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'Gainsharing' Motivates Employees to Grow Profits

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> Like profit sharing, it aligns company objectives and employee interests, but with more frequent rewards and a focus on operational improvements rather than company profits.

Aligning employee decisions and actions with shareholder goals is one of the most challenging tasks for an entrepreneur or leader managing a firm. As a small business scales, this alignment becomes even more crucial because decision-making is delegated across the growing organization. In the 1990s, "gainsharing" programs gained popularity among privately held companies. These programs aimed to align employee goals and incentives with company objectives such as cost control and growth targets, ultimately improving profits. As a firm achieved greater profitability, the "gains" were shared with employees, who could earn bonuses or other forms of compensation based on these gains. Such programs may include reducing payroll expenses, attempting to control manufacturing costs, or trying to speed up product development. This approach helped align employees' decisions and activities with the outcomes desired by shareholders, such as increased profits and higher shareholder value.

This article will delve into the concept of gainsharing by exploring its fundamental principles, operational mechanisms, and its impact on both employees and the organization. It will provide an analysis of how gainsharing programs can be effectively implemented to align employee actions with company goals, thereby enhancing productivity and profitability. Additionally, the article will present a hypothetical example to illustrate the practical application of gainsharing, highlighting potential benefits such as increased employee motivation and engagement, as well as the associated costs and challenges that companies might face. By examining these aspects, the article aims to offer a balanced perspective on the viability and effectiveness of gainsharing as a strategic tool for business growth and employee satisfaction.

What is Gainsharing?

Gainsharing is a performance-based reward system that aligns employee interests with company objectives to enhance overall organizational performance. This approach aims to boost efficiency, reduce costs, and improve results by offering financial incentives to employees. Some of the primary goals of gainsharing are to:

- Increase employee awareness of company objectives
- Align individual and team efforts with organizational goals
- Promote teamwork and collaboration
- Enhance communication across all levels of the organization
- Encourage active employee involvement in decision-making processes

Conceptually, this approach motivates employees to contribute ideas, identify cost-saving opportunities, and work collectively towards achieving better results. As employees directly benefit from the company's success through financial rewards, they become more invested in the organization's performance and long-term growth.

Gainsharing is not Profit Sharing

Gainsharing and profit sharing programs share several important similarities, making them both potential tools for aligning employee interests with company objectives.Both approaches can foster a strong sense of ownership and shared responsibility among employees, encouraging them to think and act like stakeholders in the business. The shared focus on rewarding employees for collective achievements helps to build a cohesive team environment and reinforces the connection between individual efforts and company-wide results.

Gainsharing and profit sharing programs differ in several key areas. Gainsharing focuses on specific operational improvements and cost savings, offering more frequent payouts, such as monthly or quarterly, which can result in immediate and direct motivational effects on employees. In contrast, profit sharing is based on overall company profitability and typically provides annual payouts. This broader approach does not necessarily involve employees in decision-making processes and is based on financial results that may be influenced by external factors. This can be less motivating because it has a longer time horizon and less direct connection to individual efforts. The following table summarizes the gainsharing vs. profit sharing strategies:

Aspect	Gainsharing	Profit Sharing
Objective	Encourages specific performance improvements	Rewards based on overall company profitability
Basis for Rewards	Operational metrics (e.g., cost reduction, productivity)	Overall financial success of the company
Payout Frequency	Typically monthly or quarterly	Typically annual
Motivational Impact	High, due to close tie between rewards and performance	Can be high, but less immediate

A Hypothetical Example

Bucky's Bicycle Manufacturing, Inc. specializes in crafting personalized bicycles. Before implementing a gainsharing scheme, the company's standard production time for a single bike was 4 hours. (The example is based on a hypothetical situation that summarizes key points of gainsharing).

Gainsharing Plan - Baseline Performance

- Production time: 4 hours/bike
- Monthly output: 500 bikes
- Total labor hours: 2,000 hours
- Labor cost: $50,000 ($25/hour average wage)

Agreed Upon Objectives	Employee Ideas	3 Month Results	Gainsharing Impact
• Reduce production time per bike • Increase monthly output • Maintain or improve product quality	• Reorganizing the assembly line layout • Implementing a just-in-time inventory system • Introducing ergonomic tools to reduce fatigue	• Production time reduced to 3 hours per bike • Monthly output increased to 600 bikes • Total labor hours: 1,800 hours • Labor cost: $45,000	• Labor cost savings: $5,000 per month • Additional revenue from increased output: $100,000 • Total gain: $105,000 • Split of gain 50/50 between the company and employees: ○ Company share: $52,500 ○ Employee share: $52,500 ○ each received a bonus of $1,050 for per month.

Over the long-term, the firm experienced:

- **Enhanced Efficiency**: Production time per bicycle decreased by 25%. Monthly production rose by 20%.
- **Employee Engagement:** Staff actively engaged in improvement projects. Workers received continued financial rewards.

Based on the results of the gainsharing program, the Bucky's management noted the following benefits and costs:

- One of the primary benefits is boosted employee engagement, as these programs enhance dedication, morale, and drive among employees.
- Gainsharing leads to enhanced operational effectiveness by improving both efficiency and cost-effectiveness within the company.
- The programs foster improved collaboration and communication, encouraging employees to work together towards shared goals.
- The complex structure of these programs requires meticulous planning, effective communication, and continuous supervision to ensure their successful implementation and operation.
- At times, the competitive nature of gainsharing can sometimes lead to tension and rivalry among employees.

There is a need to balance short-term results with long-term strategic goals and sustainability. The company introduced longer-term profit-sharing goals in addition to the gainsharing program.

A Real-Life Example: Rogan

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Manufacturing

Rogan Corporation is a real-life manufacturer located in the suburbs of Chicago, Illinois. Presently, the company is a leader in the injection molding industry, specializing in the production of knobs, hand hardware, and other custom molded components. In the late 1980s/early 1990s, Rogan experienced trouble due to international competition, making the company unable to compete on a cost-basis. In a dramatic shift, Ed Rogan, Jr., the second generation owner and CEO, implemented a variety of strategic steps to improve operation performance and to improve employee relations. One major step was the development of a gainsharing program (as cited in the August 1993 edition of Inc. Magazine).

The gainsharing initiative at Rogan Corporation was part of a broader strategy to improve organizational performance and employee relations. Rogan was able to create a more motivated workforce, which contributed to the company's overall success and profitability. This approach not only incentivized employees to work more efficiently but also helped in building a cooperative workplace culture that supported the company's long-term goals.

Following implementation of the gainsharing program, Rogan has gone on to thrive as a manufacturer in the Chicago area. In 1994, Rogan Corporation was one of the first of four companies featured in The Chicago Tribune Co. series entitled, “The New Breed of Leaders Driving a Business Revolution.” Later, in 1999, Rogan Corporation was named the winner of the Manufacturing Counts Award by The Chicago Manufacturing Center and Illinois Institute of Technology.

Potential Drawbacks

While gainsharing can be an effective strategy for improving organizational performance, it does have several potential drawbacks:

Short-term Focus - Gainsharing often emphasizes immediate performance improvements, which may lead to a focus on short-term gains at the expense of long-term innovation and strategic planning. Also, employees concentrating on a single metric while neglecting other important aspects of their work, such as workplace safety or product quality.

Financial Implications - Gainsharing can present some financial challenges such as payouts may be required even when the company is performing poorly overall.

Employee Impact - Gainsharing can have unintended consequences on employee well-being and team dynamics including increased workplace stress as employees feel more pressure to meet performance targets. Also, it may cause friction and resentment between team members, as individual contributions may be overlooked in favor of group performance.

Implementation Challenges - Gainsharing programs can be more complex to implement and manage due to difficulty in setting appropriate performance measures that align with company goals and are achievable for employees. Second, complexity in calculating correct baseline standards and performance metrics may exist. Finally, it requires a participative management style and open sharing of performance-related information, which may be challenging for some organizations.

Conclusion

Gainsharing enhances organizational performance by engaging employees, fostering ownership, aligning efforts with goals, and creating a culture of shared success. It drives efficiency, saves money, boosts morale, and increases productivity. Transparency and communication in gainsharing programs build trust, collaboration, and camaraderie, leading to higher retention and loyalty.

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