

HOW A SUCCESSFUL GAINSHARING PROGRAM AROSE FROM AN OLD ONE'S ASHES AT BELL ATLANTIC (NOW VERIZON) DIRECTORY GRAPHICS

Simply stated, gainsharing is an employee involvement program that attempts to tie additional pay to improvements in total employee performance. The basic methodology entails having the employees of a company actively find ways to make process improvements in their workplace. The resulting financial gains are then to be divided between the company and the employees. Unlike a profit sharing plan, gainsharing only pays out if and when there is an improvement over a budgeted or targeted figure. © 2000 John Wiley & Sons, Inc.

by *Michael J. Gaudio*

In 1993, Bell Atlantic Directory Graphics (BADG) of Valley Forge, Pennsylvania, instituted a gainsharing program designed to reward employees for improving organizational processes. Though it enjoyed some preliminary successes, basic design flaws ultimately led to its demise. Rather than give up on the program, BADG took steps to learn from its early experience and developed a new gainsharing program that benefits both the company and its workers.

A SINCERE BUT IMPERFECT INITIAL PLAN

Gainsharing at BADG began with the formation of a design team composed of production-level workers and management in 1993. The first gainsharing exposure for most BADG employees

was through the minutes of design team meetings. These minutes gave a good overview of the progress of the plan, noting issues to be discussed and put to a vote. They also indicated that information was to be learned from book and magazine sources, and that various functions within BADG, such as finance, were being solicited for assistance. At this point, there was a fair amount of employee interest, and a generally optimistic perception of the plan. This led to a positive atmosphere surrounding the all-employee rollout of the BADG gainsharing program. The design team sat as a panel to present the program and answer questions, explaining the plan, its framework, policies, and other pertinent data. The employees were ready to accept this new plan and new challenge. There was even an announcement that the BADG

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What is BADG?

Bell Atlantic Directory Graphics (BADG) is the Bell Atlantic telephone directory advertising center, producing high-volume directory photocomposition services. Since it began creating directories in the Mid-Atlantic States, in 1988, BADG has become the world's largest Yellow Page directory production center. After start-up, BADG actively sought out additional photocomposition business, via an on-site marketing department, and an entrepreneurial business philosophy. The company would later divest itself of the outside business ventures during the Bell Atlantic merger with NYNEX, the New York and New England telephone company. At BADG, this merger effectively doubled the operations size, workload, and workforce. In 1999, unionization was brought to BADG, with operations employees voting the Communication Workers of America as their collective bargaining agent. In the summer of 2000, Bell Atlantic and GTE finalized merger proceedings, resulting in a new company, Verizon Communications.

plan might become the pilot program for other sites within Bell Atlantic, which fit well into BADG's pioneering spirit.

The framework of this initial plan was well thought out, manageable, and realistic. But the formula to calculate the gainsharing payout was flawed, for it contained a series of modifiers. A modifier, in and of itself, is an important factor in any gainsharing formula, for it ensures that an improvement in one area of the business does not occur to the detriment of another, generally by adjusting the payout up or down. For example, in the print advertising industry, an attempt to increase productivity would most likely have a modifier dealing with accuracy. Thus, the production worker would not sacrifice accuracy because the modifier would negate any potential gain from cutting corners to boost productivity. A modifier can also focus on an employee's efforts on a specific area within the production work cycle. It may be selected to reinforce the company's commitment to that particular area, or to address a problem area that needs attention by all. What caused the eventual decline in the BADG plan's effectiveness was not any individual modifier, but that there were several modifiers. The modifiers of the initial plan were legitimate business concerns, and were of functions that could be realistically affected by the efforts of the production employees.

On paper, BADG's multiple modifiers did not appear to be of concern, for they addressed business issues that BADG employees had successfully dealt with in the past. But stringing together

several modifiers in a formula led to various problems. Most glaring was the complexity of the formula, whose lack of clarity hampered employees' understanding. A 1999 focus group survey revealed that only about 10 percent of the employees fully understood the formula. Though it would not immediately manifest itself, apathy began to take hold. Granted, many people are not attracted to numbers, formulas, and related mathematical endeavors, and a proportion of the employees of nearly all companies will be apathetic to any company initiative or program. However, when complexity becomes the predominant characteristic of a formula, its successfulness is jeopardized. Initial interest can wane, long-term involvement can dwindle, and apathy replaces receding interest. What may start out as the airing of legitimate concerns or questions about the plan often degenerates into negativity because of a lack of understanding or effort to address these issues.

The multiple modifiers affected the tone of the initial gainsharing plan and its potential success in another manner. A single modifier can focus the efforts of the company on one specific area or problem. This keeps diverse work groups on the same page, helping to ensure that improvements at the start of a product cycle are not diluted or dissipated further down the line. There can also be a psychological boost from a large gain in one area rather than small improvements in several areas, even if the resulting bottom line improvement is the same. With the BADG plan, the complexity, lack of focus, and lack of understand-

ing seriously eroded the link between a specific improvement and a payout check. This led employees to perceive the payout check as an entitled payout, not as an earned monetary reward.

For such a plan to be truly employee-owned and operated, the cause and effect relationship between active improvements and the resulting reward must be tangible. As time went on, the plan and BADG became less and less employee-owned and instead became a program wholly managed by the finance department and management. The resulting payout took on the characteristics of a profit-sharing plan, reflecting the overall financial health of BADG. The once-a-year payout approximated a year-end bonus for operations employees, who in time would give the plan little or no thought throughout the year. But a gainsharing plan is not a profit-sharing plan; it is a plan that reflects employee-generated process improvements. Although the initial plan did have a payout every year, it was not working.

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One problem that was subtle at the time of its occurrence but glaring in hindsight was the use of gainsharing as a tool to crack the whip. This would happen when a manager would spur lackadaisical employees with the notion that their gainsharing payout was in jeopardy. The manager would be right in addressing sub-par work behavior or productivity, and it could be argued that the employee's activity would directly or indirectly affect the gainsharing payout. But when management invokes gainsharing to address employee actions, the plan is no longer an incentive but a threat. Such instances occurred rarely at BADG and were short-lived. During an all-employee meeting, the site director explained that intimidation was not the intention of the plan, effectively ending the practice. As much as the director's edict did to address this situation, the incident did further fray an already tenuous link between process improvement and financial rewards. What it also did, in retrospect, was to show that a lack of understanding of the nature of the

program can lead to unexpected problems or weakening of support.

Despite these shortcomings, the initial BADG gainsharing program was successful in some regards. There was a fair amount of initial interest in the plan, due in no small part to its realistic nature. BADG employees had improved both processes and efficiencies in the past, and they were more than confident that they could continue to do so. Although the lack of linkage between process improvements and rewards did occur, the plan did improve the workplace environment. The focus group surveys proved the motivational effects of the gainsharing plan, even if the workings of the plan were not fully understood. Employees were energized at times, and did experience some notion of making an effort to realize a gain. Employees were also exposed to some of the financial workings of the company—data that they would not otherwise have been exposed to. Even a cursory understanding of a company's financial workings can lead to positive results. Financial data that can be boiled down to a dollars-and-cents figure for a production error enables employees to see finances on their level, not as a far-removed genre of profit-and-loss columns of a seldom-read financial report. When data are explained within a gainsharing plan, employees quickly learn what could soon affect their own bottom line.

BUILDING A NEW PLAN UPON INTERNAL STRENGTHS

The path to where you are going is most often connected to the path that you have already experienced. And so it was with BADG's gainsharing experience.

The organization's second attempt at gainsharing was initiated at an all-employee meeting in April of 1999. A consultant contracted by Bell Atlantic to reinstate the program gave a good overview of gainsharing, its workings, methods, and potential. He also assessed the first plan, which at this time was still in place, but was realistically no longer a working program. At the conclusion of his presentation, he asked employees to fill out a form indicating their interest in a series of focus group discussions. These events took place one year after the Bell Atlantic-NYNEX merger, and coincided with unionization proceedings. There was also a

new director at BADG, and numerous changes to the middle management structure. This made for a work environment that was more conducive to process confusion than process improvement.

The discussions and surveys gave the consultant a clear picture of BADG's first plan, as well as a more generalized view of the BADG work experience and environment in general. Some interesting facts were brought to light, such as the previously mentioned statistic of just 10 percent of the employees claiming to understand the plan. There were also employee concerns about workplace accountability, fairness, and communication. For BADG to maintain the successes and achievements of the past, and uphold its can-do attitude, it would have to address them, even if there was no new gainsharing plan.

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Beyond the work environment problems, the survey results brought to light some aspects of the company that suggested that a revamped gainsharing program had real potential. BADG employees indicated a desire to become more involved in decision-making processes, with the related idea that performance improvements were the responsibility of the individual employee as much as anyone else. The statistical results for these areas were not only numerically high (low 80's-percent favorable response), but were a few percentage points higher than industry norms. This indicated strong potential for the future successes of gainsharing, as well as the company's desire to meet other challenges.

One survey result that also pointed to potential success of the new program was the fact that two thirds of those surveyed stated that they would like to work at BADG for the next five years, a result 11 percent above the industry norm. The survey respondents also noted that employee behavior had changed as a result of the initial gainsharing program. So despite the need for serious changes, there were also internal strengths and abilities that could be built upon and improved. The challenge would be addressing and correct-

ing problems, while maintaining and enhancing the organization's positive attributes. Many of these attributes were as important to the overall success of BADG as they were for the specific success of a future gainsharing plan.

The commitment to gainsharing among the executive level, middle management, and the production associates was crucial. As the decision for revamping BADG gainsharing was made at the company headquarters, executive-level interest was not only unquestioned, but overtly supportive. The survey and focus groups results showed BADG management to be well above the industry norms in agreeing on the attributes of the current culture and the desired future culture, and production associates appeared to be ready for the challenge.

MULTIPLE PRESENTATIONS HELP SELL THE PLAN

At the conclusion of the focus group meetings, attendees were given the opportunity to volunteer to be part of the gainsharing design team. The names of the volunteers were separated by work area and job function to ensure broad coverage and a representative team. The design team members were then chosen by a BADG employee in a blind selection process. The selected volunteers included the human resources manager, two production managers, and a financial expert from another Bell Atlantic site. The remaining 12 volunteers (both shifts were represented) were production workers, the hourly employees who produced the Yellow Pages for Bell Atlantic. They were operations workers who scanned artwork, composed ads, proofread the copy, and coordinated the product cycle on the production floor. They were the employees from whom the plan would originate and upon whom it would depend.

Although the efforts of managers and executives were critical, the crux of the plan depended on the production-level ownership of it, not just participation. Together, the design team members worked under this charter: "The design team has been assembled in order to develop a recommendation to senior management and union leadership regarding 1) A gainsharing formula 2) An employee involvement/process improvement methodology 3) A gainsharing communication plan." With a positive response from the executives, management,

union representatives, and employees, the plan would then be implemented and administered, predominantly by production-level employees. There was also to be ongoing communication and training to maintain continuous improvement and to adapt to changes within the business.

A data collection lesson learned in hindsight is that existing systems should be used whenever possible.

During five training sessions, the design team was split into subcommittees: improvement and training, finance and formula, communication, and presentation. This structure allowed for greater involvement through focused accountability. The framework, attributes, and policies of the emerging plan were still the equally shared responsibility of all design team members, and all members were expected to continue to contribute as equal members of the program. With this method, the initial formation of the plan maintained the representational attributes from the selection process of the members, but the plan could progress as specific tasks could be focused upon as specialties.

On August 13, 1999, the entire design team was brought together for the first presentation of the new BADG gainsharing program. The executives in attendance included vice-presidents of human resources and customer fulfillment, a representative from the corporate legal office, and Jamie Murray, the director of BADG. There were also union representatives from the Communications Workers of America, in what was one of their first on-site representative activities. The gainsharing plan was well-received, and given the green light.

Although the initial agenda called for the next presentation to be held during the all-employee rollout, the presentation subcommittee went on to deliver three more presentations in the interim. A presentation was requested by Mat Stover, group president of information services, who was not at the initial executive rollout. He also gave his approval to the program, adding much to the reputation of the design team. At this time, Bell Atlantic was in the midst of merger proceedings with GTE. When members of GTE's directory services came to BADG for an informational visit, the presenta-

tion team had another opportunity to demonstrate the efforts of the design team, garnering favorable comments from the GTE employees.

A few weeks later, it was decided that BADG operations managers should learn of the workings of gainsharing before the all-employee rollout. During the presentation to them, the subjects of data collection, time scheduling, and other topics were questioned in depth, showing some areas of the plan that would need further attention. This operations manager's presentation also brought to light budget issues that would need to be resolved before the plan's impending implementation. One lesson learned was that a plan, formula, or program may be deemed acceptable, but the actual day-to-day activities, such as data collection, can prove to be problematic. This managerial meeting also reminded operations employees that the effects of gainsharing might be felt by management employees who would not share in the monetary payout. After much discussion during the design team meetings, it was decided that BADG management would not get a gainsharing payout, since managers were hired with their own pay and bonus plan.

A data collection lesson learned in hindsight is that existing systems should be used whenever possible. In the planning stages of the formula, the numbers were chosen without a full understanding of where they would come from, or even if such a database existed. This led to the need for more work on the processes for data collection and, thus, additional work on the formula. It became clear that the available databases at BADG should have been considered as the first step in the formula creation process. Despite the notable ability of the design team's financial expert, he was from another Bell Atlantic site and, thus, not familiar with internal processes, systems, and databases unique to the BADG worksite. These first presentations were favorably received, but there were still problems to be addressed and adjustments to be made.

MOVING ON TO THE ALL-EMPLOYEE ROLLOUT

The final design team presentation was on November 1, 1999, delivered as part of a larger all-employee informational luncheon. With a fair amount of fanfare, the new BADG gainsharing

plan was introduced and implemented. Overall, the employee response seemed to hover between vague skepticism and cautious optimism. There were some concerns as to the status of the old plan and whether there would be a payout from it.

Because gainsharing plans typically do not pay out for up to nine months after inception, employees were less than pleased. An important aspect of the employee sentiment was the fact that the old plan had such low active involvement that it was seen as an entitled payout. BADG employees would have to reassess their gainsharing beliefs, going from the previous notion of entitlement to the new structure of a process improvement plan that only pays out when improvement criteria are met. This reassessment would have to stem from the continual efforts of the design team to reinforce this crucial issue.

Over the next few weeks, design team members addressed employee questions and concerns at several department meetings, taking advantage of their informal atmosphere. There were still several employees who just wanted to know when the checks were going to be delivered; however, the process improvement aspect of the new plan was stressed so that employees became aware of this part of the program.

The effects of the BADG gainsharing presentation and process improvement team implementation have been, to date, a mixed bag of energizing successes interspersed with apathetic indifference.

A few months later, the new plan got an invigorating boost when it was announced that consultants would conduct two-day, on-site classes in process improvement methods and gainsharing issues. Designed to keep employee gainsharing interest both broad-based and long-term, these classes were composed of the original design team members and interested employees who were now volunteering to join the program.

The new volunteers reflected a cross section of employees from the various departments and shifts, maintaining the necessary breadth of involvement. The original design team members were expected to serve in the process improve-

ment teams for one year, with new employees to be added every six months. With this staggered induction process, half of the team members would have six months' experience in the program when new employees joined. In six months, the one-year members would retire their positions, the remaining members would have six months' experience, and a new contingent of employee volunteers would join the program. Thus, the long-term survival of the plan was tied to new employees being brought on at regular intervals to replace members at the end of their terms.

THE GAINSHARING PLAN IN ACTION

The effects of the BADG gainsharing presentation and process improvement team implementation have been, to date, a mixed bag of energizing successes interspersed with apathetic indifference. Active employee involvement has been somewhat quiet, especially in regard to grassroots process improvement ideas. The few ideas that were generated have been successfully implemented on the operations floor in a most promising manner. There has been only a fair amount of employee awareness of the plan, which in and of itself would not sustain it over the long term.

But this awareness drives the potential for long-term success, a potential with historical roots. Recently, a few employees submitted process improvement ideas that they had previously proposed, but for which they had received no acceptable response. The employees felt that the previous implementation process was too difficult or bureaucratic, or that their ideas had not been given worthy consideration. Although the ideas may have been adequately examined in the past, the criteria used to decide viability often were not communicated to employees, leading to the impression that ideas were dismissed out of hand. Under the new plan, people's ideas are studied in a structured environment, mainly by operations-level co-workers. This helps assure employees that their ideas are not dismissed without due consideration.

BADG previously had procedures for process improvements, but many found the formal submission programs too bureaucratic, especially when there were forms to fill out and signatures

required. Idea submission under the new plan also calls for paperwork and procedures, but with an important difference. The lion's share of the formal procedures, such as documentation and implementation, is maintained by the process improvement team. The submittal process for ideas was purposefully left broad enough to induce nearly all employees to submit ideas. Ideas can be submitted in writing, by e-mail, via a suggestion box, or in discussion with a design team member. By purposefully de-emphasizing the mode of submittal, the new plan adapts to a communication method that the employee is most comfortable in using when submitting an idea. The documented part of the process is open for the employees to view at any time, assuring them that due consideration is being given.

The plan's potential success also derives from its requirement for a process improvement team that encompasses all modules and workgroups within the site. This assures that ideas will not occur in a vacuum, and new procedures and improvements will not just improve a single module or workgroup. Now previously dissimilar work groups can find common ground to address ideas in areas of mutual interest and share insights. With a structured communication process with monthly updates, full employee awareness is assured. At

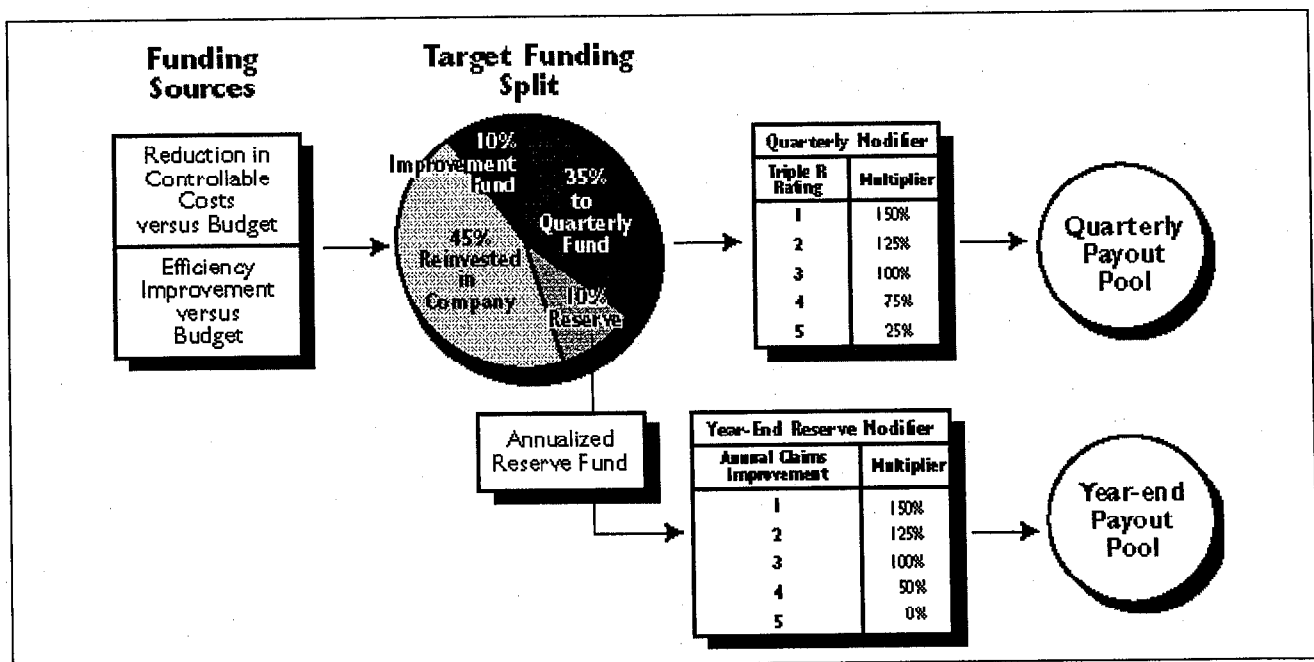
BADG, this environment was prevalent in its early days, but suffered a decline later on. The framework and procedures of the new plan appear to be awakening the dormant attitudes of the early days of gainsharing at BADG, attitudes that will be crucial to future endeavors.

THE FRUITS OF EMPOWERMENT

BADG's new gainsharing formula (see Exhibit 1) is simple and straightforward in design. The funding for the payout, given quarterly to the employees, comes from savings in controllable cost and from improvements in work efficiencies—45 percent of this amount goes back to the company, 35 percent to the employees. A single modifier is used, noted as "Triple R Rating," which is a measurement of work that needs to be routed, revised, or reworked after the initial work cycle. This measurement is familiar to all operations and management employees, ensuring the simplicity of the formula.

The employee portion of the amount saved—35 percent or 35 cents for every dollar—is multiplied according to the Triple R Rating, with a rating of 5 reducing the payout to just 25 percent of its original amount. A 3 rating would denote little or no Triple R improvement and, thus, no adjustment

EXHIBIT 1. BADG's Gainsharing Plan



to the payout amount. If the employees were to greatly improve the Triple R, in effect improving accuracy of the ads created, then a rating of 1 would bring the payout to 150 percent of the original amount. With this system, employees actively search for process improvements to reduce controllable cost or improve efficiencies. There is a disincentive to let accuracy decline and a corresponding incentive to improve accuracy and, thus, improve the final payout.

There is also a method for addressing customer claims for printed errors, which is noted as "Annual Claims Improvement." Since these printed error claims often occur about nine months after the directory is printed, 10 percent of the payout pool is reserved to help pay this cost. As with the Triple R Rating, the 10 percent reserve for printed error claims has a modifier that will increase, decrease, or maintain this amount before it is paid to the employees from the year-end payout pool. The overall effect of this plan is that the Triple R Rating becomes the area of the work cycle that BADG employees focus on with their process improvement ideas. The 10 percent reserve helps protect the company from future losses from customer claims from printed errors, but will be paid out to the employees should claims diminish. The 10 percent improvement fund is to pay for additional

training, equipment, or anything else that could improve the product.

Success, like failure, has the tendency to feed on itself, with the effects of small successes or small failures often becoming the stepping stones to larger ones. The problems BADG had with its initial gainsharing plan did not all occur overnight, and neither can they be resolved in a short period of time. Careful nurturing of small successes can lead to greater successes, but won't guarantee them.

To paraphrase a parable: Give your employees a plan, and they will collect their checks; teach your employees how to design and implement a plan and empower them to maintain it, and they will improve the processes, their environment, and their products—and then they will collect their checks.

There will always be employees who will not participate in the gainsharing program, and many more for whom the payout is the predominant feature. The design team at BADG has taken this into account, along with numerous other factors, to design the best plan possible. Aware of past problems and potential problems, the team members had no illusions as to the future. They have continued to learn and improve this new gainsharing plan to the best of their abilities. They may not be sure of the future, but they can be proud of the past. ■