How Long Will the

A number of readers contacted me regarding my **PCI** article about Gainsharing, "Gild Your Bottom Line," which appeared in March, 2007. They were interested in improving their productivity through Gainsharing, but were reluctant to try because they doubted whether such a program would have long-lasting effects on their multi-cultural workforces.

One reader asked "Is it a flash in the pan…how long can I expect higher employee productivity and better profitability as a result of the Gainsharing?" Another one e-mailed me, asking, "Is Gainsharing an event or a continuing process?" What are they talking about?

What is Gainsharing?

Gainsharing is a group, pay-for-performance plan in which improvement in employee performance – productivity (i.e., higher throughput, less downtime on the batch mixers), quality (i.e., proper color consistency or coating thickness) and safety (fewer accidents) – over a set threshold is quantified and given a dollar value. The value, or gain, is split (hence the name) between the company and its employees. For every dollar paid in bonuses, the company saves a like amount in higher productivity labor (lower per-unit costs), quality (less waste and spoilage) and safety (lower workman's comp premiums).

Gainsharing has proved very effective for motivating blue- and white-collar workers in the galvanizing, plating and coating industries to improve their performance. In a 1983 report, Congress' General Accounting Office investigated programs for improving productivity and quality. Its report cited Gainsharing programs as "…the wave of the future" because they unite even a diverse workforce in the goal of boosting their company's operational performance. On the average, the report said, performance climbed by 17–22%. But for how long, readers asked?

Actual Results
Two Companies, Two Successes

Here are two examples of coating and galvanizing industry companies whose Gainsharing Plans have had long-lasting, positive results, and the reasons for their success. In each case, base or threshold employee performance (productivity, quality and safety) needed to earn a bonus was 100% of their performance in the months before their Gainsharing Plan's start. Subsequent performance figures reflect only good product (scrap and rework has been deducted), and were boosted annually for the effects of capital investment and the need for continuous improvement. Table 1 shows nearly five years' results at Orion Industries, Ltd., a leading Chicago job shop (Teflon, primarily) coater. Table 2 shows nearly two years' results in the four main plants of AAA Industries, a mid-western job-shop galvanizer headquartered in Joliet, IL.

Four Reasons for Long-Term Success

Why do companies like Orion Industries and AAA Galvanizing have long records of success, while others do not? There are four reasons behind their success.

By **Woodruff Imberman, Ph.D.**, President | Imberman and DeForest, Inc., Evanston, IL

Gilding Glitter?

First Reason

To ensure long-term Gainsharing success, I designed the system to guarantee that management was as focused as the hourly workforce on achieving good Gainsharing results. This meant motivating supervision and mid-managers as strongly as the hourly workers. We did this in both companies by revamping and rigorously implementing the merit raise systems used for rating and rewarding line managers. They too would also be compensated for their achievements in the same areas – productivity, quality and safety – as would the hourly workers in their Gainsharing plan. Hence, most managers and supervisors supported the program and started pulling in the same direction. A few, unfortunately, did not. They soon fell by the wayside.

Second Reason

The second reason behind long-term Gainsharing success was that we developed a reporting system that could be used in a ***timely*** fashion. In my experience, fewer than half the managements of smaller companies (less than 250 employees) keep ***timely*** statistics of productivity and quality by department and by product type.

Tracking employee productivity accurately and in a timely fashion is critical, since people costs are about 65 percent of a job shop's operating expense. Yes, executives often know sales volume, and may even know sales dollars generated per hour of work. But typically, that figure is not adjusted for price changes, materials surcharges and similar items that constantly fluctuate. As a result, using sales dollars as a tracking tool is suspect. In many cases, management knew profitability was meager, but could not explain precisely why.

When we started designing their Gainsharing Plans, we helped Orion and AAA management develop accurate production statistics to track employee performance at least on a weekly basis. "These tracking tools enabled us to boost productivity by over 20 percent in each of our four Gainsharing plants, while reducing zinc usage significantly," said Kevin Irving, AAA's Vice President and General Manager. "This allows us to underprice competitors, speed the all-important turn-around time of customer product and gain new customers."

The results of accurate tracking tools often surprise senior management. Frequently, many senior executives concentrate on outside sales, spending time romancing customers at events like company-sponsored golf outings. The drudgery of production is often left to subordinates. For many executives, it was enough for their companies to show a profit, even though it was marginal. Using their tracking tools, we could demonstrate to senior executives with their own figures how much they could boost their bottom lines, and show how and where internal operations could be run more efficiently. These facts usually got their attention.

Third Reason

In companies like Orion and AAA we insisted that the tracking systems we developed be ***used*** as a management tool to monitor employee performance – productivity and quality – ***at least on a weekly basis***. Results were reviewed with mid-managers and

Table 1 | Orion Industries, Ltd.

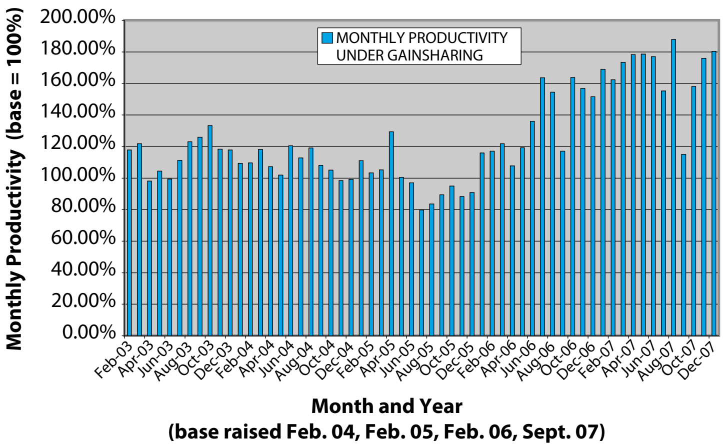
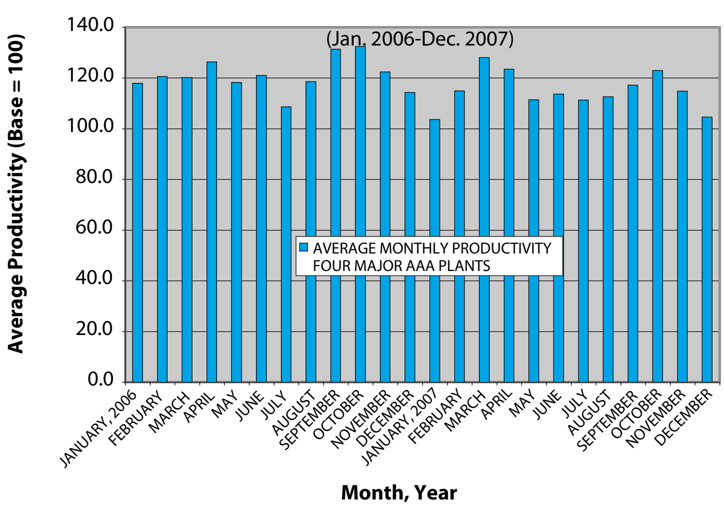


Table 2 | AAA Industries, Inc.



supervisors sometimes daily, but at least on a weekly basis, when events are still fresh in everybody's minds. Serious questions were immediately asked when the results showed problems were occurring on the production floor. This was important, because at month's end, how many supervisors or managers can recall why there was a big quality problem, for example, at the first of the month?

At other Gainsharing clients who do not use their reporting systems properly, I sometimes find myself nudging management by asking why, for example, productivity on the second shift was poor. I could tell them. Other times I consolidated existing quality records into Pareto charts to show where their most expensive quality problems lay, so I could help rectify them on a priority basis. Yet in other companies, I helped develop human resource programs – orientation and on-the-job employee training programs – to reduce turnover rates, which hurt productivity badly. Again, in virtually all these cases, management knew profitability was marginal, but could not say why. The tracking system provided the answers.

Bernie Cicirello, Orion's able controller, developed an excellent system of tracking costs. I only needed to persuade their line managers to start using it. They began analyzing employee performance (quality, productivity, etc.) records on a daily basis, and took immediate action when things went sour. Since I am usually retained for at least a year after a Gainsharing plan starts, I saw how helpful it was to serve as a guide, mentor and nudge during that time. In those months, I receive my clients' weekly reports of quality and productivity, and spend a fair amount of time either in person or on the phone nudging managers or supervisors about problems affecting their areas of responsibility. Others receive extra pats on the back for doing a good job.

I found my presence and questions helped keep the proper senior managers focused on internal results. After my year-long assignment is over, I expect them to continue to analyze their data for themselves, and do something about their problems. Sometimes I am disappointed – the intensity of their effort sometimes slackens without my continued questioning. It quickly becomes obvious when management focus slackens – results start sinking. I sometimes find it necessary to revisit them then, showing where their performance is slackening, and asking why nothing is being done about it.

For example, The Gainsharing Plan went gangbusters for its first two years at Orion (see Table 1). Once my assignment was over, performance slowly sank. After six months of lackluster results, I armed myself with their statistics and asked for a meeting with senior management. I presented their numbers, pointed out the deficiencies, and asked why nothing was being done.

Refreshingly enough, they 'fessed up' to their inattention, and re-dedicated themselves to restoring it, as Table 1 again indicates. By re-focusing their efforts, Orion's results were more successful than ever. "Our sales are now 40 percent higher than before the Gainsharing started, with a workforce only about 50 percent of the size it was before the plan started," said George Osterhout, Vice President. "That's what Gainsharing does for productivity!"

"We owe it to Imberman's nudging. It helped us develop a problem-solving mentality that now tops everybody's agenda." In an industry known for its fights with sharp-penciled purchasing agents, Orion has been able to cut its prices repeatedly, beating competition, gaining new customers and boosting its profit levels.

Fourth Reason

The fourth reason behind long-term Gainsharing success: managers learn to look beyond their "hard" operating statistics and gave adequate weight to the "soft" aspects of their plan, i.e., the communication system needed for the improved results.

A Gainsharing Plan is designed to motivate employees to "work smarter, rather than harder," by eliminating waste – wasted time and effort caused by slack and poor productivity, and wasted materials due to defects and customer returns. Working smarter can only be accomplished by tapping into the wealth of employee thinking by developing and using a program of two-way communications. This means communicating downwards by managers, telling employees on a weekly basis how they are performing under their Gainsharing plan, and then upwards by listening: managers must work hard to seek employee ideas and input on ways to eliminate the problems that cause the poor quality and productivity.

Although the need for this two-way communications process is carefully explained to management before their Gainsharing plan starts, some managers do not follow through. Employee meetings are not held, nor are good employee suggestions implemented. On-the-job training for new hires is overlooked in the rush for production. As a result, employees sense that management is losing interest in their Gainsharing plan. They tell me management no longer cares, so why should they?

At AAA, for example, supervisors in two plants were "too busy" to hold their weekly employee meetings, as plant managers scrambled to meet the fast turn-around time expected by the new rush of customers. This soon became evident when the pace of productivity growth slowed. I investigated why. Unfortunately, it was necessary to take remedial action, but productivity increases are again on the up-swing. "Imberman kept us focused," Irving said. "It sometimes meant listening to some very frank comments, but facts were facts, and he had them."

Not All Gainsharing Plans Successful

These are the four main reasons why some Gainsharing Plans are long-term successes, while others are not. These reasons were outlined in great detail in my 1989 American Management Association study, "Gains and Losses from Gainsharing."

It is no secret that many giant corporations (DuPont, Sherwin Williams, etc.) tie managerial compensation to company performance in order to motivate executives and managers to boost profitability. It is also no secret that these same giants have implemented similar programs for lower-level employees, for the same reason: better performance.

A growing number of smaller job shops in the plating, galvanizing and coatings industries like Orion and AAA have realized what is good for the goose is good for the gander. They too are tying pay to performance for employees at all levels within their organizations, in their successful efforts to motivate them to meet and beat the competition.

Why Bother?

Competition will stiffen in the next decade, as the global economy develops. Competitors are no longer in the next city or state, but in Eastern Europe and the Pacific Rim countries (as I pointed out in my April, 2006 **PCI** article, "Coatings Competition from China"), as customers search worldwide for low-cost suppliers.

To survive and prosper in this hyper-competitive environment, galvanizers like AAA Industries and job shop coaters like Orion have learned to motivate employees at all levels to deal successfully with growing pressures to control costs, improve productivity and quality, and satisfy customers.

Isn't it about time your company did so too? ■

Readers interested in additional information and further studies about Gainsharing, two-way communications systems or previous PCI articles cited in the text may contact the author, Dr. Woodruff Imberman, President, Imberman and DeForest, Inc. Evanston, IL, by e-mail, at IMBandDEF@aol.com, or by phone, at 847/733-0071.