



Management Attitudes towards Gainsharing as a Strategic Tool for Productivity Improvement in Small Business Corporations: An Exploratory Study

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Abstract: Gainsharing originates from the developed countries such as the United States of America. South Africa's labour productivity in the manufacturing sector is low when compared to Korea, United States of America, Taiwan, Japan, France and the United Kingdom. Increase in productivity can finance higher wages without burdening the customer with higher selling price. A strong co-operation between management and labour to improve productivity, thereby ensuring the survival of South African companies, is required. This paper is to evaluate management attitudes towards gainsharing as a strategic tool for productivity improvement.

Keywords: Gainsharing, Performance Improvements, Profit Sharing, Financial Gains.

The need for productivity improvement should be uppermost on both, the government and private sector's agenda. The majority of South Africans expect great prosperity and this can only be done through greater employment, high productivity and wage increases. New employment opportunities create new goods and services, which give rise to sales from which wages are paid. Increased productivity can finance higher wages without burdening the customer with higher selling prices. There should be a strong co-operation between management and labor to improve productivity, thereby ensuring the survival of South African companies. Productivity governs the creation of wealth and cost-competitiveness. To be successful in today's competitive business arena, organizations find themselves turning to their employees for creative suggestions and ideas of ways of doing things better. The concept of continuous improvement, urging everyone in the organization to think of implement small, incremental and logical improvements, has become a way of life and a business necessity.

South Africa lacks both short and long-term influence to productivity growth. This includes an advanced knowledge of how to produce more efficiently and not to take advantage of gains resulting from economies of scale that are made possible by an expansion of the size of markets leading to increased specialization of personnel (slack, Chambers & Johnston, 2001). The misallocation of resources (i.e., capital and labor) and lack of training of the workforce are some of the causes.

As a result of the above and other factors, the production per worker in the manufacturing sector decreased by 3.1 per cent from 2003 to 2004, and this resulted from a decrease in manufacturing production alongside employment numbers that remained fairly constant (South African Reserve Bank, 2004). South Africa has the lowest work morale and this result from workers not being clear about what is expected of them. Productivity loss is costing the country about R15404 billion annually and this represents 1404 per cent of Gross Domestic Product (GDP) (Ventor, 2004). If the productivity problem could be solved over the next five years, the country could achieve almost 3 per cent GDP growth per year over the period (Cooper. 2004).

South Africa's labour productivity level is far behind when it is compared to overseas countries (De Jager, 2002). Gainsharing, as a reward management instrument, arouses interest and demands attention and

deliberations in the context of a changing South African industry. Productivity gain sharing rewards improvements in productivity.

Organization are encouraged to revise their reward philosophies and develop reward strategies, policies and practices that help to achieve new business goals and support organizational and culture change. Such developments should be based on an understanding of the economic factors affecting pay, the significance of psychological contract and the practical implications of motivation theory as it affects the provision of both financial and non-financial rewards. Interest in performance-related pay like gainsharing, in various sectors of the economic activity is increasing. Gainsharing could be a desirable alternative because it can contribute to raising the competence levels and productivity improvement of the organization. It is also against this background that the study focuses on the South African manufacturing industries.

Goal and Objectives of this Study

The goal of the study is to evaluate management attitudes towards gainsharing as a strategic tool for productivity improvement. The goal will be achieved by addressing the following objectives:

- to evaluate performance measurement and problem solving;
- to ascertain the perceptions of management with regard to implementing the gainsharing program; and
- to ascertain reasons for implementing a gainsharing program.

Literature Review

Meaning of Gainsharing

Gainsharing is a process whereby employees are involved in performance improvements and share with the organization in the financial benefits of these improvements. It is a method of working in groups to identify ways of improving performance. These working groups consist of a cross-section of employees and managers meeting regularly to plan and implement changes that produce improvements in company performance (Bowey, 2003). Gainsharing is also about improving productivity and attracting and retaining the kind of people who want to contribute (Duncan & Gross, 1998). Creating a working environment that encourages worker's participation and also provides the opportunity for linking improved performance to improved compensation, is one way to create the kind of workplace that will attract motivated risk-takers and team-worker's. Gainsharing is not a single type of incentive program but rather an umbrella for a family of aggregate pay-for-performance approach that links financial rewards to improvements in the performance of the entire unit (Welbourne & Gomez-Mejia, 1995).

Advantages of Gainsharing

- The reason for greater reliance on gainsharing is that the program is easier to sell to the top management. The out-of-pocket expenses for the company is generally low since any payouts accrued by workers are linked to future unit performance, and any realized gains are distributed between employees and the company. By definition, any compensation received by employees under this type of program is variable rather than fixed in nature, therefore, the company is not committed to a permanent resource allocation (Hanlon & Taylor, 1991). Employees have to partially carry the burden or risks of future performance uncertainty (Graham-Moore & Ross, 1990).
- Gainsharing has a long history and companies can easily imitate these programs by copying or modifying gainsharing programs used by competitors (Abosch, 1998).
- Gainsharing offers substantial flexibility in the chosen formula to determine the payouts and procedures for distributing gains. The payout criteria may involve a widely diverse set of factors such as profitability, labour costs, material savings, meeting deadlines, percentage rejects, safety record and customer satisfaction (Kiernam, 1993). Many companies are experimenting with differential distribution of bonuses using such factors as team performance, seniority, job classification, cooperation, and special achievements (Manz & Sims, 1993). Peck (1991) adds that the actual

procedure for distributing awards varies and may include supervisor's ratings, employee-managements committees, cross-functional management teams and peer appraisals. The flexibility for determining and distributing payouts allow organizations to circumvent some of the traditional criticism of low motivational impact of aggregate incentives, namely the 'free riding' and a 'weak line of vision' between behaviour and outcome that reduces their reinforcement value.

- Some forms of gainsharing programs provide an operational mechanism to implement participative management. Despite much lip service to this concept over the years, participative management has been more of an academic than a practical reality (Gomez-Mejia, Balking & Cardy, 1995). Gainsharing represents a major exception. Many gainsharing programs comprise of a committee structure, which elicit and evaluate employee suggestions, thereby providing an efficient channel to promote employee involvement and convert it in to an action plan.

Characteristics of gain sharing

Although the financial element is obviously a key feature of gaining, its strength as a process for improving performance lies equally in its other important features ownership, involvement and communication (Miller & Schuster, 1987). They describe the gain sharing features as follows:

- **Ownership:** the success of a gain sharing program depends on creating a feeling of ownership that first applies to the program and then extends to the operation. Armstrong & Murlis (2001) add that when implementing gainsharing a company must enlist the involvement of all employees so that it can increase their identity with, and their commitment to the program, and build a large core of enthusiastic supporters.
- **Involvement:** the involvement aspect of gainsharing means that the information generated on company results is used as a basis for giving employees the opportunity to make suggestions on ways to improve performance, and by empowering them to make decisions concerning their implementation (Miller & Schuster, 1987).
- **Communication:** gainsharing programs are always based on key performance measures such as added value. The company should ensure that everyone involved knows exactly what is happening in these performance areas, why it is happening and what can be done about it. The communication process is two fold: management communicates performance information to employees, who in turn, communicate their proposals for improvement back to management (Vanderberge, 1999). The financial basis of gainsharing provides extra focus for the processes of communication and involvement.

Aims of gainsharing

Johnson (1999) contends that the main aim of gainsharing is to improve organizational performance by creating a motivated and committed work force who wants to be the part of a successful company. More specifically, Johnson (1993) enlists the following aims:

- To established and communicate clear performance and productivity targets;
- To encourage more objective and effective means of measuring organizational or factory performance;
- To increase focus on performance improvement in the areas of productivity, quality, customer service, delivery and costs;
- To encourage employees to participate with management in the improvement of operating methods; and
- To share a significant proportion of performance gains with the employees who have collectively contribution to improvement,

Summary

It should be emphasized that there are several things that gainsharing is not about. It is neither lowering labor costs nor profit sharing. It is about improving productivity & attracting and retaining the kind of people you want working in your company (Duncan & Gross, 1998). In today's market, workers are choosing where they

want to work, and numerous studies show that, while pay is very important, many employees do not consider pay the overriding factor when choosing an employer. Employment conditions represent such a factor. Creating a working environment that encourages workers' participation and provides the opportunity for linking improved performance to improved compensation is one way to create the kind of workplace that attracts motivated risk-takers and team-workers (Imberman, 1996). Gainsharing is also not a magic bullet that can be used in splendid isolation from company's strategy. It implies management accepting that all the employees will have some say in how the company is running. Imberman (1996) continues to say that the impetus for this kind of strategy realignment has to come from the top. The manner in which the company organizes work, shares information and knowledge, makes decisions, and pays rewards are all part of the process. The success of a gainsharing program hinges, to a great extent, on the quality and openness to communication. It is a result-oriented program that looks to create incremental improvements (Kaufman, 1992). Management should set its long-term objectives before deciding on a gainsharing program. Once management reaches consensus on those goals, it can concentrate on developing compensation plan that will get them there. When culture change is required, pay will not drive that change, but effective leadership can drive it (Manz & Sims, 1993). Pay will be a strategic tool for leadership.

Methodology

The target population was managers of small business corporations of the construction sector in the greater Durban area. A small business corporation was defined within the parameters 2006 budget as maximum turnover of R14m. the study identified 30 construction companies, which are classified as small business corporations. The structured questionnaire included questions on demographic profile of the respondents; the corporation's involvement in performance measurement and problem solving; management's perceptions towards the gainsharing program; and reasons for implementing gainsharing program and comparing them with the corporations scheme currently in place.

Findings

- **To explore the suitability of gainsharing as an appropriate monetary reward:**
Results from study analysis reveals that 54.8 per cent of managers agree that gainsharing would induce employees to effectively participate in problem solving or productivity improvement initiatives. Bearing in mind that the study evaluates management attitudes towards gainsharing as a tool for productivity improvement, the results indicate that managers have faith in the gainsharing program.
- **To ascertain management perceptions and reasons for implementing gainsharing:**
The majority of respondents feel that gainsharing will benefit the company, and this is shown by the "large percentage response" from managers whose faith to gainsharing program was developed. The following results (in table 01) confirm the above issues.

Table 1: Ascertain management perceptions and reasons to implement gain sharing

Benefits for implementing Gainsharing	Percentage response accepting this benefit
To deliver according to the client requirements	69.0
To enhance teamwork	92.2
To create a feeling of ownership	64.3
To share a proportion of saved-cost for productivity improvement purpose	88.1
To stimulate organization learning (or problem solving mindset)	76.2
To improve communication between management and employees	95.2
To stimulus employees to make suggestions on ways to improve productivity	97.6
To increase profitability	71.4
To reduce costs	97.6

To ascertain if the above reasons have been met by the company’s scheme currently in place

Table 2: ascertain if the above reasons have been met by the company’s scheme currently in place

To ascertain if the following reasons have been met by the company’s scheme currently in place	An indication if the corresponding reason(s) have been: MET/NOT MET/UNSURE , is shown below	Percentage response for the outcome
To deliver according to the client requirements	UNSURE	56.1
To enhance team work	MET	36.6
To create a feeling of ownership	NOTMET	42.5
To share a proportion of saved-cost for productivity improvement purposes	NOTMET	87.8
To stimulate organization learning (or problem solving mindset)	UNSURE	41.5
To improve communication between management and employees	MET	80.5
To stimulate employees to make suggestions on ways to improve productivity	MET	78.0
To increase profitability	UNSURE	53.7
To reduce costs	MET	92.7

Management believes strongly in gain `sharing, particularly, on critical issues relating to enhance team work: to share a proportion of saved –cost for communication between management and employees: to stimulate employees to make suggestions on ways to improve productivity: and to reduce costs have achieved ‘bigger’ percentages ranges from 88.1 to 97.6 per cent. These and the rest of the issues mentioned in table 01 indicate a good management’s perception to gainsharing program.

Table 02 indicates that management is ‘not sure’ if the scheme currently in place assisted the company to deliver on client requirements; stimulate organization learning (i.e., problem solving mindset); and increase profitability. They agree that the scheme enables the company to enhance team work; improve communication between management and employees; stimulate employees to make suggestions on ways to improve productivity; and reduce cost.

However, the scheme currently in place has ‘not met’ management’s objectives to create a feeling of ownership and to share a proportion of saved-cost for productivity improvement purposes.

Management Implications

During the course of this study, many issues relation to the survival of gain sharing after implementation and the applicability of gainsharing to a wider sector of the economic activity including the public sector were not intensively covered. The nature of this study didn’t allow these areas to be covered in depth. Overall, this study has highlighted productivity level in South Africa and the need to improve it. Issues relating to compensation and gain sharing as a pay-for –performance incentive scheme that results to improved business performance were discussed.

Gainsharing as a formula based company wide bonus plan, which provides for employees to share the financial gains made by a company as a result of its improved performance were explored. This was accompanied by practical implications of gainsharing as experienced by overseas companies.

Besides the achievements of the study objectives and the reasons for managers to implement gainsharing as outlined above, the following conclusions can also ne made;

- 1) Gainsharing has been recognized as an appropriate monetary reward for productivity improvement.

- 2) Gainsharing creates a working environment that encourages worker participation and provides an opportunity for linking improved performance to compensation.

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