GAINSHARING PERSPECTIVES, THEORY, AND DESIGNS: A REVIEW

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ABSTRACT

Although gainsharing is an old organizational development intervention, the literature has not sought to provide an integrative framework for its study. The purpose of this article is to provide a review of its conceptual perspectives, organizational theory, and design to meet the need of such future research.

INTRODUCTION

Employee incentive plans, in their many forms, are not new to many industries. Their historical roots date back to the early 1900s with Frederick Taylor and other proponents of scientific management. Taylor characterized it as “management of initiative and incentive” (1). Under such management, employee activities were viewed as rationally or economically driven. The assumption was made that more incentives lead to greater employee output by linking compensation and productivity. (2) This management remained dominate during the decades of scientific management. This change in management thought was born with the emergence of the behavioral side of employees called the human relations school. With the famous Hawthorne studies of the Western Electric Company came a significant deviation in conventional management thought. Gainsharing began around the time of this movement. Although gainsharing plans are over fifty years old, most documentation of their utilization is confined to the manufacturing and industrial settings. Adoption and diffusion among the service industries, like health care, has been much slower (3,4,5). No apparent reasons are given for this phenomena. A potential suggestion might include the belief that financial incentive plans are not applicable to service-driven organizations. Since the outcome from the provision of a service is the product, not always a physical or tangible object like a widget, management may fear the compromise of quality by offering such incentives.
This perception may reflect ambivalent feelings of counter production, compromise, and failure to establish standards for organizational performance.

Today's organizations must have greater flexibility, to improve goals for quality, customer service, and cost control. In response to this environment, many organizations have adopted innovative human resource strategies to reward organizational performance. Gainsharing is one such strategy.

LITERATURE REVIEW

Gainsharing: Perspectives, Theory, and Structures

Gainsharing is an organizational incentive plan which equitably rewards employee contributions to productivity. It measures productivity through a bonus calculation which reflects enhancement, cost reduction and efficiency, or the quality of services provided.\(^{(6,7,8)}\) Those who contribute to this productivity are financially rewarded.

Shared rewards are contingent upon organizational performance as a form of variable pay and not a part of the base wages.\(^{(9)}\) More than just an economic incentive plan, gainsharing seeks its competitive advantage through improved labor relations which share power, knowledge, and information.\(^{(10,11)}\)

Philosophy of Gainsharing

Doyle\(^{(3)}\) explains that gainsharing is an integrative approach to management problems because it takes a holistic perspective, addressing the entire organization instead of only its part. Gainsharing is comprised of three elements: (1) management practices, (2) employee participation, and (3) shared reward. A graphical representation of their relationship is shown in Figure 1.
Graham-Moore\(^{12}\) analogously describe these three components as follows: (1) philosophy of cooperation, (2) an involvement system, and (3) a financial bonus.

The first element, management practices, refers to the organizational culture which serves as catalyst for excellence. Such levels are attained through organizational commitment and support. Lawler\(^{13}\) describes this commitment to participative management as a high involvement approach. It is at the top of the gainsharing triangle and represents the crucial role of management in leadership, support, and resourcefulness in accomplishing organizational objectives, an important part of gainsharing success\(^{14}\). The second element, employee participation, refers to the design and structure of the plan which facilitates employee participation in problem solving activities. Management shares its role by giving its employees the necessary information, knowledge, and power to influence organizational performance.\(^{15}\)

Thus, employees possess the ability to affect change within the organization. This element is located at the base of the gainsharing triangle and represents the body, structure, and support of the
gainsharing endeavor. Organizational goals cannot be accomplished without the help of employees and is thus recognized as a key success factor. The third and last element, shared reward, refers to the system which determines the criteria and method of distribution for rewards. It is also located at the base of the gainsharing triangle and represents the motivational theory which drives the gainsharing. Since people do what they are rewarded for doing rewards display equity and makes the employee’s effort feel worthwhile. Such behavior is desired for excelling in the marketplace against competitors.

**Theory of Gainsharing: Motivation Revisited**

The philosophy of gainsharing incorporates various aspects of motivational theory. Resting upon McGregor’s influential book entitled *The Human Side of Enterprise*, gainsharing deviates from traditional management assumptions of Theory X toward assumptions of Theory Y. Reflecting the premises of scientific management, Theory X or conventional management as called by McGregor, assumes that people possess an inherent dislike for engaging in any productive activity, seeking to avoid it if possible. Due to this dislike for work, they must be supervised through methods of coercion, control, and direction. These threats of possible consequences as punishment are to get employees to achieve organizational objectives. Lastly, this theory suggests that people prefer direction because it provides a sense of structure, relinquishing them of any responsibility and reinforcing security seeking behavior.

Theory Y or the new theory of management as called by McGregor, put forth a significantly different set of premises about the employee. It began to focus attention away from methods of individual isolation toward an approach of “integrating individual and organizational goals.” In total contrast, Theory Y is assumes that people are not inherently passive or resistant to organizational needs, but have overcome so as a result of their work experiences. Instead, people can find much enjoyment and
personal satisfaction from participating in work activities. Human beings already possess the necessary capacity for work as demonstrated through exercises which prove organizational commitment to achieving organizational objectives. Therefore, the sole use of consequences and external control are not the only methods available for management.

The remaining assumptions of Theory Y embody the essence of gainsharing philosophy. What helps differentiate gainsharing from previous incentives plans is not just the recognition by top management of the value of meeting employee needs, but the type of support necessary for obtaining such goals. This support is an environment practice which provides the resources to accomplish its objectives. This kind of management practice is not a function of compensation. Incentives without these critical factors may lead to failure. Employees require management provide a clear understanding of how their role is necessary, important, and contributes to achieving organizational objectives. The shared reward serves as an added incentive to those nonmonetary benefits of working for the organization.

Employee participation goes beyond a simple "rate" type incentive system. As previously stated, workers must have the proper information, knowledge, power and to affect change within the organization. People are not open to accept responsibility and are usually willing to seek it. People are creative, imaginative, adaptive, and solution oriented as a primary means of survival. McGregor\(^{19}\) suggests that management, as a group does not inherently possess all the talents and capabilities required to operate an organization. Organizations instead must draw from all its members. Thus, these gifts are evenly distributed throughout the organization. Management must openly make a commitment to its employees becoming involved in contributing to most areas of organizational operations. Failure to capitalize on all human resources, inhibits organizational competitiveness, viability, and success.
Type of Plans

Basic design. Gainsharing plans can differ widely in their design and usage. Although gainsharing plans were historically characterized by generic structures, organizations now customize these plans to suit their needs. Peck notes this trend is becoming more popular as organizations begin to reflect their internal needs in relationship to environmental factors which affect their operations.

The process required to design a gainsharing will not be discussed here, but are outlined in detail elsewhere. This article will briefly describe and compare gainsharing programs more frequently among organizations.

Due to variation among gainsharing programs, Bullock and Lawler developed a conceptual model for reviewing the literature. This model, demonstrated in Figure 2, addresses variation through three components: (1) structural factor, (2) implementation factors, and (3) situational factors. Structural factors refer to those features which are characteristic of a program. For example, specific details on actions and decisions made in the development and operation of the plan. Implementation factors refer to the actual implementation process itself and the dynamics associated with this phase of the plan. Situational factors refer to the background information which play a role in determining how and why the plan is implemented. These factors reflect plan customization and contribute to obtaining desired organizational outcomes.

Model plans. Certain gainsharing plans over the years have been adopted as model plans. The following plans are representative of this group: the Scanlon Plan, the Rucker Plan, and the Improshare Plan. Since the Scanlon Plan is the oldest and the first productivity plan, it will begin our discussion. We begin by addressing each structural, implementation, and situational factors with the idea of presenting an overview of each system. Adapting
Figure 2
A Heuristic Model of Gainsharing Model

Structural factors
(Involvement structure, financial formula, payout percentage, etc.)

Implementation Factors
(Employee Involvement, objectives use of interventionist, etc.)

Success Outcomes
(Innovation, productivity, pay, cooperation, etc.)

Situational Factors
(Size, union status, management style, technology, environment, etc.)

the comparative analysis forms of Miller and Schustet,\(^7\) additional gainsharing information is integrated into the model for plan comparison (Bullock and Lawler--Figure 2). Thus, three generic plans are presented in an elaborated form in Table 1. A more comprehensive comparison of these plans exist elsewhere.

**The Scanlon Plan**

The Scanlon Plan, established during 1930s, is the oldest of the gainsharing plans. Known for its strong commitment to employee participation and joint problem solving as a management philosophy rather than just an incentive plan, it most closely reflects the theoretical assumptions of McGregor’s Theory Y. Peck notes the following key elements of this plan: (1) a belief that all employees have the ability to make suggestions for the improvement of the organization, (2) a belief in a process which enables these suggestions to be implemented, and (3) a system for equitably distributing the gains between the organization and its employees.

The first element emphasizes a high amount of employee involvement in organizational activities. Management believes that all of its employees possess the ability to improve organizational productivity, not just top management. Goals addressed are members attitudes, communication, work behaviors, quality, and cost reduction.

The second element emphasizes the structure which enables the process of problem solving to occur. The Scanlon plan adopts a participative management structure which solicits the contribution of each employee. This is accomplished through two levels of committees: (1) a productivity or production committee and (2) a screening or steering committee. The first level committee, the productivity or production committee, is composed of peer elected employee representatives, mostly rank-and-file employees, and some supervisory level managers. The authority of this committee
<table>
<thead>
<tr>
<th>Plan</th>
<th>Scanlon Plan</th>
<th>Rucker Plan</th>
<th>Improshare Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Characteristics/Factor</strong></td>
<td>Organization-single unit, share improvements (reward); employees capable/willing to make suggestions, lend ideas (management commitment to employees participation and joint problem solving)</td>
<td>Primarily economic incentive; some reliance on employee participation, but can be limited</td>
<td>Economic incentives increase performance</td>
</tr>
<tr>
<td><strong>Structural Factors Philosophy</strong></td>
<td>Productivity improvement (primarily limited to manufacturing industry)</td>
<td>Productivity improvement</td>
<td>Productivity improvement</td>
</tr>
<tr>
<td><strong>Primary goal</strong></td>
<td>Attitudes, communication, work behavior, quality, cost reduction</td>
<td>Attitudes, communication, work behavior, quality, cost reduction</td>
<td>Attitudes, work behavior</td>
</tr>
<tr>
<td><strong>Subsidiary goals</strong></td>
<td>Attitudes, communication, work behavior, quality, cost reduction</td>
<td>Attitudes, communication, work behavior, quality, cost reduction</td>
<td>Attitudes, work behavior</td>
</tr>
<tr>
<td>Plan</td>
<td>Scanlon Plan</td>
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<td>Improshare Plan</td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------------------------------------------</td>
<td>------------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>Level of employee participation</td>
<td>Fairly high involvement</td>
<td>Low to moderate involvement</td>
<td>No formal involvement system</td>
</tr>
<tr>
<td>Structure for employee involvement</td>
<td>Two levels of committees</td>
<td>Generally a screening</td>
<td>Bonus committee</td>
</tr>
<tr>
<td></td>
<td>*screening</td>
<td>committee</td>
<td>Method used</td>
</tr>
<tr>
<td></td>
<td>*production (many)</td>
<td>production committees</td>
<td>*none</td>
</tr>
<tr>
<td></td>
<td>Method used</td>
<td>(sometimes) Method used:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*formal suggestion making system</td>
<td>*formal suggestion making system</td>
<td></td>
</tr>
<tr>
<td>Bonus formula</td>
<td>sales payroll</td>
<td>Bargaining-unit payroll</td>
<td>Engineering std. X BPF Total hours</td>
</tr>
<tr>
<td></td>
<td>*(focuses on relationship between labor costs and the value of the output, usually sales)</td>
<td>Production value</td>
<td>worked</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*(formula includes a value-added concept for measuring employee output)</td>
<td>*(focus on the relationship between work hours and units produced in a time frame)</td>
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(continued)
<table>
<thead>
<tr>
<th>Plan</th>
<th>Scanlon Plan</th>
<th>Rucker Plan</th>
<th>Improshare Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency of payment</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Weekly</td>
</tr>
<tr>
<td><strong>Implementation Factors</strong></td>
<td>Chair, Production committee</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Role of supervisor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Role of managers</td>
<td>Direct participation in bonus committee assignments, enhance potential for employee communication; improve flow of information to employees</td>
<td>Idea coordinator evaluate suggestions, committee assignments, enhance potential for employee communication; improve flow of information to employees</td>
<td>None</td>
</tr>
<tr>
<td>Plan</td>
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<td>Improshare Plan</td>
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<td>-------------------------------------------------------------------------------</td>
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<tr>
<td>Role of employees</td>
<td>Performance information: focus on business performance Knowledge: apply team skills and business economics to organizational problem solving Decision Power: make work-method and work-unit management decision, as well as, contribute to strategic organization decisions</td>
<td>Performance Information: focus on business performance Knowledge: apply team skills to problem solving on a limited basis of participation Decision Power: some participation in decisions</td>
<td>Performance Information: job specific, focused on productivity Knowledge: job specific Decision Power</td>
</tr>
</tbody>
</table>

**Situational Factors**

<table>
<thead>
<tr>
<th>Role of union</th>
<th>Negotiated provisions; Screening committee membership</th>
<th>Negotiated provisions; Screening committee membership</th>
<th>Negotiated provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact on management style</td>
<td>Substantial</td>
<td>Slight</td>
<td>Slight</td>
</tr>
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</table>

(continued)
Table 1 (Continued)

is limited by a cost range and by department responsibility. The purpose is to encourage the development of new ideas that will help improve the organization and to evaluate each proposed intervention. Hence, this committee acts as a screening device with the ability to accept suggestions which appear feasible, reject them, or pass them on to the second level committee. The second level committee, the screening committee, is comprised of representatives from production committee that are within the boundaries of collective bargaining are not discussed within those committees, (4) considering all possible business problems, and (5) reviewing the monthly bonus calculations. More important than the specific the productivity committee, senior level managers, and union leaders (if applicable). In addition to dealing with masters from the first level committee, the screening committee handles administrative aspects associated with operating the plan and communicates these to the employees. Hence, two-way communication is utilized. Miller and Schuster are most specific in their account of the primary responsibilities of this committee. These responsibilities include the following: (1) approving matters outside of the span of control of the productivity committee, (2) receiving appeals on ideas that have previously been rejected by the productivity committee, and (3) ensuring that matters raised by the responsibilities of these committees is the fact that peer review of suggestions reinforces suggestion-making behavior among employees.

The Rucker Plan

The Rucker Plan, developed by economist Allen Rucker, sought to replicate the Scanlon Plan by improving upon the calculating formula for distributing organizational rewards to employees. As a more complex formula, this plan utilizes a production value as a proxy for determining the standard for productivity improvements. A production value is defined as “the difference between the value of production (sales +/- various adjustments) less outside purchases such as materials and supplies.”
This plan may also be seen as a hybrid between the Scanlon and the Improshare plans, in that it is primarily an economic incentive plan. Although employee participation is valued in this plan, it is not relied upon to the extent of almost total employee involvement as in the Scanlon plan. Here, the level of employee involvement utilizes a formal suggestion-making system. The two tiered committee system of screening and production committees are not always present, particularly the latter. This difference changes the implementation factor in the role of supervisors, managers, and employees. The most important being the limited amount of decision power and the knowledge applied to problem solving.

The Improshare Plan

The Improshare Plan is a most recent plan introduced during the 1970s by an industrial engineer by the name of Mitchell Fein. Focusing more on the individual, economic incentives are viewed as the primary means of increasing performance. This is quite different from the other two plans. Peck identifies two distinguishing factors which differentiate the Improshare Plan from the Scanlon and Rucker Plans, namely the bonus formula and the level of employee involvement.

The first difference lies in the calculation of the bonus formula. The focus is on the relationship between the actual hours worked and the units produced within a given time frame, rather than on labor costs and output within this period. If the time required to produce a number of units is less than the time required to produce the same number of units during a base period, a bonus is shared with the employees. Employees find this relationship between hours worked and units produced easy to understand. Management reserves the option to buy-back the bonus opportunity by raising the standard of performance. Under such circumstances, any bonus paid is based on the old standard until a new standard is established. This base period information is either taken from
historical data of past organizational performance or is calculated by industrial engineers. The second difference lies in the lack of a formal involvement system for employee participation. Despite the fact that a bonus committee exists, its function are limited to reviewing the periodic bonus calculations. Although the Improshare plan is simple to comprehend, it does not place limitations on employee participation.

An Industry Example from Health Services Organizations

Employee benefit plans are frequently cited in the health care literature for their assistance in recruiting and retaining qualified personnel, particularly nurses. Benefit plans incorporate any combination of monetary and incentives that are valued by employees. Among these are health care coverage (medical and dental), life insurance, disability, paid vacation, child care, educational inducements (tuition and scholarships), and tax-deferred benefits.

These plans alone are usually not enough to address key factors in the delivery of services. In addition to these incentives, other innovative plans have been developed which place emphasis on both the clinical and administrative aspects of delivery. Opportunities for advancement and recognition within this framework led to the adoption of career or clinical ladders with corresponding monetary rewards. (22, 23, 24, 25) This concept recognizes a growing emphasis in human resource management to link an individual’s performance with pay.

Although the idea of performance-based pay has been used by many businesses, it adoption and diffusion within health care been a more recent development. (26, 27) Relying less upon traditional reward systems such as pay grades, length of service, and cost of living adjustments, the emphasis is placed on individual or group performance. Organizational goals such as productivity (leading to enhance revenue and reduced costs), employee retention, and
quality are used to link employee performance with rewards.\(^{27, 28, 29, 30, 31, 32, 33}\) Here, the performance measurement usually involves individual or group assessment, not organization-wide assessment.

Although gainsharing is a form of performance-based pay it focus is centered more on productivity and cost savings. It also reflects more organization-wide involvement and performance, than individual merit. Jones and Hauser described a recent compensation survey of 400 U. S. hospitals where 2.6 percent of the respondents used gainsharing, with an additional 20 percent examining the future feasibility in their organization. This appears to be a developing trend.

**CONCLUSIONS**

We now know that gainsharing is all about and we have a good grasp of what it is realistically accomplished. Perhaps not all of the literature addresses how gainsharing works under specific circumstances. The factors associated with learning a new reward system are clearly the more interesting parts of the gainsharing literature since they offer so much promise.

Organizations will probably continue to try to improve performance through gainsharing and various pay-for-performance system. For organizations to become truly performance oriented, they need both cultural change and new systems of measurement.\(^{34}\)

**REFERENCES**


