



Are You Throwing Your Money Away?

[Gainsharing Q&A](#)
[What You're Missing](#)
[Workshop Schedule](#)
[Client Comments](#)
[In House Workshop](#)
[About Us](#)
[Home](#)



Get the Benefits of Gainsharing Working for you!

What is Gainsharing?

Gainsharing is a system that includes (1) a financial measurement and feedback system to monitor company performance and distribute gains in the form of bonuses when appropriate, and (2) a focused involvement system to eliminate barriers to improved company performance. Gainsharing systems vary widely in terms of their design and the degree to which they are integrated into the regular operating systems of the company. Of course, the more they are integrated into the day-to-day operational systems, the more commitment there is to the Gainsharing system. And, the more commitment there is to achieving overall business goals (including the Gainsharing goals) the better the resulting performance is.

Is Gainsharing different from Profit Sharing?

Yes. Gainsharing and Profit Sharing are similar in that when the company does better, these improvements are reflected in employees' compensation. But beyond this basic similarity there are several important differences.

1. Power to Motivate Rank and File Employees

For employees to be properly motivated, there are two basic elements that must be present.

(A) Employees must understand what they need to do - specifically - to make the performance happen.

Gainsharing is very strong in this regard, in that a properly designed Gainsharing system will specify what needs to be done for the Gainsharing goals to be achieved. That is, employees will have an answer to the question, "What do I need to do, and what do we need to do, to make the gains happen."

Profit Sharing does not do a good job of answering these questions for the rank and file employees. I may want to increase our profit sharing, but what do I do - today, right now - to make the profit

Click on the questions below to go directly to the corresponding answer:

What is Gainsharing?

Is Gainsharing different from Profit Sharing?

Is it Possible to Use Gainsharing with Profit Sharing or other Compensation Systems?

Does Gainsharing become an "entitlement?"

Will Gainsharing lead to a decrease in quality performance?

It is still possible to implement if product or service demand is steady or even at reduced level?

Can Gainsharing be implemented in a "Job Shop" environment?

Am I going to need to hire someone to run our Gainsharing system?

Is there a "best time" to implement Gainsharing?

Is it more difficult to implement Gainsharing if my company has a union?

Should all employees be included in our Gainsharing system?

Is there a certain bonus level that needs to be achieved before the Gainsharing system really "takes off?"

How do we keep the "spark alive" as our Gainsharing System gets older?

Does Gainsharing impact corporate culture?

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sharing happen? A properly designed Gainsharing system provides these answers.

(B) Employees must believe that if they do what they understand they should do, that they will actually get the rewards they are anticipating from their performance.

Profit Sharing can be weak in this regard for the rank and file employees, because they can believe, "Sure I know what to do to make the performance happen, but management will buy some new equipment or spend more money somehow, and that's where our bonus will go."

It is not as though Profit Sharing is bad. Profit Sharing can be a good system to reward and motivate high level employees who can "connect the dots" mentally so they understand the link between the performance and profits, and what it will take to make these things happen. It's just that Profit Sharing and Gainsharing are very different systems, and that a properly designed and implemented Gainsharing system is a much more effective tool to motivate the rank and file employees.

2. Costs Included in the Measurements

Gainsharing differs from Profit Sharing in that Gainsharing focuses on the most important costs in a company's financials, whereas Profit Sharing typically includes all of the line items in a company's financials.

3. Frequency of Feedback

Feedback with Gainsharing is much more frequent with Gainsharing systems (vs. Profit Sharing). This more frequent feedback makes it possible to turn poor performance around, and thus save the week or the month. This performance feedback can be very valuable, as most financial statements are not available until after the month or week in question is over.

Profit Sharing usually provides less frequent feedback (on a quarterly or annual basis).

4. Frequency of Payouts

Gainsharing systems typically have a (potential) payout on a monthly basis. Profit Sharing systems typically payout (potentially) on an annual basis. Of course, the more closely we tie the rewards to the performance, the greater the motivational impact of the rewards paid out.

[back to top](#)

Is it Possible to Use Gainsharing with Profit Sharing or other Compensation Systems?

Sure. Many Gainsharing companies have Profit Sharing also and the two systems work well together. With a properly designed, implemented and maintained Gainsharing system, profits vary with Gainsharing performance. Thus, your Gainsharing System helps you to specify what needs to be done and how you are doing in terms of those objectives as you progress through the year. Your Gainsharing System pays out (potentially) as you progress through the year, and your Profit Sharing system can pay out (potentially) at the end of the year to fund retirement plans, etc. There is no inherent conflict



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between the two systems.

[back to top](#)

Does Gainsharing become an "entitlement?"

No. Because it is true pay for performance; sometimes it happens - other times it doesn't. One of the best things that can happen to a long standing successful Gainsharing system is to miss paying a bonus. Since your people will be accustomed to receiving the bonuses, they will be asking "What's the matter and what are going to do about it?" When your employees' W2 earnings are tied to making it happen, you'll get attention to performance that you cannot get any other way.

[back to top](#)

Will Gainsharing lead to a decrease in quality performance?

No. You should see an improvement in quality performance. Since we can show how quality problems directly impact a given workers gainsharing earnings we can give them a personal interest in ensuring that everyone in your company is doing their part to maximize quality performance. The key is that employees (with Gainsharing) will personally feel the pain (in their W2 earnings) of quality problems. Now high scrap rates and other quality problems not only effect the company, they effect everyone. Also, if an undue emphasis is put on high output that increases quality problems the net result will not benefit the Gainsharing performance since the quality problems (and their appropriate associated costs) will be deducted from the Gainsharing performance numbers. So it won't do your employees any good to produce at a high rate if they are producing a great deal of "junk," since the "junk" gets subtracted from the good work to produce the final Gainsharing numbers.

[back to top](#)

It is still possible to implement if product or service demand is steady or even at reduced level?

In these cases, most of the gains must be achieved from cost reductions, which are more difficult to achieve than productivity increases from holding costs the same and increasing output. Nonetheless, the gains from Gainsharing can be significant and the increased focus and "make it happen" aggressiveness Gainsharing provides are beneficial in all business circumstances.

[back to top](#)

Can Gainsharing be implemented in a "Job Shop" environment?

Sure. Many "Job Shop" companies have successful Gainsharing system. Developing and maintaining a successful Gainsharing system in this environment is no more difficult for job shops than other types of companies.

[back to top](#)

Am I going to need to hire someone to run our Gainsharing system?

No. Many of the necessary components of a Gainsharing system (planning, communication meetings) can replace or be added to your existing systems. Most Gainsharing systems use the information that already exists for the basic Gainsharing information. Also, many of the Gainsharing calculations can be automated using existing information. Thus, most successful Gainsharing systems do not require extra or dedicated personnel.

[back to top](#)

Is there a "best time" to implement Gainsharing?

This question reminds me of a story about Edwards Deming. Someone asked Deming if there was a best time to implement a Total Quality Management System. Deming was said to reply, "It doesn't matter when you start, as long as you begin right away." Seriously though, if you can implement when your Company has more work than it knows how to respond to (large backlog), the gains from Gainsharing come more quickly and are easier to achieve. With strong product or service demand, you will not have to "put on the brakes" when the productivity increases. And, you can set aggressive goals and not worry about running out of work. It is just a psychological fact that people do not hit their creative peak until they have more work than they know how to respond to.

[back to top](#)

Is it more difficult to implement Gainsharing if my company has a union?

No. Successful Gainsharing systems exist in both union and non-union companies. If you have a union, they should be included in the design and approval process, but there is no inherent conflict between Gainsharing and unions.

[back to top](#)

Should all employees be included in our Gainsharing system?

Your Gainsharing system should only include those people who's performance is reflected in the company financials. Seriously, many Gainsharing systems include top management, sales people, part-timers - everyone. Since everyone has an impact on our results (or they wouldn't be on the payroll) our system should include all of these important people for maximum impact.

[back to top](#)

Is there a certain bonus level that needs to be achieved before the Gainsharing system really "takes off?"

Yes, it seems that employees need to get a \$100 bonus (or a month) before the system really begins to catch their attention. And, that it doesn't seem real until the bonus check clears at their bank. To really get the "fire in the belly" that you want from your Gainsharing system you need to be paying approximately \$200 per

month (or the equivalent). Your payouts will, of course, vary. Once you achieve the \$200 per month level, and the bonus goes down, your people will be serious about doing what it takes to back to the level of performance and income they know they are capable of achieving.

[back to top](#)

How do we keep the "spark alive" as our Gainsharing System gets older?

The most essential element is to keep finding and solving your company problems. Having excellent, frequent meetings is also important. As long as employees see that we are continuing to make progress on the important problems at hand, they stay "on board" and we keep moving forward with Gainsharing. If they detect though, that management is out of touch with the problems, or is not going to do anything about the problems, the employees will "check out" mentally because they think that that management has "checked out" regarding the problems.

[back to top](#)

Does Gainsharing impact corporate culture?

Yes. When we speak of corporate culture, we are concerned with the behaviors that are encouraged and rewarded. Consider what we mean when we say that the culture of Japan is different from the culture of Italy. What we are saying is that different behaviors are expected and rewarded in Japan versus Italy. The same is true regarding corporate culture.

Gainsharing impacts corporate culture directly because it changes what is expected and rewarded in your company. With Gainsharing, you will be specifying what work needs to be done (and to what quality performance) to achieve the company/Gainsharing goals, thus specifying what is expected. You will also be defining what performance is. You will not be paying bonuses or recording progress in terms of effort. Only results count. Clearly defining/measuring/reporting what is expected and how it expected to be done and then rewarding that performance with company wide recognition and bonuses will have a profound positive impact on your company culture. You will develop a culture that expects and rewards outstanding performance. The culture change will not happen quickly, (it will probably take 3 to 6 months to be noticeable) will be far reaching and worth the effort once achieved.

[back to top](#)

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