

THE GAIN WAS ALWAYS SHARED · CHAPTER THREE

Where the Gain Goes Missing

Chapter Three of The Gain Was Always Shared

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THE LICENCE

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A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

In 1996 the management scholar Denis Collins published a short article in Compensation and Benefits Review with a title that does not bury its subject: "Fifteen Lessons Learned from the Death of a Gainsharing Plan". Two years later he published a book, Gainsharing and Power , built on close study of six Scanlon-type plans, with a chapter on what he called the power games that decide their outcomes. That a scholar of the field would write about a plan's death so plainly is worth noticing. Most of the literature on gainsharing is written by people who believe in it, and it is a credit to that literature that it has kept a record of its failures. Chapter 2 told the origin: a failing mill, a union officer's question, a committee system with a shared measure attached. This one reads the other side of the ledger.

CHAPTER THREE

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Fifteen lessons from a funeral

In 1996 the management scholar Denis Collins published a short article in *Compensation and Benefits Review* with a title that does not bury its subject: "Fifteen Lessons Learned from the Death of a Gainsharing Plan".[17] Two years later he published a book, *Gainsharing and Power*, built on close study of six Scanlon-type plans, with a chapter on what he called the power games that decide their outcomes.[18]

That a scholar of the field would write about a plan's death so plainly is worth noticing. Most of the literature on gainsharing is written by people who believe in it, and it is a credit to that literature that it has kept a record of its failures. Chapter 2 told the origin: a failing mill, a union officer's question, a committee system with a shared measure attached. This one reads the other side of the ledger.

The aim is not to argue against gainsharing. It is to name the five ways it most often goes wrong, fairly, and to say for each one what a leader can do about it before the first meeting. A practice that has been studied for seventy years has earned that kind of reading. Ammanuel Santa Anna's *Ecstatic Economics*, which treats participatory structures with obvious sympathy, sets the tone in a passage about the hard work of building them:

> *Anyone who tells you otherwise is selling something.*[19]

He is writing about cooperatives and steward ownership, and about the claim that such models are easy. The sentence applies here without alteration.

The first critique: one share among many

The sharpest theoretical objection to any group reward is old and simple. If two hundred people share a gain equally, a person who works harder receives one two-hundredth of the extra value their effort creates. A person who coasts loses one two-hundredth of what they withheld. In a firm of any size, the arithmetic says, the incentive to make a special effort for a shared bonus is close to nothing.

Eugene Kandel and Edward Lazear set this out in the *Journal of Political Economy* in 1992, in an article titled "Peer Pressure and Partnerships".[20] Their abstract states the problem in a sentence: in organisations of any significant size, the free-rider effects would seem to choke off any motivational forces. And the same author, Lazear, later published one of the best-known findings in favour of the opposite approach. When the Safelite Glass Corporation moved its windshield installers from hourly pay to individual piece rates, output per worker rose by about forty-four per cent.[21]

That is a serious challenge, and it should be taken seriously rather than waved away. But Kandel and Lazear did not stop at the problem. Their article is about how peer pressure works, and how profit sharing, shame, guilt, norms, mutual monitoring and empathy interact to create incentives that the simple arithmetic leaves out. The free-rider problem is real when people are strangers to each other's work. It weakens when

they can see each other's work, care what their colleagues think, and share a norm about what a fair day looks like.

The Safelite result also needs reading carefully. Installing a windshield is a task one person does alone, with output that can be counted exactly. Individual piece rates suit that kind of work. Most of the gains described in the gainsharing literature come from a different kind of work: fewer defects, less downtime, ideas about how a process could run better. Those are rarely the product of one person's effort, and a piece rate cannot pay for them.

The way through. Draw the group around the people who can see each other's work, and keep it as small as the cooperation allows. Dong-One Kim's survey of 211 organisations found that a small bonus group was among the factors associated with a plan's survival.[22] Then build the visibility on purpose: a shared board, a weekly look at the measure, a habit of naming who found what. The free-rider problem is a description of a group that cannot see itself. Let it see itself.

The second critique: the ratchet and the base

Every gainsharing plan compares present performance against a base: a period in the past, a standard, a ratio. The base is where trust is won or lost. If the base is set at a period of unusual weakness, the plan pays out for recovery that would have happened anyway. If it is set at a period of unusual strength, the plan never pays out at all. And if management resets the base upward every time the group beats it, which is the ratchet, people learn that a good year is punished with a harder target.

The ratchet is not a theoretical fear. It is the oldest complaint about piece rates, older than gainsharing, and it explains why workers under some individual incentive schemes have kept output just below the level that would trigger a new standard. A gainsharing plan that ratchets has rebuilt the problem it was meant to solve.

Theresa Welbourne and Luis Gomez-Mejia's 1995 critical review of the field in the *Journal of Management* treated the design of the base and the conditions mediating success as open questions, and called for research rather than claiming the matter settled.[23] That is the honest position. There is no base that is right for every firm.

The way through. Agree the rules for changing the base before the plan starts, in writing, and put them to the people the plan covers. Kim found that employee approval by vote was among the factors associated with survival.[22] A vote is not a guarantee of fairness, but it changes who owns the rule. A base that people helped set, and can read, is a base they will defend when the market turns. Where capital investment changes the work, say in advance how the base will be adjusted for it; Kim's study also found major capital investment associated with survival, which suggests that firms which invest alongside the plan, rather than in place of it, keep it alive longer.



The third critique: power, and the supervisor in the middle

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The third critique: power, and the supervisor in the middle

Collins's six plans are the most useful single source on the part of gainsharing that the formula cannot see. His book's chapter titles say where he looked: participatory management in Scanlon-type plans, and the power games, outcomes and lessons learned. The finding most often drawn from his work is that plans fail less often because the arithmetic is wrong than because the participation is never real. Managers keep the right to decline suggestions without explanation. Committees become places where management reports

and employees listen. And supervisors, whose authority rested on knowing more than the people they supervised, find that the committee structure makes that authority visible as a bottleneck.

The supervisor deserves particular care. In a traditional plant the supervisor is the channel through which problems are reported and decisions are made. A gainsharing plan with a working suggestion system creates a second channel. Ideas arrive at the screening committee without passing through the supervisor, and some of them describe problems the supervisor knew about and did not fix. A supervisor who experiences the plan as an audit will resist it, often quietly, and the plan will slowly lose the people in the best position to make it work.

Santa Anna's book names this kind of resistance from the inside of the nervous system rather than the organisation chart. Writing about workplaces that try to move from hierarchy to distributed authority, he is precise about why structure alone does not hold:

> *You cannot distribute authority to nervous systems that are still organized around fear.*[24]

A supervisor who fears the committee is acting on that fear rationally. The plan has threatened something real.

The way through. Redesign the supervisor's role before the plan starts, not after. Make the supervisor the person who brings the team's ideas to committee and is credited when they are adopted, rather than the person whose omissions are exposed by them. Measure supervisors on the share of their team's ideas answered and implemented. And keep the rule that every idea receives a written answer, with a reason, within a fixed time. That rule is the plainest test of whether power has actually moved. If the answers stop coming, the plan is already dying, whatever the bonus says.

The fourth critique: the number moves for other reasons

A shared measure is affected by things the group controls and things it does not. A rise in the price of steel, a contract lost by the sales team, a recession, a new machine bought by head office: each can move a value-added measure or a labour-cost ratio by more than a year of good ideas. When that happens, the plan pays out for luck or withholds a payout despite real improvement. Either way, the people covered learn that the number is weather.

This critique is the reason Mitchell Fein built Improshare around engineered hours rather than financial ratios. Hours are closer to what the group controls. They are also narrower: an hours measure does not reward saving materials, energy or scrap, which is often where the larger gains lie. Each of the three classic designs, described in Chapter 2, made a different trade between controllability and scope. None escaped the trade.

Robert Kaufman's study of Improshare users found that productivity gains rose to a cumulative seventeen and a half per cent by the third year and then levelled off.[25] A levelling-off is not a failure, but it raises a design question that the formula alone cannot answer. When the easy gains have been found, what keeps the plan alive? If the measure only rewards improvements that are now exhausted, the plan becomes a fixed cost with no visible return, and it will be cut in the first bad quarter.

The way through. Choose a measure the group can affect, and say plainly in advance which outside events will be adjusted for and how. Then plan for the plateau. Kim's survey associated retraining and new-employee training with survival, and found that these worked through their effect on programme performance.[22] The practical reading is that a plan stays alive by widening what people can see and change: training that teaches the economics of the next process up the line, so that the next round of ideas has somewhere to go.



The fifth critique: the evidence sees the survivors

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The fifth critique: the evidence sees the survivors

The last critique is about the research itself, and it applies to every favourable figure in this book. Most of what is known about gainsharing comes from three kinds of source. Case studies, written by consultants or researchers who helped install the plan. Surveys of current users, which cannot easily reach firms that abandoned their plans. And a small number of quasi-experimental studies at single sites.

Each has a known weakness. Case studies are published more often when the plan worked. Surveys of known users are portraits of survivors; Kaufman's 112 Improshare firms answered a 1988 questionnaire sent

to every known user, and a firm that had dropped the plan was less likely to be known or to answer. Single-site studies can be careful and still say little about the next site. Robert Bullock and Edward Lawler's 1984 review in *Human Resource Management* found that most of the cases in the literature were successful, and gave its article a title that is still the fairest summary of the field: "Gainsharing: A few questions, and fewer answers".[26]

None of this means the favourable findings are wrong. It means they are likely to overstate the average result, and that a leader should not read any figure in this book as a forecast for their own firm.

The way through. Treat your own plan as the study. Write down, before the plan starts, what you expect to change and by when, and how you will know. Collect the measure for a year before anything is shared, if you can, so that the base is a reading rather than a guess. And keep the record of what failed as carefully as the record of what worked. Collins's fifteen lessons came from a plan's death. A firm that keeps that kind of record about itself will learn more from its own plan than from any published case.

What the critiques have in common

Read together, the five critiques point at the same place. Free riding is a problem of visibility. The ratchet is a problem of who owns the rules. Power is a problem of whether voice is answered. Weather is a problem of what the measure can see. Survivorship is a problem of what the research can see. In each case the formula is downstream of something else: whether the people covered can see the work, shape the rules, be answered, and trust the number.

That is where Chapter 2 left the history, and it is where Chapter 4 picks up the house's own reading. Santa Anna's book states the general principle in a line about organisations that try to change their culture without changing their structure:

> *Culture doesn't float free of structure.*[27]

The critiques of gainsharing are the same sentence read from the other side. Structure does not float free of culture either. A formula installed in a firm where voice is unanswered becomes another reason for suspicion. A formula installed in a firm that has already learned to answer becomes a way of saying, in money, what the answers already said.

Two companion books in the Ecstatic Economics series reach the same conclusion from different directions. The book on employee ownership reads the evidence on what happens when people own part of the firm rather than share in a measure. The book on Elinor Ostrom's work on the commons describes how groups that share a resource make and enforce their own rules, which is the free-rider problem solved without a central authority. Both are worth reading beside this one.

Standing by the grave

Collins's article is short. Its title is the most useful thing about it: a reminder that the plans worth learning from include the ones that ended, and that someone stood by the grave long enough to write down why. Chapter 7 returns to a plan of that kind, read from the inside.

The Tool: The Five-Critique Pre-mortem

Run this before any shared-reward plan is announced. Imagine it is two years from now and the plan has been abandoned. For each critique, write the most likely reason it failed, then the step that would prevent it. One hour, with the leader, a supervisor, and two people the plan would cover.

1 · One share among many (free riding)

- Number of people in the proposed group: ___ · Can each of them see the others' work? yes / partly / no

Where the group cannot see itself, the visibility we will build (a board, a weekly review, a naming habit):

Smallest group that still contains the cooperation that produces the gain:

2 · The ratchet and the base

Proposed base period or standard: · Was it a normal period? yes / no · evidence:

Written rule for when and how the base changes:

Will the people covered vote on the plan and the rule? yes / no · if no, why not:

How capital investment will be treated:

3 · Power and the supervisor

Each supervisor's role in the plan, in one sentence:

How supervisors will be credited when their team's ideas are adopted:

Written-answer rule: every idea answered within ___ days, with a reason if declined · Who checks it is kept:

The first sign that power has not moved, and who will report it:

4 · The number moves for other reasons

Things inside the group's control that move the measure:

Things outside it that move the measure:

How each outside event will be adjusted for, decided now:

When the easy gains are exhausted, what training will widen what people can change?

5 · The evidence sees the survivors

What we expect to change, by how much, by what date (written before the plan starts):

- How long we will collect the measure before anything is shared: ___ months

Where we will record what fails, and who keeps it:

The verdict

Critiques with no preventing step written:

If any, the plan waits until each has one. Review date:

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