

# How To Make Gainsharing Pay Off

Giving employees a stake in the company has taken hold in many firms that are trying to increase productivity.

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By JAMES E. HAMERSTONE

**R**ecent corporate interest in gainsharing—programs that strive to increase productivity by giving workers a stake in a company's financial well-being—has been heightened by two basic truths:

■ The competitiveness of any business soon will hinge largely on productivity increases.

■ Significant productivity increases will only be obtained if all employees cooperate more fully.

As a result, about one out of four manufacturing companies today has some sort of gainsharing or bonus program. Among larger companies, the ratio is even higher. A recent Conference Board survey of 504 large companies reveals that 199 firms had gainsharing programs for hourly workers. Another 191 firms said they were studying the matter.

Indeed, gainsharing is becoming so popular that some company managements seem to be embracing it the way a child does a new doll at Christmas. To them, gainsharing magically promises "the answer to all our problems." But gainsharing is by no means a cure-all. Starting a gainsharing program involves overcoming daunting organizational and psychological barriers. Indeed, the management that in desperation adopts gainsharing at old Union Consolidated Buggywhips Inc.

often finds that conditions there don't improve but in fact get *worse*.

About 20 of my company's units now use gainsharing programs in their diverse businesses—electronics, defense, information, automotive, and energy. In all we've had our share of successes and, yes, a few horror stories. What follows are some of the lessons we've learned that may be instructive in starting or improving your own gainsharing programs.

## Culture considerations

Before even thinking about installing a gainsharing program, make sure you thoroughly understand your organization's culture. If your organization has no tradition of employee participation—a tradition of spreading authority to all levels of employees—then gainsharing, alas, probably will fail. The transition to gainsharing will be too traumatically abrupt.

In the end, gainsharing must be part of a broader organizational commitment to cultivating employee participation. We've found that when gainsharing has been installed out of context—that is, as a solitary system at units with no employee participation tradition—it hasn't been very successful.

Conversely, if your organization has encouraged employee participation over the years, gainsharing can reinforce that practice. It's an interesting human relations phenomenon that companies seem to progress logically from employee involvement to gainsharing.

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## Management attitude

Train your managers to discard old adversarial attitudes toward workers. It's easy for managers to *say* they will accept workers as teammates (in the great tradition of Perry Mason and Della Street, Bill Russell and Bob Cousy, and Merrill Lynch and Pierce Fenner & Smith). But the *reality* may not match those good intentions, to put it mildly. Attitude changes are radical changes. To bring about alterations of that magnitude, you may find it prudent to hire an outside consultant to help managers—and workers—adjust.

Just consider the fearsome task of dealing with the typical organizational structure. Organizations are still structured along old military or ecclesiastical lines that tend to inhibit team problem solving and initiative at lower levels. Gainsharing represents an enormous departure from those kinds of hierarchical structures. Both managers and workers must realize that gainsharing will sorely test their adaptability and resiliency. We're talking about nothing less than transcending centuries of organizational behavior and values.

Indeed if gainsharing is to work, managers must give up some power and workers must accept some responsibility for the business. But managers have spent their entire lives acquiring authority and understandably are reluctant to give it up. And many workers find familiar comfort in sitting on the outside and throwing darts rather than thinking like partners in the business, which is what gainsharing encourages them to do.

## Educate workers

Tell workers as specifically as possible how they can affect their gainsharing bonuses. Consider publishing a booklet that details the bonus-enhancing contributions workers can make, such as reducing the amount of scrap, meeting schedules, minimizing absenteeism, improving production methods, taking better care of tools and machines, conserving supplies, and so forth.

## When to begin

If possible, start gainsharing programs when the business cycle is rising, not falling. It's important to a gainsharing program's credibility to yield bonuses during the first few months. Evidence of the program's benefits during good times obviously will help make it easier to sustain workers' support for the program when times aren't so good.

## Tailor it

Customize your gainsharing program to your workers' particular needs. In gainsharing, a standardized plan—or as one of our plant managers calls it, a "paint-by-numbers approach"—probably won't work as well as something custom-made. If their needs aren't taken into account, workers will feel—rightly—that they don't truly have a voice in decision making and that the whole program is nothing but a sham.

## Other options

Explore various gainsharing alternatives. Each gainsharing program has different measurements and motivational techniques, some of which won't be suited to your organization.

For example, in addition to various piecework arrangements, there are Improshare<sup>®</sup> plans, which measure gains in physical productivity; Scanlon plans, which measure labor cost savings; Rucker plans, which track value-added performance; and straight cash or deferred profit-sharing plans. Various hybrid plans also exist. You want the one that will yield the most desirable benefits for your organization.

## Haste makes waste

The time you spend preparing for gainsharing will be the most crucial. This is the time to take such steps as

- conducting a communications audit so that you can do the best possible job of selling workers on the program and, later, informing them about your organization's business conditions;
- training salaried employees in participative management skills;
- establishing labor-management productivity and standards committees to suggest ways of improving productivity and monitor the program;
- brainstorming potential weaknesses in the program and potential corrective actions.

## Communicate

Plan on sharing more information with workers. Because gainsharing almost naturally breeds greater involvement on everyone's part, workers take added interest in what's happening. Good face-to-face communication not only lets everyone know what's happening but helps point everyone in the same direction and generate a feeling of "we're all in this together."

Let me say—before you do—that, yes, communication does take a lot of manage-

ment time. It is sometimes a nuisance. It doesn't work perfectly. And it does produce a lot of flak.

But at the same time it can result in an uncommonly informed, aware, and eager workforce. And besides, you can even use flak constructively; the upshot of many an employee suggestion or criticism can be to improve something you otherwise wouldn't have known needed improvement.

A key point: You should continually point out (especially in cases where workers are accepting wage cuts or freezes) how gainsharing is specifically helping improve the organization's competitiveness. Keep stressing how their compensation is being tied to the organization's performance rather than to the traditional arbitrary external factors, such as increases in the Consumer Price Index. To do that, you must document your case with the facts.

## Employee concerns

Once the program is up and running, don't underestimate the perceptiveness of your workers about how gainsharing benefits their employment security. In a recession, as profits begin to slump workers will brace for the inevitable layoffs. But they will discover that the organization, with declining profits reducing bonuses and wage expenses, can now hold onto workers longer.

Workers don't have to be Milton Friedman to know from past experience that if business slumps 10 percent, management often automatically reduces its payroll 10 percent. But the flexible compensation made possible by gainsharing can now offer an alternative. To be sure, there's lots of morale value in that alternative, in a weekly paycheck over layoffs.

## Thinking for today

In sum, few human relations managers previously would let themselves think about programs such as gainsharing that reward workers for performance. But the old ways of thinking are often no longer relevant to today's more competitive global marketplace. Today we can hardly afford to overlook any possibility for strengthening our organizations' competitiveness. Among other things, gainsharing programs can help our organizations more rationally manage payroll expenses, increase productivity, and foster greater labor-management cooperation. □