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### ABSTRACT

This article presents a brief overview of gainsharing. It covers benefits, management style and the effects of situational conditions. The use of profit sharing and stock ownership is considered.

## GAINSHARING

By Edward E. Lawler III

Gainsharing has been around for at least 40 years. It has been successfully applied by hundreds of organizations. Employees and companies have both profited from gainsharing; companies in the form of reduced costs and employees in bonus checks. The original and best-known gainsharing plan is the Scanlon Plan. Other gainsharing plans include Improshare and the Rucker Plan. In addition to these plans many companies have their own gainsharing plans which are custom-designed to fit their organizations.

In the typical gainsharing plan, financial gains in organizational performance are shared on a formula basis with all the employees. A historical base period is established and it is used as a basis for determining whether gains have occurred; hence the name "gainsharing." Typically only controllable costs are measured for the purpose of computing the gain. Unless a major organizational change takes place, the historical base stays the same during the entire history of the plan; thus, performance is always compared to the time period before starting the gainsharing plan.

No one has an accurate estimate of how many gainsharing plans there are in the United States. There certainly are at least a thousand and there seems to be little doubt that their popularity has increased tremendously in the last ten years. The White House Conference on Productivity, the GAO, and the President's Task Force on Industrial Competitiveness have all recently endorsed gainsharing. Until recently, gainsharing was used primarily in small manufacturing organizations.

Much has been written about the success of gainsharing in Herman Miller, Lincoln Electric and Donnelly Mirrors. All three of these plans are over thirty years old. During the 1970s, an interesting and important trend developed. Large companies such as General Electric, TRW, Dana, and Owens-Illinois began installing gainsharing plans in some of their manufacturing plants. The tendency of large corporations to define organizational units which have their own gainsharing is spreading and is resulting in the adoption of many more gainsharing plans. Dana and Motorola, for example, now have virtually all of their manufacturing employees covered by gainsharing.

The increased popularity of gainsharing is significant, and relates to an important feature of most gainsharing plans. They are more than just pay incentive plans; they are a way of managing and an organization development technology. They are a participative approach to management and are often used as a way to install participative management.

#### The Participative System

From the beginning, Joe Scanlon, the creator of the Scanlon Plan, emphasized that gainsharing fits a participative management style. In many cases, participative systems are needed in order for the plan to work, and in all cases, they are needed in order for the potential of the plan to be realized. In the absence of a change in employee behavior, there is no reason to expect a payout from the kind of formula which is typically developed in gainsharing plans. A payout requires an improvement in performance, and that improvement requires more effective behavior on the part of employees.

Some improvement may be gained simply from the motivation that is tapped through tying pay to performance. This is particularly true in

situations where the work is not highly skilled or interdependent and, as a result, effort is directly related to performance. In other situations, however, there are several reasons why a gainsharing plan without a participative system does not produce an appreciable improvement in performance.

First, the motivational impact of the plan may not be large because most gainsharing plans aggregate a number of people together. As a result, there is only a small increment in the perceived relationship between individual performance and pay. In addition, simple effort and good intentions are not enough to improve the operating results. What is needed is a combination of people working harder, working more effectively together, sharing their ideas, and working smarter. In order for this to happen, it often takes a formal participative system that captures the willingness of people to offer their ideas and to participate, and turns this willingness into actual changes in the operating procedures of an organization. In the absence of some procedures or systems to accomplish these changes, they rarely seem to occur.

In many traditional gainsharing plans such as the Scanlon plan, the key to the participative system is a formal suggestion system with written suggestions and shop-floor committees to review the suggestions. Often, there is also a higher-level review committee that looks over those recommendations that involve several parts of the organization. This system of committees is one way of trying to assure that new ideas will be seriously considered and, where appropriate, implemented. Recently some companies such as TRW, have combined gainsharing with highly participative management practices to produce an approach which

is best called high involvement management. In this approach employees make most of the operating decisions and get rewarded for their organization's effectiveness through the gainsharing plan.

### Research Results

The most important thing known about gainsharing plans is that they work. Table 1 lists some of the common results that have been found in research studies of gainsharing plans. As can be seen, they typically produce a number of positive results and in fact, research supporting this point has been around for quite a few years. We know somewhat less about the frequency with which they work, but even here, there is evidence to suggest that they work in a relatively high percentage of the cases (about 70%).

Quite a bit is also known about how to structure gainsharing plans. There are a number of books and articles which describe in some detail how to put together formulas, how to introduce plans, and how to manage the process side of things. As a result, there is quite a bit of "how-to-do-it" knowledge. This is particularly true with respect to the Scanlon Plan and the Improshare Plan. Indeed, careful reading of the literature on these plans can make it possible for the skilled practitioner to develop and install a plan without the help of a consultant (most plans, however, are installed by consultants).

Certain situational factors favor gainsharing plans. They include:

1. Organization size. The plan is based on employees seeing a relationship between what they do and their pay. As organizations get larger, this is harder to accomplish. Most successful gainsharing plans have less than 500 employees.

TABLE 1  
RESULTS OF GAINSHARING

1. Coordination, teamwork, and sharing of knowledge are enhanced at lower levels.
2. Social needs are recognized via participation and mutually reinforcing group behavior.
3. Attention is focused on cost savings, not just quantity of production.
4. Acceptance of change due to technology, market, and new methods is greater because higher efficiency leads to bonuses.
5. Attitudinal change occurs among workers, and they demand more efficient management and better planning.
6. Workers try to reduce overtime; to work smarter, not harder or faster.
7. Workers produce ideas as well as effort.
8. When unions are present, more flexible administration of union-management relations occurs.
9. When unions support the plan, they are strengthened because a better work situation and higher pay result.
10. Unorganized locations tend to remain nonunion.

2. Performance measurement. In some organizations, good performance measures and reasonable performance history simply do not exist and cannot be established. This is often true in organizations where rapid technological and market changes occur. When this is true, gainsharing is difficult.
3. Measurement complexity. Often performance can be measured only in very complex ways. The truer this is, the more difficult it is to make a plan work, because there is no clear, easily understood connection between an individual's behavior and rewards.
4. Worker characteristics. Gainsharing depends on workers wanting to participate and wanting to earn more money. Admittedly, most workers have these goals, but certainly not all do. Unless a substantial majority of the employees wants the benefits the plan offers, there is no way it can succeed.
5. Communication. For gainsharing to work, employees must understand and trust it enough to believe that their pay will increase if they perform better. For this belief to occur, a great deal of open communication and education is needed.
6. Management attitudes. Unless managers are favorable to the idea of participation, gainsharing will not fit the management style of the organization. In some organizations, the plan has been tried simply as a pay incentive plan without regard to the management style, and it has failed because of a poor fit.
7. Gainsharing changes the roles of supervisors. They are forced to deal with many suggestions, and their competence is tested and questioned in new ways. Unless supervisors are prepared for and accept these changes, the plan can fail. This point goes along

with the general point that management must be prepared to manage in a different way.

Traditionally, the installation of gainsharing plans was limited to manufacturing situations. Recently, some service organizations such as banks and hospitals have begun to experiment with gainsharing plans. A good guess is that over the next five to ten years there will be increased use of gainsharing plans in nonmanufacturing situations. Although a great deal remains to be learned about how such plans should be installed in nonmanufacturing environments, gainsharing is one approach for linking pay to performance that fits the conditions which exist in today's work places.

#### Profit Sharing and Stock Ownership.

Profit sharing and employee stock ownership are better known, older, and more widely practiced than gainsharing. Some definitions of gainsharing even include them as forms of gainsharing. However, they are different in two respects. They often do not have a participative management component and they do not use formulas which measure increases in employee controlled financial performance. By themselves, they are typically less effective than gainsharing. This is particularly true in large organizations where the line of sight from individual performance to corporate performance is poor and the connection between individual performance and stock price is virtually nonexistent. Thus, in large organizations, these approaches are desirable primarily because of their symbolic value.

They effectively point out to everyone that they are part of one organization and that joint effort is needed. Stock ownership in particular can serve to emphasize the importance of long-term organizational performance. In very small organizations, they may make

gainsharing plans unnecessary because they have the same effect as gainsharing. In most organizations, however, they should be thought of as supplements to gainsharing which are important symbolically and as balancers.

### Conclusion

Gainsharing, profitsharing, and stock ownership, are ways of getting people involved in the organizations they work for. Approaches such as quality circles, self-managing work teams, and job enrichment can also do this as well, but in the absence of any relationship between the success of the organization and the pay of individuals, an important part of the business experience is missing for the individual. Everything that is known about motivation clearly points out the motivation is greatest when people have both a psychological and financial stake in the organization's success. Riddling organizations with pay-for-performance plans like gainsharing, represents a way to produce this for a significant number of employees. Thus, there is every reason to believe gainsharing will continue to increase in popularity. Indeed, it is surprising that it has taken so long for it to become popular given its fit with the American society's beliefs in participation and capitalism.