

# Gainsharing... Partnering with Employees to Create Performance Gains



## What is Gainsharing?

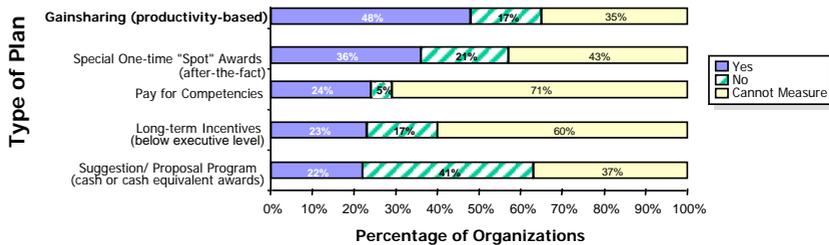
The term *gainsharing* means different things to different people. Tandehill defines gainsharing as "a commitment to employee involvement that ties additional pay to gains in workforce performance." Any program that: 1) encourages employees to be more involved in the business (especially hourly/nonexempt employees), and 2) ties additional pay to the improved business results generated from that involvement... is gainsharing. Typical characteristics of gainsharing include the following:

- ↳ self-funded
- ↳ measurement period is monthly or quarterly
- ↳ performance is measured across units/functions
- ↳ supports a process improvement initiative
- ↳ employees share equally in the gains
- ↳ no payout cap.

## Why do organizations implement gainsharing?

Companies implement gainsharing because it is a proven approach for motivating employee-driven process improvement. According to recent research, companies consider gainsharing to be more effective at improving performance than other types of programs (see chart below). What's more, our research shows that it is the most widely accepted type of variable pay program, with a 76% acceptance level.

Has Program Helped to Improve Performance?



Source: 297 organizations surveyed at the 1997 Tandehill Compensation Conference.

According to a study of 663 programs conducted by World at Work/CARS, companies reported average annual gains per employee of \$2,200. Of this amount, \$900 per employee was paid out. While these numbers represent industry averages, Tandehill has worked with companies whose gainsharing plans have paid each employee thousands of dollars a quarter.

In addition to cost savings and productivity gains, Tandehill has implemented gainsharing to support improvements in other areas.

- At a foundry, gainsharing is attributed with reducing absenteeism, union grievances, production errors and overtime.
- At a large utility, gainsharing was introduced to energize joint labor management committees and reinvigorate an ineffective suggestion program.
- At a major telecommunications company, gainsharing helped the organization to "win back employees," by improving employee-manager working relationships.
- At a pork-processing plant, gainsharing helped improve employee retention rates by more than half.
- At a hospital, gainsharing helped motivate improvements in patient satisfaction and support a Juran quality initiative.
- At a copper cable manufacturer, gainsharing was used to support a move toward Lean Manufacturing.
- At a major retailer, gainsharing was used to focus employees on increasing customer satisfaction.
- At a federal government agency, gainsharing was used to unite employees in six cities and across three lines of business with a common purpose.

*"Gainsharing increases profitability for the company and improves the working conditions and the lives of its workers."*

John Childers  
President  
IBEW Local 2155

*"Brad Hill is teaching rank-and-file workers in tough jobs how to devise incentive plans. In the process, employees are being rewarded with things money can't buy - more dignity and a greater sense of purpose."*

Fast Company Magazine  
December, 2000



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## Frequently asked questions

### ***Which employees usually participate in gainsharing programs?***

Gainsharing participation usually starts with hourly/nonexempt employees, but ideally, all employees should participate. Because gainsharing focuses on continuous process improvement that affects the whole organization, the broader the participant population, the better.

### ***Can gainsharing be effectively applied to service organizations?***

Yes. Tandehill consultants have successfully applied gainsharing in a variety of service organizations (healthcare, government, retail, gaming, telecommunications, utilities). The key to success is not the industry, but the willingness to support a higher level of employee involvement.

### ***Does the success of gainsharing differ in union versus non-union environments?***

No. As long as the organization and the union are full partners in the process of reviewing and approving the program, there is little difference. In the end, it is a randomly selected cross-section of employees from all areas and at all levels, who design the program. Tandehill has worked successfully with many unions, including the IBEW, USWA, UAW, GMP, CWA, EAA, AFGE, IAM, and PACE.

### ***How important is "getting the formula right" to the success of a program?***

The formula is only the mechanism used to "keep score" of employee success, it doesn't create the success. The formula will determine how the plan is funded, how the funds are distributed, and how the gains are measured. More important than the formula is: 1) making certain that employees know what they can do to create gains, 2) giving employees tools to solve problems and share ideas, and 3) communicating how gains were created by employees.

### ***How are the gains from the program typically shared?***

Tandehill often recommends a formula where 25% to 35% of the gains are shared with employees in the first year. As time passes, Tandehill recommends that employees be given larger and larger percentages to recognize that gains may be more difficult to achieve in the future. Some clients have motivated their workforce by donating a portion of the gains (i.e., 10%) to charity, or placing a portion of the gains into an improvement fund, which is spent on employee-generated improvements for which the organization may not have budgeted.

### ***What is the difference between a typical gainsharing formula and a profit sharing formula?***

Profit sharing focuses employees on bottom-line results, which may include interest expense, taxes and long-term lease agreements. Gainsharing focuses employees only on factors that they have some control over (scrap, safety, quality, supply usage, units per hour, customer satisfaction, etc.).

### ***How does gainsharing provide employees with a greater sense of purpose?***

If gainsharing is to succeed, employees must not be viewed as a means to an end, but as an end in themselves. This program is aimed at changing employee behavior by providing employees with: 1) line of sight into the organization's success, 2) the tools to generate, document, prioritize, pilot and implement new ideas, 3) feedback on their progress, and 4) rewards for improvements that create successes.

### ***How long are gainsharing programs suppose to last?***

The gainsharing program is a tool to involve employees in the business, and should be in place as long as the organization recognizes the benefit of this involvement. The program should be reviewed annually to ensure that it responds to any changes in the organization's business objectives and the competitive environment.

*"Although the efforts of managers and executives were critical, the crux of the plan depended on the production-level ownership of it. not just participation."*

Mike Gaudio  
Compositor, Member of CWA  
Verizon Directory Graphics

*"Brad Hill has offered his knowledge and past experiences, but has given us the latitude to develop and be creative in our own empowerment process."*

Ed Jurenka  
Machinist  
United States Mint



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## How does Tandehill typically develop a gainsharing program?

The typical process to develop a gainsharing program involves four phases of activity. The first two phases take three to four months to complete. The third phase, implementation, is usually another month.



- |  |   |  |  |
|--|---|--|--|
| <ul style="list-style-type: none"> <li>❑ Evaluation of employee views and leadership preferences</li> <li>❑ Conclusions regarding the level and likelihood of gainsharing success</li> <li>❑ Creative gainsharing plan alternatives</li> </ul> | <ul style="list-style-type: none"> <li>❑ Employee ownership of a gainsharing program</li> <li>❑ Controllable areas identified</li> <li>❑ Involvement framework established</li> </ul> | <ul style="list-style-type: none"> <li>❑ Institutionalize improvement methodology</li> <li>❑ Communicate performance and why</li> <li>❑ Train employees on how to affect change</li> </ul> | <ul style="list-style-type: none"> <li>❑ Measure employee commitment</li> <li>❑ Ensure the plan is driving desired behaviors</li> <li>❑ Meet new/changing business objectives</li> </ul> |
|--|---|--|--|

**Phase I: Gainsharing Feasibility Study.** The feasibility effort determines the likelihood that gainsharing will create a significant behavioral change in employees, and identifies the obstacles to success. At the center of this study is a work practices survey completed by all employees. This tool will enable Tandehill to compare your organization to a normative database of companies. Differences from the norm will help determine focus group/interview content. Tandehill's thoughtful review of findings, conclusions, recommendations and plan design alternatives will enable leadership to make an informed decision on whether or not to proceed with program design.

## Phase II: Gainsharing Program Design.

Tandehill's design process will make employees the owners of the new program. A representative group of employees (12 to 24) will be randomly selected from volunteers to design the new program. Tandehill will facilitate this team through five all-day sessions, spread out over 10 weeks. The design team will develop a gainsharing formula, create a plan for communicating business results to employees, and recommend tools for getting employees more involved in process improvement. The team will then present its recommendations to leadership. Upon approval, the design team will be responsible for presenting the program to all employees.

## Phase III: Implementation and Employee Education.

The design team will introduce the program to all employees, and explain its linkage with business communications and process improvement tools. Tandehill will work with your organization to: 1) select and train process improvement team members, 2) assign accountabilities for administrative support tasks, and 3) detail processes for ongoing communications and new employee orientation to gainsharing.

## Phase IV: Continuous Improvement.

One year after the program is introduced, an audit of the strengths and weaknesses of the program will be conducted. Tandehill uses the diagnostic introduced in the Feasibility Study to assess cultural and work practice changes. Gains attributed to the program will be quantified and the program's ROI assessed. Recommendations for improvement will be made to leadership.

*"Our company has been assisting clients in installing Process Improvement Teams and gainsharing for over thirty years, and yours is the best one I have ever seen."*

Robert T. Gray  
The Center for Positive Work Environments

*"Now I have the feeling that this is my company too."*

Chris Gosmyer  
Food Safety Inspector  
Premium Standard Farms



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## Tandehill's Beliefs

There are three underlying principles that drive Tandehill's interest in bringing gainsharing to your organization.

1. We believe that employees are the most important assets of the organization and that they are a tremendous source for process and productivity improvements.
2. We believe that employees want to be more involved and connected to the business, and that only a small portion of employees' energy and creativity is tapped at work.
3. We believe that an employee's job can and should be a source of pride and personal fulfillment.

## Is your organization ready for gainsharing?

Gainsharing is a powerful tool to connect your employees to the goals of the organization. While the concept of gainsharing may be intuitively appealing, it often requires a culture shift that must have the support of leadership and the willingness of employees to tolerate "one more attempt at change."

Following is a sample of a diagnostic Tandehill uses during its Gainsharing Feasibility Study. Please take a few moments to complete the survey and reflect on your organization's readiness to embark on the gainsharing change effort.

Gainsharing Readiness - Spot Survey				
Indicate your level of agreement with each statement by circling the appropriate number on the right.				
		Agree	Neutral	Disagree
1.	Employees know how their job can impact the organization's financial results.	2	1	0
2.	Employees are adequately informed about how well the organization is performing.	2	1	0
3.	Teamwork is very important to the organization's success.	2	1	0
4.	Employee's typically have the information they need to solve problems on the job.	2	1	0
5.	Employee's are involved in the decisions that affect their area.	2	1	0
6.	Management listens to employees' ideas for improving productivity/reducing costs.	2	1	0
7.	Decisions are pushed down to the lowest level possible.	2	1	0
8.	Employees have a lot of ideas on how to improve productivity in their area.	2	1	0
9.	Supervisors/management lets employees know if they're doing a good job.	2	1	0
10.	People are held accountable for the results they produce or fail to produce.	2	1	0

Interpretation of Results	
<i>Calculate the sum of the 10 numbers you circled above. Compare your total to the four categories below to determine your organization's gainsharing readiness.</i>	
Score	Action
0-5	Organization is not ready for gainsharing. Contact Tandehill for data on COLA adjustment for next year.
6-11	Organization should not proceed without a full feasibility study. Organization must be willing to embrace significant change for gainsharing to succeed.
12-17	Organization is ripe for gainsharing success.
18-20	Organization seems to be doing quite well without gainsharing.

