

Gainsharing = Increased Efficiency at Kurdziel

By tying employee incentives directly to performance, Kurdziel Iron improved its operations while rewarding employees for their increased efforts.

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Competitors strive daily to outperform while waiting for others to stumble so they can take away customers. Their advances provide pressure and motivation to constantly strive to be better—improving product engineering, quality, manufacturing technology, marketing and sales. These improvements depend on employees, who constantly are asked to put forth their best effort.

Gainsharing offers these employees the opportunity to get something in return for that increased improvement. Commitment to a gainsharing program can reap benefits for a company including lower costs, increased productivity, and worker empowerment and satisfaction. Gainsharing creates a positive culture change and can serve as a stepping stone to staying ahead of the competition. With proper commitment and a willing workforce, any foundry can develop a gainsharing program. Read how one foundry started a gainsharing program that reversed negative attitudes and increased efficiency.

Kurdziel Iron (Kurdziel Industries, Inc.), Rothbury, Michigan, is a gray iron foundry producing counterweight castings in green sand and nobake molds from 400 to 40,000 lb. The plant employs 240 hourly workers and 60 salaried workers in three shifts. In late 1998, tensions at the plant were running high as its collective bargaining agreement was set to expire on December 1. During a nine-month negotiation period that ended in May 1999, the relationship between the union and the company declined further. The tension prompted Kurdziel to recognize that changes were needed in the plant's operations to improve its work culture and its over-

all productivity. One logical step for Kurdziel was to develop a gainsharing program. The company knew that in order to help such an endeavor succeed, it would need to generate enthusiasm for the solution and show employees that they could benefit financially.

The previous July, Kurdziel had commissioned the consulting firm Hay Associates to survey employee attitudes and morale in hopes of better understanding its workers' needs. The response rate was high, and the results of the survey revealed that:

- 95% of hourly employees agreed that teamwork is critical to success;
- 71% agreed that they would like to be more involved in the decisions that affect their work area;
- 64% agreed that employees leave the company because of the difficult nature of the work;
- 54% agreed that employees leave the company because the company

doesn't care about them;

- 30% agreed that they could do more in their present job without much more effort;
 - 26% agreed that they had seen improvement at the company during the past three years;
 - 21% agreed that management listens to their ideas for improving productivity/reducing costs.
- After reviewing the survey results and concluding its contract negotiations, Kurdziel's management team outlined a framework to implement a culture change that would cause a domino-like chain of reactions. It included:
- installing a common goal (besides dislike of the company);
 - helping employees understand how their roles fit within a larger view of the company and how difficult obtaining profitability is;
 - defining a norm of acceptable conduct higher than the current level;

- clarifying interpretations of successful behavior.

Based on this framework, Kurdziel decided that a gainsharing plan would appeal to a majority of its employees. Gainsharing offered employees the opportunity to be rewarded for improved productivity and job performance. Kurdziel's gainsharing plan would measure current performance numbers against past numbers. For example, if controllable costs per ton were below the previous year's cost for the same quarter, then employees would have performed above expectations and would share in the performance gain—compensation beyond their current base pay. These funds come from the reduction in controllable costs per ton that employees can impact, such as shop supplies used, maintenance hours and tool costs. The pro-

Steps to Implementing a Gainsharing Program

Considering a gainsharing program? These steps provide a starting point for implementing a successful plan.

- Set the stage. Do a survey to stir up employee interest in alternative compensation methods.
- Secure management's commitment to the program.
- Designate a group to design the program based on feedback garnered from the survey.
- Define parameters.
 - employee eligibility
 - yardsticks for measurement.
 - cost-saving mechanics.
 - financial decisions on cash flow.
 - actual plan details.
- Develop ongoing communication and tracking plans.
- Train employees about the program and what they can do to improve it.
- Develop communications groups to discuss new ideas.
- Chart progress and search for ways to improve by refining techniques and discussing new ideas.

gram would depend heavily on employee efforts and innovation. Employees would be encouraged to suggest ideas that would impact production, and therefore the gainsharing profits. Kurdziel hoped that such a plan would empower the employees and help them feel like more of an integral part of the company.

Design Process

In August 1999, Kurdziel asked for volunteers from among hourly employees to manage the gainsharing plan design. The response was positive—the survey had set the stage for change by identifying existing problems and raising the employees' expectations for a solution. Sixteen employees selected by discipline and department represented all areas and classifications of the foundry. The team, proctored by Hay Associates, met during five one-day meetings and worked through the phases of gainsharing program design (Fig. 1).

Meeting #1: Research & Education—The group reviewed the survey results, listened to explanations of gainsharing concepts, and examined the mechanics of sample plans.

Meeting #2: Designing a Gainsharing Plan—The team presented additional alternatives, discussed advantages and disadvantages of plan aspects, and achieved consensus on the plan's framework. Then it assigned subcommittees to develop strategies for financial, employee involvement, company communications and initial presentation details.

Meeting #3: Developing a Gainsharing Program—The subcommittees identified the keys to making the program work and fleshed out these ideas into a detailed plan.

Meeting #4: Document Gainsharing Program—The group developed payout examples, wrote a communications packet and drafted the presentation. It also defined plan mechanics and created idea flow teams for evaluating ongoing process improvements.

Meeting #5: Final Preparation—With the work almost done, the committee rehearsed the final presentation, brainstormed potential management and union questions and concerns, and developed an implementation schedule.

Details the team needed to finalize during plan development included participation, eligibility, frequency of payout, basis of performance comparison, company protection and ongoing returns. The group needed to decide which types of employees—summer, part-time, line, staff and supervisory—would be able to participate and what the requirements

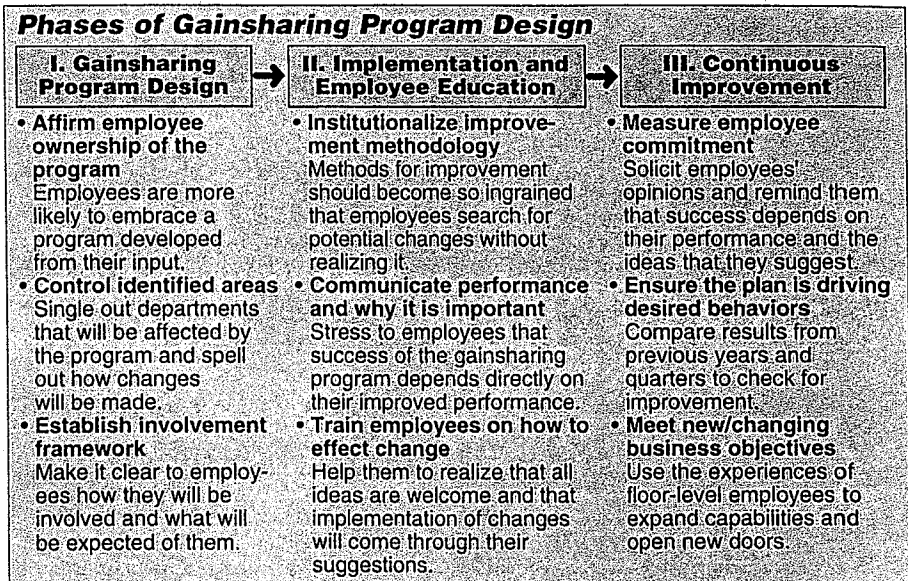


Fig. 1. Kurdziel used these phases as guidelines while designing its plan.

for eligibility would be. Frequency of payout was chosen to be quarterly and annually. Additionally, the team decided that the basis for performance comparison should be historical performance. The group also needed to devise methods to protect the company from rolling payout and deficits, as well as establish procedures for handling ongoing returns. These financial questions were settled by creating a 10% reserve fund each quarter that the company would hold back to protect itself against losses.

The team completed the plan design by September 1999 and presented the program to Kurdziel's top management, who approved the plan and set an implementation date of October 3, 1999. The gainsharing design team accepted responsibility for plan communication, administration and training.

Working Out the Details

The gainsharing design team rolled out the plan through a question-and-answer guide, written announcements and company presentations. After all employees were made aware of the program, ongoing communications and meetings presented the plan information. The group also laid out administrative details such as payroll coordination and process improvement methodology.

The team defined expected roles for employees, supervisors and managers, and senior management and delivered the appropriate training to each group, including quarterly followups.

After introducing the plan, the committee ironed out the financial mechanics. The plan promised payouts for improved performance, so the company had to generate extra income through this increased efficiency. In addition to

the extra money generated by controlling cost/ton poured and cost/ton finished, Kurdziel examined all controllable operating expenses and developed ideas to reduce those costs. Employees were encouraged to decrease expenses through initiatives such as:

- cross-training across departments;
- improving workflow;
- enforcing preventative maintenance;
- sharpening tools rather than disposing of them;
- evaluating alternative energy sources.

The target sharing level directs 50% of the revenue from improvements to the company, 40% to the quarterly fund and 10% to the reserve fund for the annual plan performance hurdle. The 40% in the quarterly fund is run through a sharing adjustment comparing the actual and the scheduled production that provides an appropriate multiplier. This results in Kurdziel's quarterly payout pool. Ten percent remains in the reserve fund. The remaining 50% of gains are returned to the company and may help fund capital improvements, training, research and other needs.

Gainsharing Results

During the first quarter of implementation (October-December 1999), the plan did not earn a payout.

During the second quarter (January-March 2000), the program earned a payout of \$132,594 (\$1070 maximum check/employee, based on attendance and seniority) and the absence rate declined from 6.1% to 3.4% when compared to the same period of the previous year. The cost/ton poured decreased by \$5 and the cost/ton finished decreased by \$11. By this time, the employee involvement teams were

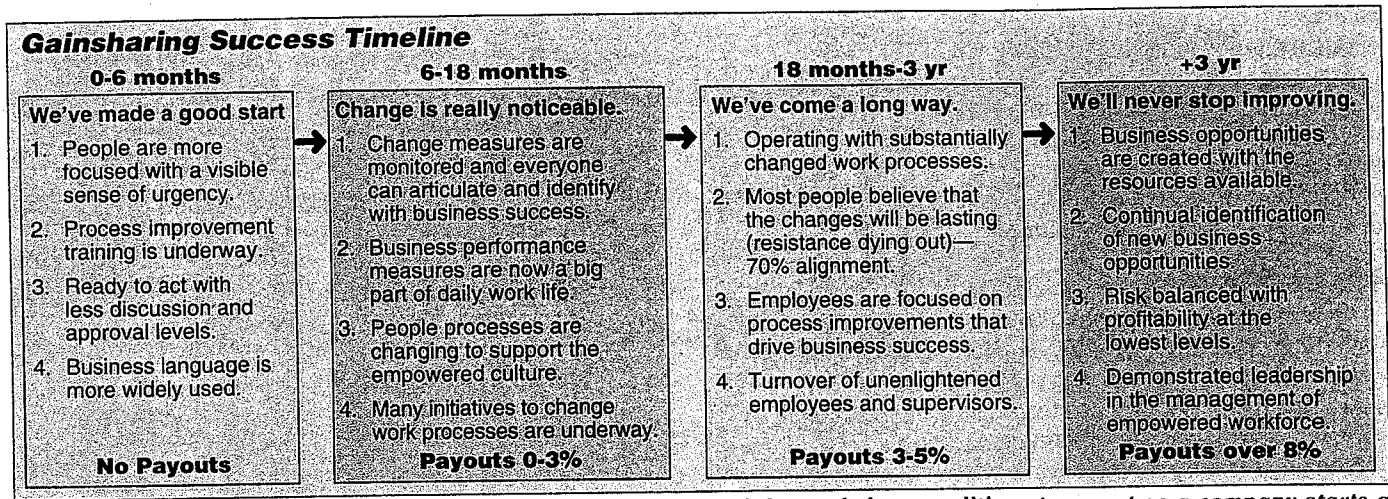


Fig. 2. This timeline provides an estimate of the rate of success and the workplace conditions to expect as a company starts a gainsharing program.

operating fully and initiatives to change work processes were underway with little resistance to changes.

From April to June 2000, the third quarter of the plan, the payout equaled \$51,565, a maximum check of \$417. Absence rates during the quarter again declined from 6.0% to 3.8%.

During the fourth quarter, July to September 2000, the program earned a payout of \$87,283, resulting in maximum checks of \$710 and the absence rate held at 3.8%. The cost/ton poured de-

creased by \$13.69; the cost/ton finished decreased by \$11.

From October to December 2000, a payout of \$937 was earned, resulting in payments of less than \$5 each. The first quarter in the second year of the plan suffered because work slowed due to economic conditions. A reserve payment of \$49,051.48 made at the end of the quarter increased payments up to \$414. The maximum total payment for the calendar year 2000 was \$2,616.

Another benefit realized by Kurdziel

was the reduction in employee grievances for the year 2000 to 12. This total was 36 in 1999 and 48 in 1998.

Continually Improving

As with any program, this one only is as good as the effort employees put into it. A sample of an approximate timeline for the implementation of such a program shows that changes won't take place over night (Fig. 2). It is a gradual process that requires long-term vision and commitment. With this in mind, Kurdziel developed a plan for ongoing gainsharing success.

In order to improve continuously, the company has re-administered its original survey, refined its gainsharing improvement process, adjusted communications, performed additional training and simulations, modified performance measures and reviewed results versus expectations. Initially, to spearhead a continuous improvement process, Kurdziel developed six process improvement teams representing various jobs and skills across shifts that meet to discuss ideas for productivity improvements and evaluates them based on their merits. In addition, a central team formed of one member from each process improvement team and original members of the design team meet once a month to discuss larger scale ideas.

Kurdziel's efforts and successes with gainsharing show that such a program can succeed and produce meaningful improvements. It is a program that any foundry committed to increasing efficiency and improving worker morale can implement.

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