National gainsharing study: The importance of industry differences

S E Markham
Dow Scott, Loyola University Chicago
B L Little

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This survey of gainsharing plans across industries leads to the conclusion that there are major differences in the degree to which gainsharing is used in various sectors of the U.S. economy.

National Gainsharing Study: The Importance of Industry Differences

Steven E. Markham
Associate Professor
Virginia Polytechnic Institute and State University

K. Dow Scott
Associate Professor
Virginia Polytechnic Institute and State University

Beverly L. Little
Project Manager
Virginia Polytechnic Institute and State University

During the last decade gainsharing has become one of the most popular programs used to revitalize organizations. Gainsharing is usually defined as any organizational program designed to (1) increase productivity and/or decrease labor costs and (2) share monetary "gains" with employees. Traditional examples of such programs include Scanlon Plans, Improshare® Plans, Rucker Plans®, and some types of profit-sharing plans. Such plans have become the subject of articles about gainsharing by both academics and the business press, and the number of conferences and seminars available on gainsharing has increased dramatically.

In many respects the current interest in gainsharing is ironic because it has had a long history and some dramatic success stories. Indeed, Herman Miller and Donnelly Mirrors have had fully operational Scanlon Plans for more than 40 years. (Scanlon Plans are usually considered a high-end form of gainsharing plan because they incorporate a large amount of employee involvement in the design and administration of the plan.) It is the linking of successful plans with the manufacturing sector that has undoubtedly contributed to the perception that gainsharing will work only in organizations where some type of tangible product is manufactured.

Despite this perception, however, the questions remain: Are U.S. organizations, regardless of industry, really embracing these types of plans? If gainsharing plans are only successful in the manufacturing sectors of the economy, are these plans applicable to organizations in other sectors of the economy—especially in service sectors, which account for approximately 40% of our gross national product (GNP)? If we can find evidence and examples of successful applications
in other industries, can we support the proposition that gainsharing principles are universally applicable, even though the design and installation tasks may be more difficult in particular industries?

The specific issues we address in this article are these:
1. How prevalent are the various types of gainsharing programs across industrial sectors of the economy?
2. Are human resources (HR) managers across industries equally aware of gainsharing?
3. How successful have these plans been in various industries?
4. Do the key structural characteristics of these plans vary by industrial group?

The answers to the above questions may imply different approaches to gainsharing, and perhaps even different profiles of what constitutes a successful program.

SURVEY METHOD

In January 1991, we conducted a national study of gainsharing programs by surveying a random sample of 10,000 human resources (HR) professionals drawn from the membership list of the Society for Human Resource Management. This professional association has more than 40,000 members, and it is by far the largest organization for this profession. For our sample, we selected only those with job titles of plant-level HR professional or higher because we wanted to target those who would most likely be responsible for implementing and/or monitoring a program of this type. The four-page questionnaire had been piloted with (1) a sample of 10 firms that had successful, active gainsharing plans—to fine-tune questions related to program characteristics—and (2) a regional sample of 400 organizations that may or may not have had a gainsharing program—to fine-tune questions related to general awareness of gainsharing. The final questionnaire asked respondents to indicate if they were aware of gainsharing and to describe if and how they were using gainsharing programs.

We received responses, designating standard industrial codes (SICs), from 1,639 HR managers, directors, and vice-presidents. This response rate (16.4%) is typical for a survey of this type.

In the academic literature there is little agreement as to exactly what a gainsharing plan is. Is it any plan that has a group-based financial reward? Must it pay a cash bonus? Can it also pay a deferred bonus or a noncash reward? Does it require a formal mechanism for employee input in either the design or the administration of the program? Because gainsharing programs vary considerably and have incorporated some, but not necessarily all, of these features, we tried to capture as wide a range of programs as possible. Respondents were asked to indicate if their programs could be placed in any of the following categories: (1) traditional and modified Scanlon Plans, (2) Improshare® Plans, (3) Rucker Plans®, (4) profit-sharing plans, (5) ESOPs (employee stock ownership plans), and/or (6) custom-designed gainsharing plans that do not fit into the above categories.

Overall, we identified 219 active plans, which represented 13.4% of the respondents to the survey. This figure is comparable with the figure reported in 1987 in research conducted by the American Productivity and Quality Center. Our research indicated that the most popular plans were the custom-designed plans (44% of the total number of plans), followed by profit-sharing (26%), Scanlon (10%), ESOP (10%), Improshare® (9%), and Rucker® (2%).

Insight into the popularity of the custom-designed plans may be tied to the proliferation process within a corporation, as noted by an HR manager in the mining industry, who made the following statement: “After a successful experience at one unit (the first to adopt the plan), other units established their own programs based on their unique circumstances. . . .” He observed that all of the programs have been successful in various ways.

THE PREVALENCE OF GAINSHARING PROGRAMS

Exhibit 1 shows the prevalence of gainsharing programs across standardized industrial code (SIC) groups. There appears to be wide variation in the extent to which gainsharing is
used by each group. In the agriculture and mining group (SIC 10), for example, only 11% of the respondents reported any type of plan. In SIC 20 (manufacturing), 19% of the respondents reported a gainsharing plan. Of all the industrial groups, SIC 30 (machinery and equipment) reported the highest proportion of respondents with gainsharing plans (21%) with representative plans in each category. In contrast, the transportation/communication, wholesale/retail, services, and professional/medical groups all had utilization rates in the 8% to 9% range, about one-third to one-half the level of the machinery/equipment group. In SIC 60 (financial services) only 5% of the respondents had a gainsharing plan. There is little question that there is wide diversity in the prevalence of the use of gainsharing plans across industrial groups. Some gainsharing activity, however, is reported in each industrial sector except government (SIC 90).

Exhibit 2 shows what proportion of the total plans in each group is in each category. In other words, SIC 30 (machinery and equipment) reported the largest number of total plans (85) and the greatest use of Scanlon Plans with 12 or 14% of this type. Overall, it is clear that the greatest number of plans are in manufacturing (58 plans) and machinery and equipment (85 plans), which helps explain the association in most people's minds of gainsharing with these sectors of the economy.

**Why the Differences Between Industries?**

With a fourfold difference in utilization rates between key industrial groups, such as SIC 30 (machinery/equipment) and SIC 60 (financial services), any number of explanations are possible. Let's examine four basic categories
of reasons that might contribute to these industry-specific differences.

First, it may simply be that HR managers in some industries are more aware of and knowledgeable about gainsharing programs. Second, assuming that HR professionals have heard of gainsharing, they may not have seriously considered implementing it in their firms. Third, the degree to which HR managers seriously considered gainsharing could be a function of the level of success, or perceived success, of the programs within their own industries. Fourth, characteristics of plants with successful gainsharing programs might differ from the characteristics of the respondent’s own plant, resulting in a perception that installation would probably be unsuccessful.

Differences in Awareness and Consideration

To explore the possibility that there were preexisting differences in the basic awareness of gainsharing programs, we asked the respondents if they had heard of the term “gainsharing” before they were surveyed. Exhibit 3 shows the level of awareness by industrial group. For the entire sample, 76.7% had heard of gainsharing. Almost all of the respondents (94%) in the agricultural/mining group had heard of gainsharing before they received the survey. This rate is similar to that of the two industrial manufacturing groups, SIC 20 (85%) and SIC 30 (91%). However, fewer respondents in the service-related groups (SICs 40 to 90) had heard of gainsharing. In these groups the rates ranged between 80% and 63%, with the lowest level of awareness being in the wholesale and retail industries (SIC 50). Thus, part of the reason that there may be such wide variation in use of gainsharing is simply because of the disparity in levels of awareness. If such programs can make a meaningful contribution to organizations in these industries, then increased educational efforts may be the remedy.

Knowing about gainsharing programs may not be enough to persuade organizations to implement them. HR managers in organizations in different industries may have felt that gainshar-
ing was too difficult to implement, so, regardless of their awareness, they may not have considered it. To investigate this, we asked, "Has your organization ever considered installing a gainsharing plan?" Just as there were differences across groups in terms of awareness, there were differences in consideration rates. (See Exhibit 3.) When we examine the proportion of respondents who considered installing a program (as a percentage of those who had indicated that they were aware of the term), we again see a pattern similar to that for the level of awareness. These different rates of consideration could also be a result of the perceptions of how successful gainsharing programs had been within the industry. The next section examines six criteria for measuring the success of gainsharing programs.

**VARIATION IN SUCCESS**

The variation in the use of gainsharing across industries may also be attributable to HR managers' knowledge of past successes, or fail

ures, which they have learned about through word-of-mouth, professional conferences, informal networking, or even industrial espionage. Because there is little agreement in the academic literature on the definition of a successful gainsharing program, we adapted financial, perceptual, and longevity indicators to measure success. We asked respondents to tell us (1) the average bonus, expressed as percentage of payroll, that had been paid under the plan during the previous 12 months, (2) the number of months that elapsed between the installation of the plan and the time the first bonus was paid, (3) the frequency of payout as measured by the percentage of the time the plan had paid a bonus during its lifetime, (4) the degree of predicted employee and managerial satisfaction with the plan, (5) the duration of the plan, and (6) the current status of the plan—that is, if it was still in effect or had been eliminated.

**Bonuses**
The average active gainsharing plan covered by this study paid 7.55% of the total payroll in
bonuses over the previous 12 months. On average, six months had elapsed from the implementation of the plan to the time the first bonus was paid. During the life of the plan, bonuses had only been paid, on average, 69% of the time. This profile of an average plan is misleading, however, because of substantial differences among industrial groups as discussed below.

When asking about the financial performance of gainsharing plans, a typical distinction is often made between ESOPs and profit-sharing plans and plans oriented more towards productivity improvement, such as Scanlon, Improshare®, Rucker®, and custom-designed plans. This is simply because productivity improvement plans usually pay out more immediate cash because they are not as concerned with issues of financial shareholder value—such as retaining earnings. Exhibit 4 compares the average bonuses paid under ESOPs and profit-sharing plans with those paid under productivity plans over the previous 12 months. The ESOPs and profit-sharing plans in the financial sector clearly had the highest payout (10.8%) when compared with the other groups. ESOPs and profit-sharing plans in the agricultural/mining and the services sectors paid out the lowest averages of any groups (1.3% and 0.01%, respectively) during the previous year.

Surprisingly the average payout by productivity plans, across all groups, appeared high in the sense that this type of bonus usually represents a “true” increase in productivity. Notice that in the agricultural/mining groups (SIC 10) the productivity-oriented plans performed much better than their shareholder counterparts (8.7% vs. 1.3%, respectively). The same phenomenon appears in SIC 20 (manufacturing) where the profit-sharing plans paid only half as much as the productivity plans did. Once again, the productivity improvement plans in the financial sector seem to have the highest payout.

Another way of evaluating the financial aspect of a plan is the frequency of payout—that is, the percentage of the time over the life of the plan that a bonus has been paid. For example, if a plan is 4 years old and uses a quarterly payout, there have been 16 opportunities to pay a bonus. A payout rate of 50% would mean that a bonus had been paid 8 times. Exhibit 5 shows the
percentage of time that a bonus has been paid for each industry group when all active plans are included. The first three SIC groups are very similar in that about two-thirds of the time their plans have paid a bonus. The wholesale/retail industry’s plans paid out least frequently, about 44% of the time. The surprise is the service industries’ plans across SICs 60, 70, and 80 where the plans paid out a bonus at almost every opportunity.

Yet another way in which HR managers weigh a program’s success is by how quickly after initial installation the plan started paying a bonus. Many people believe that a plan should pay out as soon as possible after it’s installed to boost employee morale by providing financial reinforcement. In this school of thought, if a plan does not pay out quickly, it loses support and should be dropped. If plans are marketed to employees solely as ways of making more money without making any sacrifices or improving work processes, employees will naturally expect immediate financial rewards. This “sales” problem also holds true in the later years of a plan. It may even be possible that employees’ levels of satisfaction may be tied to how quickly and how often a plan pays a bonus. This type of problem is explained by an HR manager in the transportation industry, “We had great improvement and payouts the first year, smaller payouts in the second year, and no payouts in the third year. Sales were down, and people were losing interest. At the beginning of our fourth year we had a small payout. Team members appeared to be more interested, but there were not a lot of active members.”

Exhibit 5 also shows the average number of months that elapsed before the plans paid a bonus—this reflects the length of the measurement cycle and the possibility of payout. For all plans, the average number of months before a bonus was paid was 6.04. Interestingly, the two groups that had the longest wait, the manufacturing and financial groups with 7 and 8 months average wait, respectively, also were the groups that had the highest reported satisfaction level (See Exhibit 6) and the highest average payout (See Exhibit 4).
**Perceptions of Success**

If HR managers make decisions about gainsharing plans on the basis of rumored successes, one source of information could be the plan participants' viewpoint. Thus another way of looking at a plan's success is through tapping perceived employee reactions by asking how successful employees feel the plan has been. We asked each HR manager of an active plan two questions, "How satisfied are the managers with the plan?" and "How satisfied are the employees?" The response scale ranged from 1 = not at all to 5 = to a very great extent. The average for all plans was 3.55. Exhibit 6 shows the average satisfaction level of managers and employees in each industrial sector. The managers in agriculture/mining (SIC 10) were significantly less satisfied than their counterparts in the other groups. The three highest levels of satisfaction in both groups were reported in the government, manufacturing, and financial sectors. Except for the government sector, which had no reported payout data, these satisfaction levels also correspond to the highest levels of payouts (see Exhibit 4) despite the fact that the finance and manufacturing sectors took, on average, the longest time to pay a bonus (see Exhibit 5). Thus the strongest plans may be the ones that require the greatest institutional changes at the sacrifice of immediate payouts. In fact, the truly successful plans might well have even broader performance criteria. As one HR manager wrote, "It (the firm's gainsharing plan) has been the catalyst for employee involvement and communication upward and downward. Our gains in cost control, quality, improved productivity, and employee awareness are very encouraging."

**Durability of Plans**

A final way of looking at how successful a gainsharing plan has been is its durability. Plans that have been in place for a number of years have
overcome the initial problems associated with installation. Exhibit 7 shows the average age of the active plans by group.

All of the data discussed above are relevant when an HR manager discusses the “successes” in the industry with his or her colleagues. But one final perspective can be added to the pool of information into which an HR professional might tap when inquiring about gainsharing plans, and that is the extent to which the industry has experienced gainsharing “failures.”

We asked respondents, “Has your organization ever installed a gainsharing plan and later eliminated it?” Overall, 39 plans had been eliminated. Thus, 2.4% of all respondents indicated that they had terminated a plan. This corresponds to 15% of the total pool of all active and inactive plans. Specifically, the agriculture/mining, financial, and professional/medical sectors have dropped between one-quarter and one-third of all their plans. Even though there were relatively few active plans to start with in these sectors, a relatively high elimination rate might sour the entire industry’s view of gainsharing. By comparison, in the traditional industrial sectors (SIC 20 and 30) the elimination rates were only 5% and 10%, respectively.

Differences in Size

The way plans are structured can also help explain differences in utilization rates among industries. If HR managers perceive their workplaces as significantly different from sites where plans are currently in place, they might naturally assume that the installation process might be more difficult for them. The basic “demographic” or structural characteristics that have appeared in the literature include (1) size, (2) the degree of employee participation indicated by a formal vote, and (3) a mechanism for ongoing involvement as indicated by a formal suggestion system.

There appear to be very large differences across industry groups both in the size of the average plan and in the ratio of salaried to hourly employees as shown in Exhibit 8. The typical

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<th>SIC group</th>
<th>Agriculture/Mining</th>
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<th>Machinery/Equipment</th>
<th>Transportation/Communications</th>
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Exhibit 7
Average Age of Plans (in Years)
Some consultants recommend that employees vote on a gainsharing plan before it's installed as a way of obtaining "buy-in" and reducing potential sabotage. When no vote was taken before installation of the plan, typical comments from HR managers confirm lack of employee confidence. For example, "There is not enough employee ownership. They don't feel that they control the success or failure of the program." The degree of industry expectation that such a vote should be held represents an important design characteristic.

There was a wide degree of variation among industries in terms of how much formal employee approval was solicited. In the machinery/equipment sector, for example, more than one-third (35%) of the plans were subjected to employee votes, while no firms in the wholesale/retail, financial services, or government sectors held such elections. The prevalence of employee elections in other sectors was as follows: manufacturing—22%, agricultural/mining and services—20%, professional/medical—14%, and transportation/communication—13%.

Another important program design characteristic is a formal suggestion system. Suggestion systems serve as mechanisms for employee involvement in the on-going process of continuous improvement. With the exception of the transportation/communication sector, about one-quarter of all the plans in each group had formal
suggestion systems. Without some mechanism for employees to provide input, it is difficult for organizations to maintain a steady, long-term stream of improvement suggestions.

**DISCUSSION**

Organizations' experiences with gainsharing vary dramatically across industry groups. A summary by group of the key data presented here illustrates this variety.

In the *agriculture/mining sector* only 11% of the respondents (7) had current gainsharing plans. Despite the fact that almost all of the respondents in this group had heard of gainsharing, only half had considered installing a program. This could be attributable, in part, to the fact that the ESOP and profit-sharing plans had generated such a small bonus (1.3%) during the previous year, in contrast with the productivity-oriented plans that generated an 8.7% bonus. These plans were consistent in terms of the frequency with which they had paid a bonus (65% of the opportunities), and the number of months before the first payment was made (3). The reported level of employee satisfaction was relatively low, but no lower than any other group. The design characteristics of the plans in operation appeared very typical compared with other industrial groups. The key difference in this group was the relatively high proportion of plans (30%) that had been terminated.

With 19% of the *manufacturing sector* reporting a gainsharing plan, this traditional center of innovation contained the second largest number of programs. Most of the respondents (85%) in this category were aware of gainsharing; two-thirds of them (62%) had considered implementing it. Regardless of the type of plan, both the ESOP/profit-sharing and productivity-oriented plans paid comparable bonuses. While it took more time on average (7 months) for these plans to make an initial payout, this did not seem to affect the level of satisfaction. Plans in this industry were relatively small, averaging about 1,770 participants—primarily hourly workers. Formal suggestion systems were reported 24% of the time, and 22% had employees vote on their plans.

The sector where gainsharing is most prevalent is the *machinery and equipment sector*. One-fifth (21%) of the respondents in this sector reported a gainsharing plan. Given that almost all of the respondents had heard of gainsharing (91%) and that 65% had considered it, this group may represent the practical maximum for utilization rates. Interestingly, the relative success of these programs compared with those of other groups, which look very similar, may not explain the prevalence of gainsharing here. The average ESOP/profit-sharing bonus in this industry for the previous 12 months was 6.2% compared with 6.5% for the other plans. In fact this sector had the second-to-lowest frequency rate for payment of a bonus (62%). With 6,500 employees, on average, the plans were relatively large. The key to understanding the higher use of gainsharing in this sector may lie in the fact that these plans are viewed more than in the other groups as vehicles for employee involvement, as evidenced by the highest level of voting (32%) and the highest level of formal suggestion systems (29%).

The *transportation/communication sector* presents a paradox. On one hand, the industry boosts a very low use of gainsharing with only 8% of the respondents reporting a plan. On the other hand, most HR managers were aware of the concept (80% responding positively) and had considered using it. Overall, the plans appeared successful. Both categories of plans had reasonable payouts (7.5% and 5.6%, respectively—see Exhibit 4). A bonus was paid 85% of available times, and it only took 3.5 months to achieve this. The success of the current plans would appear to warrant more experimentation.

To a greater extent the same type of paradox applies to the remaining service sectors: *wholesale/retail, financial, services, and professional/medical*. About three-quarters of all the HR managers in these sectors were aware of gainsharing, yet only about 40% had considered installing a program. The programs across these four sectors have paid high bonuses and, in fact, have the best payout percentage. While the financial sector's programs took the longest to pay a bonus (8 months), the remaining sectors had the shortest lengths of time. Yet the utilization rates for these sectors (8%, 9%, 5%, and 9%, respectively—see Exhibit 1) were less than half of that of the two
manufacturing sectors. Perhaps the key to understanding the low use of gainsharing can be found in the high elimination rates for the financial service and professional/medical service groups. This may be attributable to the fact that plans in such industries are more difficult to design, calibrate, and install because of the intangibles involved.

The fact that no gainsharing plans were found in the government sector does not mean that none exist. While extremely rare, examples of functioning gainsharing plans have been reported at the local and state levels and at the federal level by the Department of Defense, the General Accounting Office, and the Urban Mass Transportation Administration.

SUMMARY

In summary, it is clear that there are major differences in the degree to which gainsharing is used in the different sectors of the U.S. economy. The traditional manufacturing sectors have a much higher utilization rate than do the various service sectors, a fact that is reflected in differences among groups concerning their level of awareness and consideration of gainsharing. In explaining this discrepancy, it is perplexing to note that the average profile of an active plan in each industrial group seems to be successful using the six criteria proposed here. In many respects the active plans in the service industry sectors seem to be just as successful as those in the traditional manufacturing sectors. Perhaps gainsharing does represent a universally applicable set of principles for sharing rewards, but it will take both time and educational efforts before the service sectors are persuaded of this.

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STEVEN E. MARKHAM, Ph.D., is an associate professor in the Department of Management in the R. B. Pamplin College of Business at Virginia Polytechnic Institute and State University (Virginia Tech). His primary research and consulting areas include team building, leadership, and organizational development as they relate to gainsharing programs. K. DOW SCOTT, Ph.D., is an associate professor in the Department of Management in the same institution. His research and consulting are directed toward compensation, including pay system equity, merit pay, gainsharing, and incentive programs for sales representatives. Before joining the faculty at Virginia Tech, Scott was with BF Goodrich Corporation. BEVERLY L. LITTLE is a doctoral student in human resources management and organizational behavior and project manager at Virginia Tech.