will be automatically reduced when the base is ratcheted next year. Properly explained, ratcheting avoids the ill-will caused by a “buy out” provision.

If a gainsharing plan has no upper limit, will employees be able to make a sky-high bonus?

Possibly. But before executives worry about wind-fall bonuses for employees, they must remember that in a properly designed gainsharing program, the company will profit just as much as the employees. What’s the matter with that?

If we are so interested in individual efforts, why not stick with a piece rate — the individual incentive plan?

Most companies with individual incentive rates can attest to their problems. One problem is that poor quality often results. A second defect of the piece rate system is if an employee discovers a better method of increasing his productivity, he tries to keep it a secret from his co-workers and the company, because he is interested in improving his own earnings. He knows that if he mentions his method changes, his incentive rate will be restudied, and his earnings opportunities cut. A third defect is that the piece rate system pits individual employees against each other in their efforts to beat the rates.

Our company has a piece rate system. Can we terminate it and start a gainsharing plan?

It may be difficult to end an individual incentive plan, especially in a union environment. Some companies install a gainsharing plan on top of individual incentives. Others cap individual incentives, and, in increments over time, allow the gainsharing bonuses to become the greater part of their employees' variable earnings. It is simpler — and probably better — to do away with an individual incentive plan, if possible, and replace it with a gainsharing plan, than combining the two.⁸ But sometimes, achieving the ideal is impossible in a given situation.

What about a union? Where does it fit in?

Many unionized companies have gainsharing plans, including Amcast Industrial Corp., Bell & Howell, Champion Container, Cincinnati Milacron, Dana Corp., Eaton Corp., Huffy Corp., Kroger Co., Mead Corp., Prestolite, Rexnord, Timken, TRW, Webster Electric, Whirlpool Corp., and Wrought Washer Manufacturing Corp. Most unions want guaranteed raises, not increases based upon future performance. But when faced with the possibility of increased earnings, most unions will accept gainsharing. Union reaction varies — I have found those most amenable to gainsharing are the Steelworkers, Auto Workers, Allied Industrial Workers, and Amalgamated Clothing and Textile Workers.⁹

How do you approach a union about gainsharing?

It is probably best to form a committee, on which local union officers are members. At that time, manage-

ment may invite an outside expert to review the concept of gainsharing with them, give examples of successful programs in other unionized companies, and use the committee's input to help develop your own plan. This works better than negotiating a plan over the barrier of the bargaining table. Using an outsider to develop the plan improves management credibility, and makes it easier to "sell" the plan to the rank-and-file.

Once a gainsharing starts, what are the typical activities?

The key activity is an ongoing series of weekly or bi-monthly short employee meetings. During those meetings, employees are told how they performed in the last week or two, in the same terms by which performance is measured under the gainsharing plan. Then employees are asked for ideas or ways to improve that performance. Most importantly, their suggestions are carefully reviewed, and implemented, if possible. These short employee meetings continue as long as a gainsharing plan is in operation. For these meetings to be effective, supervisors conducting them must be trained to encourage and elicit new ideas from employees. If management credibility is good, employees will be confident that their ideas will be taken seriously; and that worthwhile ones will be implemented.

What other activities might be undertaken under a gainsharing plan?

Depending upon the complexity of a problem that is raised, inter-departmental taskforces may be formed, or ad hoc study groups may be named, to tackle specific issues.

You've spent a lot of time discussing industrial engineering, historic base formulas, and how payoff bonuses are calculated. What about the human side of the organization? What's important there?

Unfortunately, most executives concentrate on the "industrial engineering" aspects of a gainsharing plan — how the improvement formula is to be designed, and similar "tangible" items that can be reduced to simple calculations. The intangible human side of the organization often receives short shrift. My experience is that management credibility is of paramount importance on the human side. In gainsharing, employees are asked to trust management and management's word that future bonuses will be paid to employees

based on the group productivity. If management does not have a record of listening to employees suggestions in some manner — and then doing something about them — why should employees believe that management has suddenly gotten religion?

Are there other important employee relations issues?

Yes, supervisors must be taught their special roles under a gainsharing plan. Rather than expecting that their orders will be carried out just because they are supervisors, they must learn to lead by persuasion and example, rather than by driving their workers. This transition can be eased greatly by special supervisory training, emphasizing communications and problem solving skills. It is also eased when senior management starts programs to tap the product and technical knowledge that first-line supervisors have developed during their many years of service. Once supervisors are fairly comfortable with this sort of practice and see that it helps them, it is a lot easier to ask them to engage in the similar practices with their subordinates.

Success Rate

How successful are gainsharing plans?

About 35 percent of all gainsharing plans are successful. A successful gainsharing plan will motivate employees to improve their performance (however measured under the plan) by about 17 to 22 percent annually, year after year. A 19 percent improvement is a good estimate of what management should expect from the plan.

You mentioned that only about 35 percent of companies with gainsharing were successful.

What about the rest that were not successful?

In 1989, we conducted a study for the American Management Association of some 80 gainsharing plans; of these, about two-thirds were not successful.¹⁰ Having interviewed employees, managers, and executives, I came to the conclusion that there are four reasons why some gainsharing plans were not successful.

What are the four reasons for failure?

The first reason for failure is that the plan may have been presented to the employee in an overly optimistic manner. If employees are "oversold," and believe from the beginning that a gainsharing plan virtually guarantees an automatic bonus, the workforce will quickly become disenchanted when no bonus

is earned. That's when the plan fails. Employees believe they were purposely misled, and will no longer exert the extra effort needed. However, if employees have a full understanding of what is actually required to earn a bonus, then the plan has a better chance of success. Explanations to the employees of a gainsharing plan, how it works, and what they must do to earn a bonus takes more than one brief session. Careful presentations are needed, to small employee groups, with enough time for questions and answers.

That's one. What are the other reasons gainsharing plans fail?

A second reason why gainsharing fails is that senior executives misunderstand their roles under the plan. Executives must enthusiastically support changes and become "chief cheerleaders." If they merely pay lip service to the plan and say in essence to the gainsharing expert, "You install the gainsharing plan and don't bother us. Let us continue to run the business as usual," that guarantees failure. Executives with a successful plan realize it is one of the key compensation/ motivation policies that drives the organization, by altering employee behavior to create a more effective organization. When employees generate new ideas, executives must enthusiastically and resolutely insist that prompt, energetic action be taken on all reasonable suggestions for improvement. If executives will not take the trouble to praise new ideas, or are not willing to be "chief cheerleaders," they shouldn't start the plan in the first place.

A third reason gainsharing plans fail is that mid-managers may not understand their new roles. They can no longer sit in their offices, shuffling papers. They need to be on the plant floor, serving as "internal consultants" to employees trying to develop new problem-solving ideas. Just like the supervisors, mid-managers need to learn the art of generating employee cooperation and of eliciting employee suggestions. This new behavior often requires some expert training. That is not difficult, if the managers' desire to change is there. If senior management supports the training efforts and sends proper signals to mid-management to alter its management style, then most mid-managers will make the transition successfully. I have found in successful plans that top executives actively encouraged their managers to change, and in turn managers then encouraged supervisors to solicit

employee suggestions. That's all it takes!

What's the last reason gainsharing plans fail?

Finally, some gainsharing plans fail because the formula by which the gains were to be measured was wrong. Reasonable care has to be taken to define what should be measured, and to make sure it is relevant to the company's long-term objectives.

Any overall comments about the failures?

Most of the failed gainsharing plans crashed not for any single reason, but due to a combination of the four already cited. In most cases, the failure was caused by a management which prematurely tried to undertake the project all by itself, after attending a one-day seminar or reading a book about gainsharing.¹¹

All of this sounds like a lot of effort, doesn't it?

For executives who want easy solutions like one minute management, New Age gurus, fairy wands, and other magical approaches to difficult problems, gainsharing is probably too much trouble. For those executives who believe that a key to their organization's success is designing a system that concentrates employee efforts and energies towards identifying and solving internal problems, then gainsharing will pay off handsomely. Productivity and quality increase an average of 19 percent annually in successful gainsharing plans.¹²

Should our company bother with a gainsharing plan?

If you have a commanding share of its market, your margins are fatter than your competitors, here or abroad; if you have an abundance of new products being rapidly developed; and if your employees (and managers) are cooperating with each other (and you) to meet overall company goals rather than clashing over departmental objectives, there probably isn't much reason to install a gainsharing plan. But, if the competition is giving you trouble, if your margins are slipping and your costs are higher than industry averages, and if you sense a growing unrest in your workforce, then generating employee cooperation to meet your overall goals is an important problem. And a gainsharing plan might just be the solution to your problem.

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