1986

Boost productivity with employee contests

Dow Scott, *Loyola University Chicago*

K. Dow Scott and **Steven E. Markham,** *Virginia Tech University, Blacksburg, VA and* **Richard W. Robers,** *Maid Bess Corp., Salem, VA*

COMPENSATION

BOOST PRODUCTIVITY WITH EMPLOYEE CONTESTS

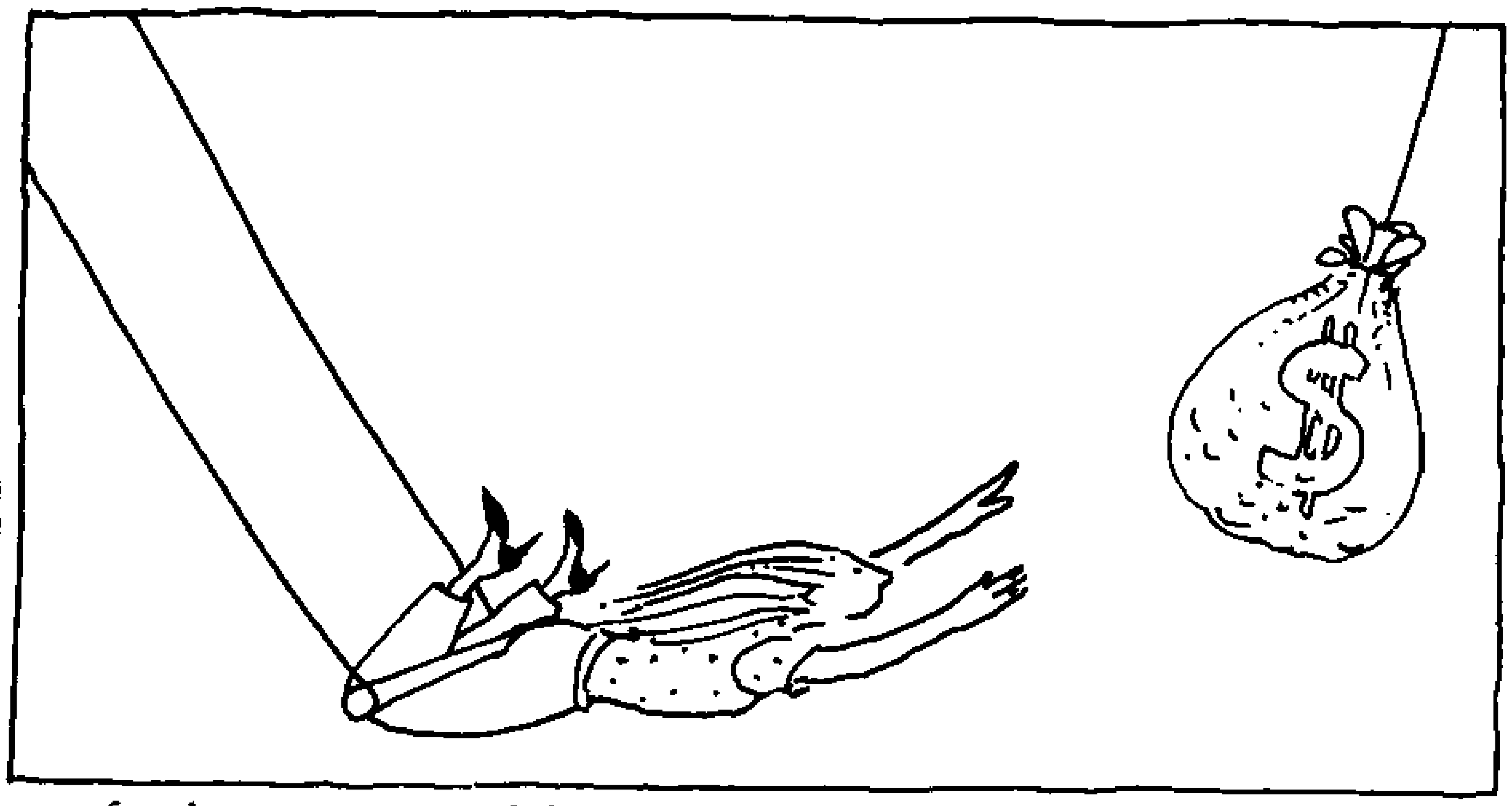

ILLUSTRATION BY DIRK HAGNER

The Maid Bess Corporation, an apparel manufacturer in Salem, Virginia, like the rest of the domestic textile and satellite industries, was faced with increasing foreign competition and high production costs.

Customer abandonment for cheaper, often better-quality foreign products, skyrocketing prices for resources and relatively high US wages necessitated an upswing in productivity.

Subsequently, and after careful analysis, the company realized traditional pay-for-performance measures weren't the solution.

Instead it turned to employee contests, developed to reward employees for attaining specific productivity goals during a specified period, to provide a needed boost.

The gravity of the productivity-plus-high-production-cost problem is best understood with wage comparisons among this worldwide industry.

In the United States, the minimum wage is $3.35 an hour, but, the majority of imported apparel is from Nationalist China (minimum wage: 20¢ an hour), Sri Lanka (40¢ an hour), and Central America (a little more than $1 an hour).

Although domestic producers can often beat the performance of foreign competitors in terms of delivery time and quality, the major area of cost concern is productivity.

Domestic producers must determine how to reduce unit production costs while still making a quality product.

A part of the solution to this problem is state-of-the-art equipment and machinery. Another aspect is the continual development of the most efficient methods of job performance.

However, because the apparel industry is labor intensive, the "people factor" must be incorporated into any plans for obtaining substantial increases in productivity.

Financial Incentives Are Still the Most Effective

Because of productivity gains made by the Japanese, books and seminars about Japanese management have been very popular in this country.

However, in the rush to adopt Japanese managerial approaches, a traditional American way to increase productivity has been overlooked: financial incentives.

Financial incentives represent a management program that captures the basic values of the American culture.

It is simply not enough to tell many people they are doing a good job. Unless employees are recognized in a special way, such as with pay raises, recognition programs enjoy limited success.

Financial incentives not only provide an opportunity for people to earn more, but also satisfy their needs for recognition, esteem and enriched lifestyles.

Numerous monetary reward programs linking an employee's pay with his or her performance have been tried in American industry.

Researchers have found strong evidence that, in situations in which pay is linked to individual performance, employee motivation is high and the tendency for turnover is restricted to poor performers.

In fact, they have found financial incentive programs are more often associated with higher levels of performance increases than other management programs, such as goal setting, job enrichment or employee participation.

There are, however, several problems with pay-for-performance programs.

- The complexities of work and the differences between jobs make it difficult to identify performance measures that distinguish between people and their jobs.
- Companies can't always afford to invest large enough sums of money in incentive pay to make such increases meaningful.
- Managers sometimes feel pay increases must be given to average performers to retain those employees who would be difficult to replace in a tight labor market.

• Pay differences between peers can result in unintended conflict, negative feelings and disincentive.

• Union leaders are often unwilling to negotiate incentive pay because major pay differences between employees doing similar work can create competition and conflict between employees.

There are, however, other financial incentive programs that can motivate employee performance without having the undesirable consequences associated with merit pay programs.

Employee contests represent such an alternative.

Contests are widely used to motivate consumers to buy, to stimulate sales people to sell, and to encourage the public to donate to worthy causes.

Contests, however, have been largely overlooked in terms of their potential for motivating employees who are not in direct sales.

For the Maid Bess Corp., however, an employee productivity contest eased its employee motivation and competitive market problems.

The corporation has 370 non-exempt employees, 278 of which are paid on a piece rate.

Most employees are women (94%), and their average education is 11th grade.

Job applicants are screened for psychomotor skills and receive as many as 14 weeks of training.

The annual turnover rate is 40% — low for the industry.

Most piece-rate workers earn between \$4.50 and \$5.25 an hour — above the industry average. Their piece-rate system includes a bonus for high levels of performance.

During 1983, the average absenteeism rate at the plant was 6.2%; employees are not paid when they are absent.

A Contest's Success Hinges on the Perception Everyone Is a Winner

The company's contest took into account employees' varying abilities — even those on similar jobs.

One goal was to convey to all employees that just by competing in such a contest they would be winners, even if they did not receive the prize for their category because successfully increasing their output — in an attempt to achieve the contest's goal — would ensure a higher hourly wage.

Thus, the contest was structured so employees with similar earnings would only compete against those employees with similar productivity abilities.

The groups were formed on the basis of each individual's average productivity, or hourly rate, based on the previous 13-weeks' performance.

For contest purposes, six piecework earnings groups were formed with a 50¢/hour range in each group.

> *When pay is linked to individual performance, employee motivation is high and the tendency for turnover is restricted to poor performers.*

Hence, those whose earnings fell within the \$4.00/hour to \$4.50/hour average earnings would compete with those in the same range.

If a \$3.50/hour earner were to compete with a \$6.50/hour earner, there would be an inequity in required productivity increases, i.e., a 10% increase at \$3.50/hour would be only \$0.35, while the \$6.50/hour earner would have to increase by \$0.65.

Three separate contests were conducted during a two-year period and each contest lasted three months.

During the contests, employees could not miss more than two days and remain eligible for the prize.

The person in each of the six groups who had the highest productivity level during the three-month period won the prize — a cash award or a trip to the World's Fair.

The contest rules were posted in the plant, and employees were informed frequently of their progress.

Because the contests were held at three different times, a comparison between productivity during and between contests was facilitated.

Studies indicate the productivity contests for hourly employees had a significant effect on plant productivity.

On average, productivity increased 3.79 percentage points during contest periods, which represented a \$103,800 increase in profit to the company.

Based on the \$1,800 spent on prizes, the company obtained more than a 5,700% return on its investment.

While holding seasonal effects constant, productivity during the three contest periods averaged 87.32%; when the contests were not in effect, productivity averaged 83.53%.

This is a particularly noteworthy accomplishment because the employees at this company were already being paid for their output — there was a piece-rate and bonus system.

Thus, one can only estimate the effect a contest would have on employees who were simply paid by the hour and not by what they produced.

Interestingly, when a contest ended, the plant productivity level never dropped back to its pre-contest level; no changes to the hourly standards were made during post-contest periods.

Absenteeism averaged 7.15% when the contests were not in effect, and 5.44% when they were.

When the seasonal effect was held constant, however, there was no significant difference between the absenteeism rates for contest and non-contest periods.

Why did the contest have such a dramatic effect?

• A concrete, identifiable type of performance was specified.

• Rewards were directly linked to performance.

• Employees were recognized for good performance.

Personnel professionals can follow several principles to create a successful contest program:

1) Make the program understandable and spell out the rules in complete detail.

2) Ensure that all contestants perceive a chance to win.

3) Develop realistic, achievable and measurable goals.

4) Run the contest for a relatively short, specific time period.

5) Be sure the prizes or rewards are desired by employees.

6) Ensure rewards and recognitions are given promptly.

7) Actively promote the program and the objectives of the program. Involving employees in the development of the contest makes them more likely to achieve the goals.

Establish contests that pit employees at specified earning levels against those with similar productivity abilities.

By following these straightforward principles, managers can design contests for employees that will contribute significantly to increased productivity.

Besides, a contest now and then just might make organizational life a little more fun. ■

K. Dow Scott, Ph.D., *is an associate professor of management at Virginia Polytechnic Institute and State University.*
Steven E. Markham, Ph.D., *is an associate professor of management at the university and earned his doctorate degree from the State University of New York at Buffalo.*
Richard W. Robers *is vice president of Maid Bess Corporation and has written extensively on productivity in the apparel industry.*