



IPSA Gainsharing Guidelines

Gain Sharing: An Overview

Gain sharing is an arrangement whereby employees share a portion of the savings that result directly from their collective efforts to reduce costs, improve quality, and increase productivity.

Gain sharing represents an incentive proposition between the company and its employees. In addition to the aims listed above the company can expect the gain sharing scheme to foster an operating environment where teamwork and mutual trust are key factors.

For the employees' part, this proposition is a commitment to put their knowledge of problem-solving to use, toward the improvement of overall company performance. In return, the employees expect to receive monetary rewards, greater security, improved job satisfaction, and more meaningful participation in those matters which most closely affect their jobs.

General characteristics of gain share plans:

- They are based on improvements in productivity.
- They are administered as group plans.
- All personnel are usually based at one particular site, and all but a few executives participate in the plan.
- Every plan has one or more base condition upon which bonus payments are contingent.
- Plans require employee involvement to generate benefits in the form of bonuses to be shared between the employees and the company.



IPSA Gainsharing Guidelines

Background

The first formalised gain-sharing plan was perhaps the one devised by Joe Scanlon circa 1935 in the United States, finding initial success with companies on the brink of collapse. Subsequent involvement followed with profitable companies that were trading profitably but struggled to improve productivity in the climate of wage controls. This led to the development of the critical bonus system incentive that would encourage the workers' assistance in finding ways to improve operations. This Scanlon model has been further refined into a comprehensive process that includes involvement and reward.

In 1948 a similar sharing model was developed by Alan Rucker based on his extensive research into finding a stable financial measure. The so-called "added-value measure" found popularity due to its stability within industry sectors, its simplicity and its ease of application. This model required only a few years of historical data to develop a usable measure – in contrast to Scanlon's, which required extensive history and tailoring to establish a base measure.

In 1974 Mitchell Fenn advocated the use of a sharing measure based on hours rather than dollars. Fenn reasoned that a formula based on hours produced would be more easily understood and acceptable to employees than measures derived from financial data. His system, called *Improshare*, was widely accepted and is still in use today.

In addition to these well-known approaches there exist many bespoke models developed by all types of enterprises. Profit sharing is a form of sharing but is not normally categorised as a true gain-sharing programme.

In 1986 the American Productivity and Quality Centre, along with the American Compensation Association commissioned a nation-wide survey entitled "People, Performance and Pay". The survey examined the use of non-conventional reward systems and, in doing so, provided an insight into the growth of gain sharing and its use as a



IPSA Gainsharing Guidelines

reward system today. Approximately 1500 companies contributed to the survey, divided equally between producers of goods and of services. At that time, 20% of the goods producers were using some type of gain sharing, in contrast to a mere 8% of service providers.

In Ireland, gain sharing is, with some exceptions, a comparatively recent phenomenon. The defining factor underpinning current levels of interest in gain sharing here may be linked to the fact that national agreements have controlled wage increases for many years. This, coupled with the unpopularity of traditional bonus schemes, has motivated employers and unions to identify a mechanism that will address the dual objectives of achieving competitive gain for the company while providing a framework to reward the employee.

Development of a gain sharing plan: key elements

- **Management commitment and support.** A successful gain sharing plan requires both involvement and reward. A characteristic common to successful programmes has been their high level of commitment from senior management, and the adoption of this commitment at all levels of the organisation.
- **Trust.** . A high level of trust between employer and employees is essential. There must be an openness in communication and information sharing that will facilitate a genuine understanding of the process
- **Resources.** Sufficient resources and effort must be expended in for the proposal and plan to evolve and be accepted.
- **Preliminary plan design.** The type of plan, and ultimately the plan measure is the most critical step in the development process. There are two distinct types of plan, complex and simple. The complex plans tend to focus on five or six key performance indicators, while the simple will make use of only one, usually productivity.
- **Operating procedure.** The following questions need to be answered:
 - How often will the bonus be paid?



IPSA Gainsharing Guidelines

- How will the bonus be calculated?
 - What level of plant performance will be the threshold for bonus?
 - What rules of eligibility will apply?
 - What provision for ratification and change will be necessary?
- **Simulation.** In order to ensure that the plan will benefit both participants, (company and employees) projected results should be simulated to assess the outcome.
- **Implementation requirements.** During the course of the preliminary design step, it is possible that problems which could potentially hinder the successful implementation of the plan may be identified. These typically include a lack of necessary data, existing low plant performance levels, problems with other management systems such as planning and cost control and potential problems regarding management and employees' attitudes to working co-operatively. Once identified, specific steps to rectify these problems must be part of the conditions for implementing the proposed plan.

Step by Step Guide

- Establishment of a joint project team
- The purpose of the joint project team is to develop a detailed proposal on gain sharing for approval by both management and the workforce. It is likely that they will need external facilitation from someone with a working knowledge of gain sharing systems. The team should be composed of both management and employee representatives from different areas within the enterprise. Training for all team members at this point is imperative, to achieve a shared understanding of how the enterprise functions and how a gain sharing plan operates.
- Analysis of available data sources
- The project team will need to consider what the objectives of the gain sharing scheme are. These may include improving quality and productivity, reducing costs, improving morale and customer satisfaction, etc. The reports and control systems of the enterprise will need to be analysed to establish if they are sufficient. It is often



IPSA Gainsharing Guidelines

necessary to modify existing reporting systems, to introduce new ones, or discontinue others.

– Development of a detailed proposal

The project team will need to prepare a detailed proposal covering the following topics: type of plan, method of calculation, rules of eligibility, sharing ratio, means of dealing with change, payment schedule/conditions and review plans.

– Implementation and review

Prior to implementation the detailed proposal needs to be ratified by both employer and employees. This will require a series of comprehensive briefings of all involved. In addition, it will be necessary to build in a review mechanism and timescale so that those problems identified can be formally addressed.

Frequently Asked Questions

Q. What is the best type of plan to use?

A. There is no best type. The selection of the type of plan is influenced by many factors; the circumstances of enterprise, availability of information, management style, etc. However, the selection of Key Performance Indicators (KPIs) covering many of the crucial factors of a successful enterprise is probably the most popular model.

Q. Who takes part?

A. Normally everybody at a specific site takes part, but some employees or sections may be excluded if desired.

Q. How is gain measured?

A. The detailed plan will identify how this is done. A specific time interval or “benchmark period” is identified (usually a 12 month period) and subsequent performances are compared to that.



IPSA Gainsharing Guidelines

- Q. What is the calculation period?
- A. Usually 12 months, but may be 3 or 6, or any other period agreed.
- Q. What happens if there is no gain?
- A. No payment is made. The plan is intended to be self-financing and therefore if there is no gain there is no share (payment).
- Q. When is payment made after a gain is made?
- A. The timing of payment is agreed in the plan. A popular model is to calculate performance over a twelve-month period and pay the gain share twice a year, often at Christmas and prior to the summer holidays.
- Q. What ratio is used to share the gain?
- A. The sharing ratio is agreed in the plan. Sometimes it is agreed at 50:50 between the enterprise and the employees. Other options are 60:40, 70:30, 80:20, etc. There is no right answer as to which ratio should be chosen. Consideration needs to be given to the circumstances of the enterprise, the conditions of the market, and the expectations of the employees. In many instances the gain is shared among three rather than two groups – company, employees, and customer.



IPSA Gainsharing Guidelines

Sample calculation - manufacturing Company

Key Indicator	Benchmark	Result for period	Value of gain €
Labour productivity	75%	80%	300,000
Material utilisation	93%	95%	240,000
On time deliveries	95%	96%	30,000
Quality	98%	96%	(80,000)
Absenteeism	3%	5%	(30,000)
Total gain			460,000

Agreed split: 50:50
 Share for employees: €230,000
 Employees: 100
 Share per employee: €2,300

Sample Calculation – service company

Key Indicator	Benchmark	Result for period	Value of gain €
Staff productivity	85%	90%	40,000
Material utilisation	80%	98%	60,000
On-time service	93%	95%	20,000
Customer satisfaction	90%	95%	80,000
Absenteeism	3%	2%	10,000
Gain			210,000

Agreed split: 33:33:33 (employer, employees, customers)
 Share for employees: €70,000
 Employees: 35
 Share per employee: €2,000



IPSA Gainsharing Guidelines

The foregoing reflects current tax rules and Revenue practice which is subject to change. This document is of a general narrative only and should not be regarded as a substitute for professional advice. Such advice should always be taken before acting on any of the matters discussed.

Updated: September 2013