"THE DESIGN OF A GAINSHARING SCHEME FOR T B A INDUSTRIAL PRODUCTS (PTY) LTD"

SUBMITTED IN PART FULFILMENT OF THE REQUIREMENTS FOR THE ADVANCED EXECUTIVE PROGRAMME IN THE SCHOOL OF BUSINESS LEADERSHIP, UNIVERSITY OF SOUTH AFRICA

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CHAPTER ONE

INTRODUCTION AND DEFINITION

1. INTRODUCTION

This paper describes the development of a proposal for an incentive reward system for T B A Industrial Products (Pty) Ltd (TBA). The process used is the research of relevant literature to arrive at a summary of incentive schemes documented around the world, with particular emphasis on gainsharing. This information is collated as a basis for further research work aimed at determining the current status of gainsharing in South Africa. In order to do this, a questionnaire is developed and used to survey selected companies within the T & N Holdings Limited Group (T & N). The results of this survey are tabulated, interpreted and evaluated in the light of the problem under investigation. Finally, a proposal is made, which, if successfully implemented, should assist materially in realising the aspirations of both shareholders and employees.

2. DEFINITION OF GAINSHARING.

It is important to understand what is meant by gainsharing.
A useful definition is that given by Deon Thomson.
"Gainsharing can be broadly defined as an agreement between employer and employee adopting a certain standard of performance and providing for the sharing of gains between employer and employee to the extent that the adopted standard is exceeded. It is not profit-sharing in the strict sense because it is not profits that are

being shared, but gains measured against a particular standard. However, the term includes profit-sharing where a level of profits is adopted as the standard. Gainsharing schemes can be devised so as to apply to individual employees, or to groups of employees, or to all employees as a single group". (Thomson, 1993:1)

CHAPTER TWO

BACKGROUND AND THE PROBLEM.

1. Introduction

TBA, being a subsidiary of T & N, is affected by the style of management and control exerted by the latter. In describing the background to the developments that have culminated in this investigation, it is necessary that this description should include the staffing structure, products and history of TBA, as well as a summary of the main areas of activity of T & N. In this description, mention also is made of the prevailing culture in the organisation.

2 Background

2.1 Introduction to TBA

The company that will benefit from this investigation is TBA Industrial Products (Pty) Limited (T.B.A). It manufacturers and sells composite products for use mainly in the industrial and automotive markets. It is a wholly owned subsidiary of T & N Holdings Limited, (T & N), a South African holding company that is predominantly automotive in nature. T & N dominates the automotive friction and gasket markets through the subsidiaries Ferodo (Pty) Limited, Beral Friction (Pty) Limited, T & N Automotive Distribution (Pty) Limited., T & N Friction Products (Pty) Limited., and Payen Components SA Limited. Similar market positions are held in heat transfer (cooling and heating radiators) through FHE Automotive Technologies (Pty) Limited, Silverton Services Limited, and Silverton Engineering (Pty) Limited. Completing the automotive bias of T & N, are the engine component subsidiaries of AE Engine Parts (Pty) Limited., AE Bearings (Pty) Limited., AE Liners (Pty) Limited., AE Pistons (Pty) Limited. Whilst much smaller than the automotive division, the industrial division accounts for circa 11 percent of the turnover and profit of T & N. Subsidiaries active predominantly in industrial markets are Glacier Bearings SA (Pty) Ltd., Tenseal (Pty) Ltd., T & N Industrial Products (Pty) Ltd., and TBA Industrial Products (Pty) Ltd.,

T & N is a quoted public company incorporated in the Republic of South Africa. Fifty-one percent of the groups equity is held by T & N plc., a quoted public company in England.

2.2 Introduction to TBA Activities

TBA is a manufacturer of compressed fibre jointings (gaskets), high temperature fibre insulation boards, and polyester dough moulding compounds. The predominant fibre used on site is that of asbestos, other fibres being glass, 'Kevlar' (a synthetic aramid fibre), and wood. As most fibres, and asbestos in particular, have the potential to cause serious illness if inhaled, strict handling and waste disposal methods are in operation. The factory is situated in the Isithebe Industrial Estate, 100kms. north of Durban. The facility is staffed by circa 66 employees, performing the functions of purchasing, production, quality assurance, warehousing, maintenance and despatch. The senior managers on site are the Works Manager, the Administration and Purchasing Manager, and the Quality Assurance Manager. All three managers report to the General Manager, who operates from his office in New Germany, 12 kms. west of Durban.

The functions of sales, finance and general administration are carried out from offices in New Germany staffed by a further 5 employees. Situated in Durban are the T & N headquarters, housing interalia the immediate superior of the General Manager, and his 2 superiors. In ascending order the titles of these position are :

Managing Director, T & N Fluid Sealing Division

Managing Director, T & N Industrial Division

Chief Executive, T & N.

The company is managed by the Board of Directors consisting of the incumbents of the above 3 positions, the General Manager, Sales Director and the Finance Director of the T & N Fluid Sealing Division. This Board meets at monthly intervals.

TBA commenced operations in 1980 using machinery transferred from other T & N divisions in South Africa and Britain, and later Germany. Most of this machinery is very old - 80 years and more. The technology is from a similar era. The business thus is in a very mature stage of the cycle, but is expected to continue to operate for many years with minimal technology improvements.

2.3 Product Overview

As stated previously, 3 different types of product are manufactured, all being loosely described as composite materials. The segment of greatest volume is that of jointings, accounting for 66 percent of total sales. These are products supplied in sheet form to gasket manufacturers for cutting or punching into gaskets for use in both industrial and automotive applications. They consist of a matrix of fibres held together by rubber.

Following jointings in importance to the company is the product known as millboard, accounting for 22 percent of sales, and used for high-temperature insulation. Produced on a small paper-making machine, it consists of fibres bonded together with a small amount of cement.

Completing the range of composite materials are the dough moulding compounds, produced by mixing polyester resin, glass fibres, fillers and catalysts into a product which is sold to plastic moulders. Compression or injection heated moulding technology is used by these moulders to convert the putty-like dough into a solid mass for use in applications as diverse as electrical switch gear and crockery for use in microwave cookers. Sales of these moulding compounds comprise the remaining 12 percent of company sales.

2.4 TBA Culture

The unusual geographic separation into three sites has a very strong influence on the main culture, and produces interesting sub-cultures. "Them and us" cultures have developed that have welded together two distinct sub-cultures, those of finance and sales in New Germany, and production and distribution in Isithebe. This effect is detrimental to the operating atmosphere of the company. Attempts are being made to overcome this by the formation of project teams staffed by members of different departments.

Two factors that have a major influence on the culture of the company and have contributed to the problem to be described later in this Chapter, are those of policies adopted by T & N in the past when faced with business down turns, and the composition of the workforce in Isithebe.

A characteristic of the T & N attitude when faced with sudden and unexpected reductions in business levels, has been to cut people costs, particularly in the production units, and particularly in the lower echelons. A perception has evolved at TBA that people are seen not as assets but as costs to be manipulated according to business cycles. This perception has become a major factor in the climate surrounding the management : worker relationship. The latter group, united in their membership of the National Union of Metalworkers of South Africa, are extremely distrustful of management, whom they see as manipulators of the workforce, caring not for the hardships caused by this particular policy of "hiring and firing" according to business cycles.

2.5 Staffing Of The Production Unit

Situated as it is away from urban populations, TBA is staffed entirely by Zulus (with respect to the Black workforce), with strong links to their ethnic origins. When the company was first established in Isithebe, it recruited the bulk of the workforce from the local inhabitants. (The company was established in 1980 as an off-shoot from a T & N plant in Durban - essential machinery and a core of trained and experienced Zulu operators were trans-located. Only three with urban exposure remain). Unfortunately, little thought was given at the time to future needs, and many of these men were, and still are, almost illiterate and remain in the organisation - average service to TBA is 11 years in a 15 year old company.

A rural sub-culture is apparent on the Isithebe site, magnified by the unionisation of the workers, of a belief in family values and a care for the community. It is manifested in a climate of supervisor : subordinate discipline difficulty, of good team work, of slow progress in management : union wage negotiations due to frequent requirement for consultation and deliberation between employees and their representatives, and of difficult communication as a result of illiteracy and language difficulties.

3. THE PROBLEM

3.1 Introduction

The inter-related problems of poor productivity, poor supervision and discipline, and unrealistic reward expectations on the part of the workforce versus restricted reward capabilities on the part of management, have been receiving attention. Management is seeking an integrated solution to these problems and has embarked on a line of action intended to ensure the attainment of this goal.

In October 1994, at the commencement of the wage negotiations for 1995, a management decision was taken that an entirely new approach would be adopted in an attempt to break out of the rut of management : worker distrust and confrontation. This approach would encompass three facets - transparency, joint governance, and a negotiated performance reward system.

3.2 TRANSPARENCY

In previous years, company performance had been revealed to workers in a format which "revealed" very little. No facts were given, performance data presented being in the form of actual achievements being compared as percentages to budget. A decision was taken to present actual figures, with the offer being made of auditor verification if desired. Knowing that appreciation of the figures presented would be limited, highly simplified versions of the balance sheet and profit and loss accounts were produced. This was accompanied by the promise of subsequent training in basic business skills to facilitate the understanding of the financial information. The training was completed in March of this year - each individual attended a 2 day full-time training course. Management has followed this up with presentations to the entire workforce with monthly and year to date cash flow and profit performances in the same format as used by the presenter of the businesses skills training course.

3.3 JOINT GOVERNANCE

Management have taken cognisance of major changes in rules and operations that are taking place in the world and it's institutions. The nature of governance - the distribution of power, rights and responsibilities in political, social and economic institutions, is changing. The shift is from authoritarianism where power, rights and responsibilities are in the hands of the few and where human resource practices are secondary concerns of the enterprise, to participation where power rights and responsibilities are distributed among the many and human resource practices are considered to be critical to competitive advantage. This shift is occurring partly because of broadened education and increased capacity for information dissemination. In this context, participation is proving to be the best governance system for high economic performance today. As a consequence, clauses were included in the document governing the modifications to the recognition agreement for 1995 that would enhance this concept of joint governance. The first of these relevant clauses states "It is agreed that a joint committee comprised of union and management representatives be established in 1995 to investigate an improved grading system".

The second relevant clause, under the heading of Multiskilling, states "This subject will also be investigated by the committee referred to above".

3.4 A NEGOTIATED REWARD SYSTEM

Although lacking in knowledge or experience of gainsharing schemes, but encouraged by the possibilities offered by such a scheme, management devoted a great deal of effort in attempting to persuade its workforce to accept gainshare as part of the reward system to be implemented in 1995. The efforts of management were listened to attentively, but somewhat sceptically. The possibilities of significant rewards intrigued the audience, but this was counter-balanced by reservations arising from the lack of experience of such a radically different approach to a wage increase, and a suspicion as to the motives of the proponents. Long-standing opinions and prejudices won the day, and gainsharing was not adopted. However, appetites were wetted on both sides, to the extent that a clause was included in the agreement under the heading of Gainsharing, and states "It is agreed that a joint committee comprised of union and management representatives will be established in 1995 to investigate the benefits of gainsharing".

This committee now requires guidance on the subject. The shop floor personnel have no idea what gainshare means, and do not appear to receive any enlightenment from their union. Management have a better idea but have not had any relevant experience. The purpose of this disertation is to explore gainshare and its many forms in use around the world and particularly in South Africa, and to develop a proposal that management can use as a basis for the negotiations with the union and it's members.

4 Conclusion

The company needs to develop a negotiated reward system that will assist in meeting the aspirations of it's workforce. In order to do this, all factors impacting on the development of a suitable plan need to be examined. This examination commences in the next chapter with a look at socio-political aspects.

CHAPTER THREE

SOCIO-POLITICS, PRODUCTIVITY AND TRADE UNIONS.

1 Introduction

An understanding is required of the circumstances prevailing in the South African economy. This information base is important and necessary for the proper understanding of the problem under investigation, and for the development of the solution.

Areas of information that will be covered in this chapter are the socio-political scenario in South Africa, including economic prospects, productivity in the country, and the role of trade unions. This latter section will include the historical role that has been played, followed by a suggestion as to the changing role that they will play in the future.

2 THE SOCIO-POLITICAL SCENARIO IN SOUTH AFRICA

2.1 The Components Of The Socio-Political Scenario

2.1.1 The Politics of Economics

South Africa's democracy is a year old (April 1994) but the "teething problems" of the political and economic transition process will continue to linger for some time. The doomsayers have been silenced by the success of the political adjustment to date, but further significant changes in the broader environment still lie ahead.

2.1.2 Employment and Labour

According to the most recent official estimates, there are some 4.7m unemployed people in the country, almost half of whom are under the age of thirty. This amounts to an unemployment rate of some 33 percent. In order to merely maintain the current status quo of the labour force, the economy would have to grow by some 4.3 percent annually. To eliminate unemployment, economic growth of 8.8 percent per annum would be required for the next ten years (assuming the current rate of growth in the labour force and level of productivity remain constant).

South Africa's wage rates are strikingly higher by African standards, half the level of the more developed East Asian countries but neither high nor low by International standards, Cosatu is opposed to a low-wage strategy to boost South Africa's competitiveness and tends to emphasise the need for large scale skills training, a faster devaluation of the Rand and slower dismantling of trade barriers to limit immediate job losses. Cosatu's leaders understand the need to keep real wage growth in line with productivity increases to avoid inflation and loss of export competitiveness.

2.1.3 Gold Price

Gold shares have remained under pressure this year due to poor quarterly results and uncertainty as to the ability of gold to maintain recent improvements in its price on World markets. The gold counters also have been negatively affected by the unexpected firmness of the unitary rand following the abolition of the finrand.

2.1.4 Foreign Trade and the Current Account

Political changes in South Africa, when combined with the global political economic and technological developments and influences, dramatically alter the country's international trading environment. South Africa is now on a path to further exchange control liberalisation, ie : those affecting capital movements by residents. The message given by the demise of the finrand is quite clear : the authorities are confident that the economy is, and will be, managed according to sound monetary and fiscal policy principles, there is increasing domestic confidence and an acceptable level of social stability. The implication is that the economy no longer needs the dual exchange rate system as a "shock absorber".

2.1.5 The World Trade Organisation.

South Africa was one of the founder members in 1947 of the General Agreement on Tariffs and Trade (GATT), the fore-runner of the World Trade Organisation. As witnessed by the recent agreement, South Africa must shift from a historical reliance on import - substituting industrialisation to a more open and export orientated economy.

The impact of tariff reform in SA will vary from sector to sector, depending on the extent of the damage to competitiveness done by years of protection. This will also depend on the ability of the affected sectors to adjust within the given adjustment period. An IDC study indicates that the agricultural and motor industries will be the most affected but other markets will also be affected to a greater or lesser degree.

2.1.6 Price and Competitiveness

The production price index (PPI) for all commodities at 10,6 percent at present is the highest that it has been since October 1991 when it stood at 11.1 percent. The increase in the PPI has been broadly based, indicating that inflationary pressures are beginning to build. Both consumer and producer inflation are expected to reach higher levels during 1995 than they did during 1994 but should remain within reasonable bounds. At this stage it appears that both measures will average approximately 10,5 percent this year.

2.1.7 Economic Prospects And Monetary Policy

South Africa enters into it's second year of democratic government against the background of an economy whose prospects have improved considerably. Notwithstanding the anticipated poor performance, each for their own specific reason, by the agricultural and mining sectors this year, the economy is still expected to grow by 3 percent and possibly by even more. Private investment will be a major factor buoying the economy, with further impetus expected from the continued implementation of the reconstruction and development (RDP) effort. The rapid growth of private credit demand which is largely thought to have fuelled personal consumption expenditure during 1994, is obviously not sustainable, particularly as the Reserve Bank maintains its tight monetary policy stance. It will thus not act as an artificial stimulant for growth. The recovery ahead is thus likely to be steady, but also to be more readily sustainable than the expansion periods of the last 15 years.

A current account deficit has already emerged because of high imports of capital goods, but this is not likely to give rise to concern as long as capital account inflows remain at recent levels. Exports will however benefit from OECD economies' demand for South Africa's commodity products, the repeal of international sanctions, and a real devaluation of the Rand.

Clearly the need to maintain the economic impetus of capital inflows and the consequences for growth and positive social dynamics, requires a continuation of the process of deregulation and liberalisation of the South African environment.

3 Productivity in South Africa

3.1 Introduction

For the past decade, South African manufacturers have been shielded from the intense competition that exists in the rest of the world, by the reverse effect of the sanctions blockade. However, with the lifting of sanctions in recent years, they have quickly learned that a lot of things have changed during the period of isolation. They have learned also that it will not be so easy to for them to go out and regain the export market that they enjoyed before sanctions were introduced. In fact, many experts are sceptical about whether South Africa will ever be able to compete on the international front. In most cases,

people blame the work ethic of the labour force, and

cultural differences between the indigenous populations and their counterparts in the East.

The rest of the world in the 1990's, has been undergoing an industrial revolution on a gigantic scale - far outstripping previous industrial revolutions in every way. The stimulus for this revolution has been the joint impact of the revolutions of the 1980's, namely :

The communications revolution

The information revolution

The miniaturisation and mass production of computer hardware coupled with the development of user-friendly software, has provided practitioners in every field with a tool with which to further advance their methodology. With this, financial analysts have gained a much clearer insight into the dynamics of business enterprise. It has been like putting a spotlight for the first time directly on areas of vital information, creating a new appreciation of the interdependency of factors of production, and of "process flow". Of equal importance has been the identification of areas of inefficiency.

Thus the revolution is essentially a revolution in productivity.

It involves both the elimination of inefficient business activities and a more focused and goal-orientated drive in areas of strategic advantage.

It almost seems as though man for the first time, is able to measure the full potential of his creativity.

Another lesson learned by managers during the communications revolution, has been the realisation of the importance of working with their people in participative mode, exploiting the talents and abilities of all the people in the organisation.
With few exceptions, this revolution has passed by South African management. Shielded by sanctions and pre-occupied by business pressures and the difficulties of working with an uncooperative workforce, the captains of industry have paid scant regard to the productivity improvements that have occurred in the rest of the world.

Labour, for it's part, has been intent only on short term improvement in the rewards expended for the company. Words such as efficiency and productivity have come to be associated with the desires of management and therefore any improvements are seen as being for the benefit of the enemy, and not for mutual benefit.
A further major contributing factor to the poor productivity levels that characterise the South African manufacturing industry, is the low degree of automation and sophistication of the machinery used. Labour was seen as cheap and companies developed along the low capital - high labour route. Over the last two decades, wage rates have increased at a rate such that labour costs per hour worked are much higher than was the case previously. When this is compared to the output rate, it is seen that productivity, as measured by unit of output per unit of cost, has worsened markedly.

4 The Role of Trade Unions.

4.1 Introduction

Such is the power of the trade union movement in South Africa that few people would question it's long-term viability. Yet, it is precisely because it has a role to play that it holds such immense power. It derives it's power from the groundswell support that it gets from it's members, and this movement is accentuated where the members are anxious to achieve clearly-defined objectives. Trade unions are to a certain extent merely figureheads in the underlying social revolution in terms of which the workers are striving for a greater share of the wealth that is being created by industrial and commercial concerns.

4.2 The Historical Role Of Trade Unions

Over the last two decades, trade unions have played an important role in providing a focus for the venting of political aspirations of the black populace. Prevented from participating in the democratic political process, this section of the population turned to trade unions as a vehicle for protest against what they perceived to be an unjust political system. With the holding of the first fully democratic election in April 1994, all this changed. Not only did the trade union movement lose most of it's top echelon to parliament, so also did the need for a political role disappear over the medium term.

4.3 The Changing Role Of Trade Unions

A further factor contributing to the changing role has been an increasing awareness on behalf of trade union leaders, of the necessity for South Africa to compete on the world stage. Just as management have become aware of the difference in productivity standards between South Africa and most of the competitor nations, so have trade unionists realised that the future prosperity of their members depends on their becoming more productive.

Productivity and efficiency have become acceptable terms, something that requires improvement and not to be fought against.

4.4 The Perspective Of Management

From the perspective of management, trade unions fulfill a useful role. There are practical benefits of being able to negotiate wage levels for a large number of employees with a representative committee. Furthermore, the trade union representatives will take the trouble to research comparative wage levels, and management is thus afforded an opportunity to negotiate with well-informed representatives.

4.5 The Perspective Of Union Members

As far as workers are concerned, it is well known that they like to be represented in this way in wage negotiations, obviously realising that they cannot expect to influence management if they act independently as individuals. The trade unions indeed have achieved a great deal during the past two decades - in terms of membership, and in gaining the ear of management and acceptance on the part of management of the need to negotiate terms and conditions of employment and related matters.

4.6 Trade Union "Achievements"

It is extremely doubtful whether the movement has earned any additional share of the cake for the workers. Whilst many employers have endeavoured to close the wage gap, this has not resulted in any increase in the real level of wages, as it has fuelled a 'wage-push' form of inflation. This phenomonon has become structural and endemic as a result of the consistency of wage hikes.

The reason for the failure of trade unions to achieve any real increase in remuneration can be attributed to the failure of enterprises in South Africa to improve productivity. It is a well-documented principle in economics that standards of living can only be improved if productivity rises. Here, South Africa, has lagged behind the rest of the world.

Thus, although certain things have been achieved in terms of establishing a negotiating forum, nothing else of significance has been gained by the social revolution up to the present time. It has not succeeded in gaining any additional wealth for workers. However, perhaps the struggle has not yet started in earnest, and the parties conceptualised as management (representing shareholders) on the one side and the trade unions (representing the workers) on the other, are still in confrontation with each other over the issue. The solution is obvious.

> The parties must see to it that there is an increase in productivity - either that, or they will have to close businesses down and accept lower standards of living.

5 Conclusion

The socio-political components of politics, employment levels, the gold price, foreign trade and the current account, The World Trade Organisation, international competitiveness, economic prospects and monetary policy, all beyond the control of the company and it's employees, all play a part in affecting the environment in which the company operates. Variations in any of the above, either individually or in combination, that result in an improvement in the general economy of the country, result also in an improvement in the fortunes of the company and it's employees. Conversely, deteriorations in these components have a negative affect on fortunes.

South African companies have not participated in the industrial revolution that has occurred in the rest of the world during the 1980's. As this revolution has been manifested in significant productivity improvements, local companies are finding that they lag quite significantly in most areas. Protected by sanctions, leaders of industry have ignored the productivity improvements that have occurred in the rest of the world.

Similarly, labour has been intent only on short-term remuneration improvement. Efficiency or productivity improvements have been identified as being for the sole benefit of management and the company and efforts therefore have been directed against their achievement.

Exerting a powerful influence over the attitude of labour, has been the role played by trade unions. In addition to the conventional role of representing their members in the negotiation of general and specific conditions of employment with the employers, South African trade unions have also been the avenue for the expression of the political views and aspirations of the black populace. In playing this part, trade unionism has compaigned against business, whom it has seen as an ally of the government, and further contributed to the parlous state of productivity in the country.

This destructive role is changing. Trade union leaders are showing an increasing awareness of the necessity for South African business to become world competitive. They recognise that the time has come to work for an improvement in productivity. If this does not eventuate, their members will have to accept a lower standard of living.

Further consideration of the socio-political aspects of South Africa, leads to an investigation of strategies that could be adopted in the country to maximise the positive influences, and minimise the negative influences, thereby promoting prospects of a prosperous future.

CHAPTER FOUR

OPTIONS AND STRATEGIES FOR SOUTH AFRICA TO COMPETE IN WORLD MARKETS.

1 Introduction

TBA is seen to be facing problems similar to those facing South Africa - strategies that will cure South Africa's ills will have the same medicinal effect on the company. The strategies that the country adopts also will help to shape the future of the company.

In this chapter, we will take note of the amount of energy that is present amongst the populace as it strives for change, and will explore strategies to

Improve skills levels through education and training

Improve management:labour relations

Engender a commitment to the customer and his quality requirements

Ensure the successful implementation of the Reconstruction and Development Programme.

2 Strategies

2.1 Introduction

The future of TBA is reliant on it being able to increase significantly the proportion of export business that it enjoys. The restriction that is faced in achieving this goal is not so much a marketing problem as it is a production problem

- the need to produce faster at lower cost.

This problem is mirrored by the same problem facing the country. In many respects, TBA is a microcosm of the country. Similar solutions need to be found for both entities.

2.2 Desire For Change

Before discussing the problems, it is necessary to take note of a strength that is inherent in the people of South Africa today.

Sociologists talk about the "level of activation" as the amount of energy available for change and conscious action in a system. They estimate that less than ten percent of a system's energy is normally available at any time, and much of that goes into conflict and dead-end action because of a lack of common goals. In South Africa, a fresh wave of energy, hope, and common purpose has been unleashed. Activation levels are high as individuals, communities, companies, unions and the government itself rally behind the cause of change and national development. Internal attention and support are helping to magnify the activation in the country and it's institutions. The situation is comparable to Japan's time of renewal just after World War II - a renewal that turned a nation from a producer of junk to the world's quality leader.

It should be noted also, that the time that it takes for nations to become competitive, is shrinking. An article in Business Week, 12 December 1994, points out that Britain needed nearly 60 years to double it's output per person beginning in 1780. It took 34 years starting in the 1880's, and South Korea only 11 years from 1966. South Africa could be one of the success stories of the early 21st century :

> accelerated change is possible for nations having the will and the willingness to learn from all sources of expertise.

2.3 Skills Improvement

The first of the problems common to the country and the company, is the requirement for skills improvement. Whilst a vast pool of labour is available, unfortunately the level and quantity of skills available will be totally inadequate to sustain the economic growth rate that will be necessary in South Africa over the next few years.

A policy to improve this situation will need to embrace education, training and immigration. Beginning at the school entry stage, the education system of the country will have to be modified to produce at the end of the process, people who have been trained to service the needs of a country in a phase of development i.e. technically competent. Shorter term needs will have to be addressed via specific condensed and concentrated apprenticeship type training programmes addressing specific needs in the economy. Falling into this category also, will be the need to attract highly trained and competent immigrants. This would best be done by recruiting drives into countries such as the formerly communistic eastern european countries where skills abound and rewards are in short supply.

> TBA for it's part will need to expend considerable time and money in improving the skills levels of it's employees.

2.4 Labour Relations

The second problem is that of management labour relations. It is obvious to all that very little common ground has existed between these two opposing forces in South Africa over the past decade, and TBA is no exception. Management's perception of labour is that it is lazy and unwilling to work, uncooperative even in the face of impending disaster for the company and themselves, and intent only on selfish short-term gain. Labour on the other hand, sees management as being exploitive of their efforts, unwilling to reward fairly, and not to be trusted. It is essential for South Africa and TBA that commitments be made by both parties to work together to ensure that this relationship improves. On the national scale, the forum for this commitment to be made evident is the National Economic Development and Labour Council (NEDLAC), whilst on the company level this needs to happen on the shop floor.

2.5 Focus On The Customer

Also worthy of attention by country and company, is the need for a focus on customer and quality. A strategy needs to be driven throughout all South African companies to focus on the customer and his requirements, bearing in mind also that the customer sets the quality requirement.

2.6 The Reconstruction And Development Programme

Finally, we come to the Reconstruction and Development Program (RDP). The hopes of the majority of the populace are pinned to the successful outcome of the RDP. The consequences for the country should this program fail are not good. Not only will the morale and motivation of the people to succeed, diminish, but other more serious consequences will also occur. Crime and violence will remain at the unacceptably high levels currently being experienced, or will even increase, political instability will occur, investor confidence will evaporate, and the state of the country will spiral downward to being just another third world country that failed to meet the challenge. To avoid this scenario, a strategy must be pursued at all levels of society, from government through industries right down to the man in the street, to ensure the success of the program.

3 Conclusion

South Africa stands at the cross-roads as it faces the future. Correct strategies, aligned to the optimal use of the spirit of activation present amongst the populace, could lead it along the high road to success. Failure to implement appropriate strategies and policies, including the RDP, could have dire consequences for South Africans in general, and TBA and it's staff in particular.

The next factor affecting the development of a suitable plan is that of the climate of labour relations at TBA. This is described in the next chapter.

CHAPTER FIVE

LABOUR RELATIONS AT TBA.

1 Introduction

At the heart of the problem under investigation, is the poor relationship between management and employees, thus resulting in a lack of understanding of the viewpoint of the opposite side, and mutual negative perceptions of one another. Management consider the union members to be uncooperative and unwilling to expend their efforts to the fullest, whilst the latter perceive management as being exploitive and uncaring.

In order to understand the relationship, the history and current status of labour relations in the company will be described in order to pinpoint the factors that have contributed to the development of this relationship.

2 Unionisation of the Workforce

Once the move to Isithebe had been completed and the new labour force established, it was not long before feelings were expressed of a desire to join a union. Although the area has always been an Inkatha stronghold, the union that emerged as the potential representative for the workers was the Congress of South African Trade Unions (COSATU) affiliate, the National Union of Metal Workers of South Africa (NUMSA). Although the descriptive name of NUMSA does not really cover the type of work tasks performed at TBA, a recruitment drive was undertaken, culminating in a request for a recognition agreement between NUMSA and TBA, acknowledging the former as the representative of an agreed segment of the employee body. In due course, a document was signed by both parties on the 26 September 1985, governing the relationship between the two parties. Annual negotiations have been held since then to debate changes to this base agreement, notably those of wage rates. The union negotiating team has always consisted of the elected shop stewards, led by the local NUMSA official, while the management team has been led by the General Manager, supported by two of his senior manager subordinates and the occasional presence of a human resource representative from T & N when expert advice or assistance has been required.

3 Racial Segmentation of Employees

An important facet of the hierarchical structure is that of the racial segmentation of the Isithebe workforce. Typical of South African companies, white senior management control a black workforce. However, before social conscience driven affirmative action programs were put in place, shortage of white skills in the somewhat remote rural Zululand area in which the factory is situated, resulted in the upward progression of some of the more gifted and competent black personnel into supervisory and lower management positions. This group occupies all supervisory positions, up to, and including, the production foreman and the production manager. Whilst this has eased the communication between white managers who have a limited knowledge Zulu culture and language, and subordinates who have similar levels of understanding of English, it has led to disciplinary problems. The greater majority of the black staff live in the one and only dormitory suburb of Sundimbili. This has resulted in two problems. Firstly, people who work together all day, inevitably end up socialising in their rest time with their workmates. Thus a social culture of shared values, beliefs and habits has developed, which has carried over into the work culture, and has

influenced the climate such that teamwork and cooperation have been enhanced, but

has had a deleterious effect on discipline - superiors have difficulty in disciplining subordinates with whom they share pleasant social experiences. Secondly, the workforce are able to bring more pressure to bear on management in times of strikes or stayaways by sheer intimidation of their black work superiors. Whilst in more normal circumstances, white management could count on their senior black subordinates/colleagues to come to work during stayaways, this is not the case in Isithebe/Sundumbili. Whilst there have been no strikes per se at the TBA plant, severe disruptions to production have occurred on the occasion of politically-inspired stayaways. All exits from Sundumbili have been blocked or guarded by militant workers who have prevented or intimidated willing workers attempting to get to work.

4 Union Membership Spread

Also impacting on labour relations at the plant and on the problem for which alleviation is sought, is the composition of union membership. During early stages of the relationship between the union and the company, it was agreed that the representative body would include all personnel up to and including Paterson grade C2 level. This, unfortunately for management, includes all supervisors and the production foreman. Thus you have the unusual and problematical position of superiors and subordinates being considered equals in the union hierarchy. Discipline is not encouraged!

5 Conclusion

Relations between TBA management and workers are strongly influenced by NUMSA, the representative union on site.

The racial segmentation of employees, i e white managers and black subordinates, contributes to the poor labour relations. A lack of understanding of each other's culture and language has presented a communication barrier. The promotion of black employees into supervisory positions has improved communication, but has resulted in disciplinary problems due to the social culture of shared values, beliefs and habits being carried over into the work culture. The positive aspect emanating from this has been the enhancement of teamwork.

Intimidation and prevention from leaving the residential suburb of employees willing to work during stayaways, referring in this instance specifically to supervisory employees, has allowed the union and it's members to bring unusual pressure to bear on management.

Also strengthening the hand of the union has been the unusual spread of membership across job grades - from the lowest grade up to and including supervisors. This poses further problems as discipline is not encouraged in the environment of equality amongst union members.

The description of factors affecting the development of a suitable plan is complete. Attention is now turned to alternative incentive remuneration options.

CHAPTER SIX

INCENTIVE REMUNERATION OPTIONS.

1 Introduction

Before embarking on the development of a plan, a brief investigation will be undertaken of five alternative methods of rewarding effort. The reason for this is to confirm management's choice of gainsharing as the medium for further exploration, is the correct one. Once this has been confirmed, literature research will be undertaken that will investigate and describe the nature of gainsharing programmes used around the world.

2 Options

The basis for remuneration for services rendered invariably is the contracted wage or salary. This may or may not include additional rewards such as commissions earned and overtime paid. However, in order to provide an incentive for extra-ordinary performance, many employers offer rewards which may be classified as incentive schemes. Five such schemes are reviewed briefly below, under the headings :-

Promotion
Suggestion schemes
Performance awards
Share participation schemes
Gainsharing

2.1 Promotion

Probably the main form of incentive in South Africa throughout this century has been promotion and career advancement. The harder you work and the better you perform, so will your career advance and your remunerative reward increase. Social economists are often critical of the substantial differences in levels of pay across an organisation, from the lowest to the highest grade. However, it should be borne in mind that this is in itself a function of the organisation structure and is the result of the remuneration system that rewards effort and performance.

2.2 Suggestion Schemes

These schemes reward something that is not rewarded by the conventional remuneration scheme, namely, creativity. From the point of view of the employer, these schemes can be very cost effective for obvious reasons - a seemingly unimportant suggestion may in the end save millions of Rands. The employee on the other hand, is encouraged and rewarded to use his creativity.

2.3 Performance Awards

This class of award may be awarded to groups, teams or individuals, again for superior performance. Generally the award is not substantial in money terms, and may in fact have little or no monetary value. It is symbolic, perhaps merely an expression of thanks or commendation.

2.4 Share Participation Schemes

Employees below middle management level rarely enjoy the privilege of participating in share participation schemes. Although share participation schemes have been adopted by a high proportion of public companies in South Africa, the level of participation by employees is relatively low - less than 5 percent of issued share capital. The 3 main objectives are to

build relationships,

reward entrepeneurial flair, and

attract and retain key people.

These schemes however remain confined to senior and middle management and are not offered to rank and file employees

6.2.5 Gainsharing

In an article in the July 1994 edition of Industrial Engineering, the author R.O Schmid of R.O. Schmid Engineering Services quotes K.C. Mosier of Mosier Industries - "If you want the best output from your workers, you have to give them a share of the results. Employees begin to undergo a shift in their perspective. By using this compensation mechanism, a company can begin to harness one of the strongest forces in human motivation, self interest, to foster the development of teamwork and concern for company performance. There are many reasons why companies consider implementing a gainsharing program, but one of the best is that it will improve the bottom line".

2.6 Conclusion

The first three options examined, namely those of promotion, suggestion schemes, and performance awards, are very limited in their scope and do not offer promise of an across the board productivity improvement.

Share participation schemes are closer to the mark, but have limitations for general appeal - companies have used them rather to reward or attract key personnel.

Gainsharing on the other hand is more versatile. Since the final objective, not just the short or medium term goal, is to improve the bottom line, gainsharing would seem to be the best option to pursue. The philosophy of sharing gains that are measured against an agreed standard of performance merits further investigation. As very little theoretical knowledge and no practical experience is to be found in the company, an investigation will be conducted into documented records of theory and experience in gainsharing.

3 Gainsharing Schemes Used Around The World

3.1 Introduction

An extensive literature research will be undertaken and summarised in this chapter. It will be seen that gainsharing has been in use for over 50 years. However, the research is restricted to recently published literature, with the intention of deriving current information. Authors quoted are all leaders in this particular field, and have themselves drawn from various sources. Case study investigations are reported, the theory of gainsharing expounded, and methods of plan development, installation, monitoring and maintenance are proposed.

3.2 The Recommendations of Timothy L. Ross

Timothy L. Ross of the Ross Gainsharing Institute published an article in the June 1994 edition of the Journal for Quality and Participation under the title "Self-management and gainsharing : a winning duo" in which he states that "organisation-wide gainsharing plans have been around for over 50 years in the form of Scanlon and Rucker plans, and more recently Improshare in the 1970's and 1980's. They stressed labour productivity and had various emphases on formalised employee involvement systems."

Current trends - For the most part, firms today do not seem to be attracted to these packaged systems, and some are being phased out. Today the preference is to develop customised plans with calculations based on multiple measures, including such items as :-

Labour productivity

Quality

Customer service

Cost reductions

Many are also moving toward more goal-oriented systems, while others are to some degree tying the calculation directly or indirectly to profits. The result of this activity is that gainsharing is now being applied to many more situations, including new company start-ups with self-directed workforces. Some plants are also using a gainsharing approach toward teams of employees, rather than the traditional approach of only organisation wide bonus payments. Obviously, there is no longer a clean or pure Scanlon or Rucker system that is controlled by a few consultants.

3.2.1 Three Approaches To Gainsharing

The apparent difficulty or confusion rests as to what gainsharing is on a conceptual basis, which is exacerbated by the differing approaches that practitioners take. The fact is that gainsharing has and always will have three different approaches regarding the emphasis on employee empowerment.

Management-designed gainsharing : The entire plan is developed by management with perhaps consulting input.

Gainsharing with some employee involvement in the design process :

the plan is developed primarily by management with perhaps some employee input. The employees or their representatives become actively involved after installation, primarily on teams or other activities that often process and implement ideas or suggestions with some decision-making limits, normally emphasizing the areas of productivity, quality, and other cost reductions.

Gainsharing with employee involvement in the design process : the employees at various levels help develop the goals, involvement system, integration of policies and assist with any corporate approvals. They would also have more active involvement in all areas of gainsharing plan operation, including its installation with other employees, monitoring and revisions.

3.2.2 Five Case Studies

Ross goes on to study five gainsharing cases in plants across America, where "plans were installed with significant employee involvement in the design of the plan, integrating it with existing systems and monitoring them over time.

They were all plants of larger companies, with 75 to 200 employees, and were all non-union when installation was made, and have so remained. In some cases, the bonuses were considered to be part of compensation (i.e. variable compensation), but in others were not. All plants emphasised continuous improvement in all phases of the business. All but one have had a significant increase in employment".

3.2.3 Conclusion

Finally, Ross concludes that "Gainsharing when employee empowerment is included as an integral part of the system, with it's philosophy of identity, involvement, and equity can facilitate the attainment of the firm's goals more quickly and more permanently than any other type of system with which we are familiar. Further, achievement is enhanced when 'financial bonus in accordance with these same goals in included".

3.3 "Consequences of Gainsharing - A Field Experiment Revisited".

Extremely interesting findings are reported in an article published in the March 1994 edition of Group and Organisation Management. The article is entitled "Consequences of Gainsharing - A Field Experiment Revisited", the authors being Susan C. Hanlon and David G. Meyer of the University of Akron, and Robert R Taylor of the Memphis State University. This study tested the consequences of a gainsharing plan both during its operation and after the group bonus component was eliminated. Using a longitudinal and experimental research design, changes in employees' attitudes, behaviours, and cognitions were measured. In their initial deliberations, the authors first define what actually constitutes a gainsharing plan. They conclude that "The most basic requirement of gainsharing is the fundamental attribute that differentiates it conceptually and operationally from profit sharing.

Bonus payments in a gainsharing system are based on the criterion of documented productivity improvements within a specified work group.

Profit sharing in contrast is a system of paying employees a portion of any of the overall profits of an aggregated organisation, whether any performance benchmarks were met or not. The benefit of gainsharing over profit sharing, according to gainsharing advocates, is that it creates a stronger contingency or link between pay and performance by not allowing savings or improvements in one department to be offset by a lack of diligence in others as often occurs with profit sharing".

In deliberating on the relevant theory of gainsharing, the authors are of the opinion that

> gainsharing studies to date have not addressed the issue of how employees' motivation to work and their ability to work relate to each other and to economic outcomes.

They feel that this is due, in part, to the fact that most existing theories of how gainsharing operates are vague and are obvious applications of classic theories of employee motivation and participative management which offer few testable research hypotheses.

They go on to state that productivity improvements often observed years after gainsharing has been implemented are not due solely to changes in affective variables such as job satisfaction, commitment, trust, intrinsic motivation, and perceptions of labour-management equity. Rather they propose that changes in such variables are preceded and are related to changes in cognitive and behavioural variables.

It is also the position of the authors that early theories of gainsharing placed too much emphasis on the participation component of gainsharing plans as an explanation of how productivity improvements occur. The bonus payment has been virtually ignored as an important cause of productivity improvement.

In response to this weakness of gainsharing theory it has been argued that improved productivity under gainsharing must be attributed in large degree to the motivational impact of bonus pay being tied to productivity improvement. From an economic perspective,

> bonus payments are the only explanation of why employees would be

motivated and willing to participate by making suggestions, cooperating, sharing job knowledge and information, and changing their attitudes in the interest of the firm. A growing body of evidence indicates that stand-alone participation mechanisms are not as potent as a combination of bonuses and participation.

Subsequently, it seems imperative that a useful theoretical explanation of how gainsharing operates, pay explicit attention to both participation mechanisms and bonus payments as important variables. The explanation should also address changes in cognitive, behavioural, and attitudinal variables as they relate to both the bonus and participation components of gainsharing. When these ideas are used to integrate existing theories of gainsharing a comprehensive theoretical explanation of how gainsharing operates results. The consequent framework of thought may be summarised as follows.

When a performance-related group bonus is offered, group members have economic reasons to improve the group's job performance. If a structured means of work group interaction is also offered, it is likely that group members will talk more with each other and increase the level of job-related knowledge/information and cooperation among group members, which should improve their ability to perform their jobs. Improved performance should then lead to group bonus checks that, over time, will reinforce job-related communication and information seeking among group members. As they continue to receive rewards that are perceived as equitable and performance related, it is likely that group members will come to value membership in the group and the organisation translating into increased levels of satisfaction, commitment and trust. At this point, the performance improvement following implementation of gainsharing may be attributed to changes in what group members know about their jobs (cognitions), work-related behaviour (cooperation and suggestion making), and how they feel about their work and the organisation (attitudes).

These cognitions, behaviours, and attitudes may, through reinforcement, grow to reflect the basic assumptions on which an organisation's culture is founded. This may occur, if during the course of a gainsharing program, work groups

share significant problems,

solve those problems and see the results (bonus payments), and

integrate new members into the group. In essence, the building blocks of culture - strong groups - will develop.

3.3.1 Behavioural and Attitudinal Change

If the theorized role of changes in employee cognitions is true, then it follows that the behaviours and attitudes related to changed cognitions should continue during the life of a gainsharing program and even after a gainsharing bonus formula is withdrawn as a condition of employment. This may occur if changes in employees' work-related cognitions and behaviours are so significant and so positively reinforced during the gainsharing program that the norms of the work group change. Work group norms may change such that members are now expected to voluntarily perform acts previously required to realise a group bonus. In the case of such norms it can be expected that group members would continue to exhibit behaviours described as 'extra-role prosocial or assisting behaviours', such as suggestion making, idea generation, cooperation in implementing changes and so on after a gainsharing bonus plan is withdrawn. Such stable, and perhaps permanent changes in norms would be expected if gainsharing had indeed had an impact on the culture of the work group and/or organisation. A given in this theoretical situation is that the absolute levels of pay are maintained when the gainsharing bonus component of an effective gainsharing plan is eliminated.

3.3.2 Residual Effects

Following detailed research of the experiment in question, the authors conclude that "This naturally occurring field experiment provided an opportunity to assess the residual effects of a complete gainsharing program, specifically the bonus component. The results were fairly unambiguous given the potential selection effects within the experimental group. Scores for the five dependent variables, peer communication, moral commitment, prosocial behaviour, gainsharing concepts, and intention to leave all improved after more than a year of the participants receiving group bonus checks. Three months after the group bonus had been eliminated (the participation mechanism remained), scores for three of the dependent variables, moral commitment, prosocial behaviour, and intention to leave remained more positive in the experimental group than in the control group. Thus the evidence indicates that in this organisation there were lagged or residual effects of a gainsharing program that included both a participation mechanism and a group bonus formula after the group bonus was eliminated and the participation component continued".

In general, the results of this study support a theoretical position that any explanation of how gainsharing operates should consider the sequence of effects, passage of time, changes in cognitions, attitudes, and behaviours, and explicit considerations of both the economic/bonus and participation components of gainsharing plans. The findings particularly support the body of research that seeks to provide evidence of a positive interaction between group incentive pay and participation. Perhaps further developments in gainsharing theory should conceptualise gainsharing as a group-training phenomenon with specific beginning and ending points, instead of as a permanent modification to an organisation's structure and processes as it is currently conceptualised.

3.3.3 Conclusion Of The Study

The overall positive results of this study should be useful with regard to diminishing the fears managers may have as to the high risk of organisational changes related to reward systems. A common perception that serves as a significant obstacle to innovation is that if a planned change has to be reversed for any reason, then more harm than good would have occurred for the organisation and its members. These positive findings should provide some insight for managers into this worst-case scenario of gainsharing. If a program is implemented and then withdrawn, organisational conditions may not be worse than before the program was begun. Of course this is assuming the program is designed and implemented correctly and that equitable economic outcomes for employees are preserved following the termination of a gainsharing plan.

3.3.4 Ending The Scheme

Another common reservation managers have regarding gainsharing pertains to what occurs when the gains generated by the bonus formula stop or hit a plateau beyond which future gains and the consequent bonus checks do not appear to be attainable. In light of this research it may indeed be appropriate to eliminate the group bonus at a mutually agreed upon point. Managers do not have to be so concerned with designing a bonus formula that will generate infinite savings/gains/bonuses, which would seem to be a formidable goal.

3.3.5 Accountability Requirements

Employees who worked in the group-bonus environment seemed to want more flexibility in their job descriptions and responsibilities. This implies that managers should not be surprised if their subordinates begin to think more like management after using gainsharing. Managers must be prepared to deal with some subtle shifts in expected and enacted roles of nonmanagers and the consequent changes in the roles of the managers themselves.

In conclusion, as evidence of the positive outcomes of interventions such as gainsharing mounts, managers and researchers alike must work harder to diffuse innovations in managerial practices and organisation structures and processes. The hallmarks of gainsharing

pay for performance,

employee involvement, and

cooperation - have become the central themes for gaining and maintaining a competitive edge in the world market place.

As such, gainsharing is presently one of the primary types of pay systems being advocated as a positive human-resources management tool for use with programs of total quality management. Consequently, gainsharing appears to be an investment worth making in the quest for higher levels of mutual benefits for the employees and employers of today and the future.

3.4 "Structuring Gainsharing For Success".

In the article "Structuring Gainsharing for Success" mentioned previously, R.O. Schmid highlights the necessity that management exhibits total commitment to ensure the success of any gainsharing scheme. "Management must display an unusually high level of enthusiasm for sharing gains if the workforce is to ultimately commit the optional behaviour within it's purview to performance improvement. Employees can and do quickly separate and compare the substance of what management is saying from what it actually does, and typically will move slowly as they test sincerity. The single key element that will make or break the notion of linking pay to performance

the employees must carefully and methodically be sold on the program including the recognition that they can make a difference.

Up front belief in the gainsharing program triggers employee enthusiasm for and commitment to it's success, and is the highest priority element of the gainsharing plan and absolutely vital to it's longevity. The message is

that without the unqualified support of the workforce, the program simply will not make it. Therefore, management will have prior commitment to sharing success as a philosophy, or exhibit a strong desire to move steadily in that direction and show it by example. This requires going far beyond such short-sighted practices that attempt to use gainsharing as a mere self-sustaining improvement vehicle or a crutch. To the contrary, management must really stretch to sponsor and participate in active and meaningful communications and employee involvement initiatives with enthusiasm as integral elements of the gainsharing program. Selling the program by these means takes a concerted effort and cannot be left to chance. Failure to initially sell the workforce on the understanding and acceptance of gainsharing and participating in its development can spell early failure for the program, regardless of high marks in all other program development efforts".

Schmid goes on to suggest that a gainsharing plan be developed and implemented in two distinct phases, which incorporate three decision steps and four action steps.

In Phase One, decisions have to be made to establish appropriate program design parameters. Questions that need to be answered include :

Is gainsharing feasible, technically and culturally, at the organisation?
Can the program support key company objectives?
At what level does employee participation terminate, or should all employees at the site be included in the program to encourage a total team environment?

3.4.1 The Three Steps Of Phase One

He proposes that Step 1 should be a feasibility study using experienced professionals to gain an independent outside view. A decision to engage outside expertise in a leadership role for the feasibility study upgrades overall program impact and longevity. He states that whilst some may believe that such work is best accomplished solely by an in-house team, the use of consulting assistance by such a team signals serious intent on the part of management, while projecting an image of heightened credibility for the gainsharing plan itself.

The feasability study should address the question "Is the company really ready for gainsharing and to what extent?" The following factors should be assessed :

* Top management's acceptance and enthusiasm for sharing gains.
* Employee attitudes and reaction to gainsharing.
* The size and composition of the company and it's growth history.
* The timing of the program.
* The corporate and operational culture.
* Supervisory day to day attitudes.
* Technical fit with existing company systems.

* Administrative software needs.
* Fine tuned projection of returns to the company and employees.
* Probability of success
* Identification of non-monetary quality-of-life factors.

Following the above, Step Two should translate management objectives into gainsharing goals. Throughout it's tenure, a gainsharing plan must support the company strategic plan. It is suggested that in most cases a customised plan will be more succesful, a "canned" plan probably being too inflexible. Gainsharing performance improvement goals might include such elements as improvement in productivity, quality enhancement, improved customer service, upgraded annual growth rate, improved safety performance resulting in reduced workman's compensation insurance costs, increased employee involvement through a company-wide team effort and supporting the flow of creative ideas.

Step Three determines employee eligibility. The determination of where to draw the line on employee participation is one of the most critical of management decisions, since this impacts the very nature and complexity of the measurement formulas to be developed. The ability of the program to flex and absorb new conditions with little or no modification of the basic plan, as well as it's ease of understanding, will also be affected by this decision. Management style regarding level of employee involvement/team action existing or contemplated must be addressed as this critical decision is made.

Regarding such concerns, it should be noted that some managers are willing to share productivity improvements, but become concerned when the gain includes personnel outside the factory, for example, clerical and professional employees.

This is a philosophical question.

One view is that gainsharing should be applied only to factory employees, with a measure of productivity reflective of factory efforts only.

Another view suggests that efforts by all employees are required to make a business unit successful, and therefore a measurement system must be designed to reflect the performance of the larger group.

Those firms seeking to achieve major cultural change will include all employees, since that strategy's message is that all employees must work together to achieve the organisation's objectives and therefore all participate in the gainsharing. At a minimum the author believes that it is a mistake to exclude first-level supervision, since this divides the team and creates an issue of whether it is in the supervisor's interest to support the program. With the exception of the Scanlon Plan, most plans are used almost exclusively with hourly employees. Either approach can work well, so long as senior executives make a conscious choice, communicate that choice to employees, and stick with it.

3.4.2 The Four Steps Of Phase Two

Phase II is a four-step process that identifies critical actions needed to establish and maintain a high-quality, long-term gainsharing program with lasting bottom-line impact.

Management must resolve to listen to employee suggestions for improvement, evaluate and respond in a timely manner, then act in an appropriate fashion as dictated by priority and potential impact. Beyond gainsharing formulas, which are critically important, meaningful employee involvement, team action and frequent two-way communications are all a vital part of organising for gainsharing success.

The four action steps that follow build on the Phase 1 plan parameters previously developed, offering a pragmatic approach to achieving gainsharing objectives :

Step 1 Establish an effective communications program early-on.

The key to establishing and growing a meaningful employee communications program to sell and support gainsharing is rooted in management's desire and ability to provide regular communications to the employees both during the gainsharing program design and implementation as well as during the life of the program itself. Honest, two-way communications generate enthusiasm and trust.

Step 2 Initiate a strong employee involvement program/total operational team effort.

A formal, company-sponsored employee involvement program team is an integral component of any first class gainsharing program.

If management is lukewarm on a team-oriented environment, the gainsharing professional must provide coaching and training to remind those in charge that linking pay to performance through sharing gains is a crucial company objective. Then advise them that employee involvement is crucial to achieving that objective and must be carefully cultivated at all times. Management must personally lead the workforce by example as it strives to meet tough quality and productivity goals. At the same time, supervisors must be encouraged to be co-operative and responsive. Furthermore, management must be ready to support employee ideas and suggestions, take time to talk with employees regarding problems and solutions in order to grow their pride of ownership, and exude and practice honesty and fairness in administration of the gainsharing program.

Finally, it is important to involve employees as soon as possible in program design.

It is also most important that the program be based on factors the employees can readily control such as production quantities, customer satisfaction, quality of product equipment utilisation and material usage. Often employees will suggest additional candidates for improving costs that should be considered for inclusion in the program, thus activating the ownership advantage.

Employee involvement support systems for accomplishing performance improvement objectives include :

* On-the-floor departmental problem-solving teams
* Regular gainsharing (steering) committee meetings;
* A high priority "idea" program with prompt, effective feedback;
* Semi-autonomous work teams/problem-solving teams
* Product rationalisation task forces and
* Brainstorming sessions (periodic or as-needed basis).

Step 3 Design gainsharing formulas.

Detailed, often complex formulas, establish performance measures that determine the amount of gain to be distributed to plan participants. At program startup and thereafter, the company and its employee participants must believe that the bonus formula(s) are accurate and equitable and feel comfortable with them. Company data for developing the selected formulas should possess a good record of validity and stability. The formulas will normally reflect best-ever or engineered annual performance as a base, and include all applicable nuances inherent in the operation. Decisions must be made concerning changeability of base measurement data each year. All experienced gains should be verifiable through alternate audit trails. If reasonably sound and stable performance measurements cannot be developed, the project would best be terminated. As early as feasibility stage, or later.

It is important to include as applicable in measurement formula design, the effects of price and other marketplace fluctuations, product volume, product mix, variations having different labour content and fixed vs. variable indirect labour consideration. Gainsharing concepts, although logical and surface simple, and therefore readily understood and easy to follow, can be extremely complex in development. In most instances, professional review can ensure inclusion of all operational nuances. Furthermore, if not adequately covered, it could literally destroy the effectiveness and viability of the program. Because of the difficulty in developing consistency in more complex formulas, some companies opt for formulas that measure only productivity changes.

Commonly used gainsharing formulas that measure performance improvement include:

* Measurement of physical productivity (non-financial) generally includes input and output expressed in units rather than Rands. For example, hours worked vs. standard hours earned, material used vs. allowed usage and absorption of indirect labour hours worked vs. standard hours earned. Such formulas by their nature generally limit eligibility to factory floor personnel and certain selected salaried personnel.

* Measurement of economic or financial productivity generally includes input/output ratios or formulas reflecting the relationship between sales value of production and labour costs, or between production value (sales value less cost of goods sold) and labour costs. Variants include the cost of quality to sales and operating supply cost to sales and others. Financial formulas are normally used when plan eligibility is offered to all employees. As a result, they fit well in a total team environment. However, the balance of financial formulas can be upset when economic conditions change (causing price changes for example), and intrinsic

complexity can make them a bit difficult for employees to understand.

* Financial or economic productivity formulas may also be used to determine the threshold at which bonus payment will commence and in what sharing proportion, should overall company financial performance reach certain predefined levels. For example, should performance gains be measured only in terms of physical productivity, a threshold based on a financial formula can be used to limit payouts temporarily for as long as the company is experiencing inadequate profit levels or losses.

Formulas may be used in any combination that may be required to fit company culture, and both near and long-term objectives. Often, a combination of formulas can offer the best approach to meeting the need.

It must be borne in mind that complex formulas may not be readily understood by a labour force with a relatively low level of education and it may be advisable to avoid devising formulas that are difficult to comprehend.

Examples of gainsharing measurements reflecting specific company objectives might include improvement of :

* Output (Units Produced)
* Direct and indirect costs
* Customer satisfaction
* Product or service quality
* Inventory control
* On time delivery

* Safety and workmen's compensation costs; and
* Company growth rate.

Linking pay to performance in the above areas will improve productivity levels and bottom-line profitability only if employees perceive the program to be fair and honest and understand and accept the notion that they can indeed influence their own earnings. It is essential to re-emphasise that all program participants must believe that they can directly influence the amount of their earnings through commensurate performance improvement, thereby making a measurable difference.

Step 4 Follow-up to improve the program.

Concerning the recurrent question of a perceived inequity caused by paying low performers the same earnings share as high performers - take heart. Should this become a problem, a system modification that rewards employee participants on the basis of company service, job classification and superior performance, all expressed in a quantified, objectively developed profile of each employee can be used to provide an alternate basis for the distribution of share earnings.

Also, to further recognise and reward top performers, gains can be shared through a formula allocating a portion of the gain to the group and the remainder to a bonus pool. Many variations are possible.

Spot gainsharing is yet another variant that promotes high performance on specific problem resolution by a limited number of participants until the problem is resolved.

Plan participants are encouraged to suggest areas of potential saving that are employee impactable, for inclusion in the gainsharing plan with management approval"

3.5 "Boosting Plant Performance With Gainsharing".

The above findings are supported by Woodruff Imberman in his article entitled "Boosting Plant Performance With Gainsharing", published in the November-December 1992 issue of Business Horizons. He concludes, "If gainsharing is such a boon to many companies, why are there only about 2 000 companies using some form of it? Part of the answer might be found in a study done for the American Management Association which involved a sample of 83 companies using some variety of gainsharing, found that about two-thirds did not meet expectations. Gainsharing was a big success in only one-third of the companies. Reasons for the lack of success included:

* Lack of top management support ("Gainsharing involves the hourly workers and supervisors. We can't be bothered with it.")
* Inadequate middle management involvement ("Gainsharing is not our responsibility. Let the hourly workers and foremen make it work. We don't have time to devote to it.")
* Lack of training for first-level supervisors ("I'm supposed to manage my people differently. Nobody told me how to do that.")
* Inadequate assessment of suggestions ("We get tired of making suggestions for improving this or that. We never seem to get any response or reaction. The engineers who are supposed to evaluate our suggestions can't be bothered with talking to us because we don't have a college education and won't understand them, they say. So what's the use of suggesting better ways of doing things if nobody seems to pay attention?")
* Failure to use some expert guidance ("Our controller believed he could put a gainsharing plan together." Or : "We explained to our work force how the plan worked and we expected them to follow through. Unfortunately, it

didn't turn out that way.")

3.6 "Excellence in Gainsharing : From The Start To Renewal".

3.6.1 Introduction

In the South African context, Frank Horwitz and Peter Frost of the UCT Graduate School of Business in their article "Flexible Rewards : Critical Success Factors", published in the June 1992 edition of People Dynamics, identify similar parameters as being essential for the success of an incentive reward system. They conducted a research program involving 150 South African companies and investigated reward systems used in the main for management level employees. However, they extended their research to lower organisation levels and found that there was clear agreement that team-based schemes were more applicable at operational levels than the individual schemes preferred at management levels. They suggested that organisations would be advised to jointly design incentive schemes for workers together with trade unions, as for example in the ERGO/NUM case. In so doing, they would have to try to create a strategic balance between wealth creation, equity and employment security.

The subject is neatly encapsulated in an article "Excellence in Gainsharing : From the Start to Renewal" by Michael H. Schuster, Mark K. Montague and Judith M. Schuster in the June 1994 edition of the Journal for Quality and Participation.

3.6.2 The Six Step Process

Schuster, Montague and Schuster propose that gainsharing should be seen as a six step process, these steps being :

1. Initial education
2. Feasibility study, including plan design.

3. Review of study results

4. Implementation

5. Monitoring

6. Evaluation and re-evaluation.

They state that past experience suggests that the process of education, design, approval and implementation will require 9-18 months. They share the views of the previous authors that, in order to be successful, a gainsharing plan must have:

* A high level of senior management support.
* Be well communicated
* Link with existing programs
* A plan for it's renewal.

Their research shows that

> management commitment and the quality of the implementation are two of the most important gainsharing success factors.

3.6.2.1 Implementation

They state "Gainsharing implementation should not be viewed in a vacuum. Rather, implementation is an important part of a company's overall approach to gainsharing, starting with initial education, analysis of its feasibility and continuing through design, implementation and ongoing administration. While the implementation phase cannot cure an otherwise deficient approach, it does afford a key opportunity for review, analysis and increased understanding of the company's proposed objectives for gainsharing, and especially their linkage to other operating goals and objectives.

The chances for the implementation process to successfully reflect and integrate key objectives for the plan are improved if a comprehensive approach has been followed as part of the earlier phases of the project. For implementation, the need is to evaluate what has transpired and consciously validate or modify the proposed course of action".

3.6.2.2 The Co-ordinator

In their implementation process proposal, they suggest that, once top management commitment has been obtained, a gainsharing co-ordinator should be selected. This person should be a member of top management, and should take responsibility for the management of the gainsharing plan during the first two or three years as part of his/her existing job responsibilities. He/she may also be supported by a gainsharing administrator, depending on the size of the organisation and the objectives of the gainsharing plan. The gainsharing co-ordinator would serve as the champion for the plan. The gainsharing administrator position normally would require a full-time or close to full-time commitment, handling all of the day-to-day co-ordination and communication of the gainsharing effort. The ideal candidate for the co-ordinator position would be a person who :-

* "Possesses undoubting commitment and enthusiasm for the gainsharing concept, demonstrating a willingness to be a cheerleader for the gainsharing program.
* Enjoys considerable credibility in the organisation, often by virtue of long service : someone who is trusted by employees but is also highly regarded by senior management.
* Comes from operations rather than from finance or human resources, thus providing a solid understanding of the production process in terms of technology, materials, work flow and customer requirements.

* Is a good listener and communicator and is capable of building enthusiasm for the gainsharing program.

The gainsharing co-ordinator, along with the gainsharing implementation team, is responsible for the launch of the plan and smooth operation during its initial phases. Working with the implementation team, the co-ordinator will field questions and design appropriate communications to employees. A truly effective gainsharing co-ordinator will be charged with identifying areas where employee efforts can produce the most significant gains and where roadblocks may potentially prevent those gains from being realised".

3.6.2.3 The Implementation Team

Following the appointment of the co-ordinator, a gainsharing implementation team should be established.

"The role of the gainsharing implementation team is to provide a structure for the transition from plan design to plan implementation. This team has a dual responsibility : first, launching the gainsharing plan and second, selecting and training the gainsharing administrative committee. These separate responsibilities highlight the distinct nature of the work required in introducing and administering the plan. A great deal of communications activity and training are often needed to launch the plan. Following that phase, the important but more regular administrative process takes over.

As a practical matter, oftentimes the same group of individuals designs and implements the gainsharing plan. And in a small number of situations, the same group will serve as the administrative team. While this provides needed continuity, care should be taken not to develop an elite group that becomes removed from the day-to-day realities of the operation".

3.6.2.4 Launching The Program

The next step is the launch of the gainsharing program. "The implementation team must do a thorough job of communicating the plan and building enthusiasm during the launch phase.

The committee's responsibilities during this phase include :

* Securing top management's contribution to the roll out process...
* Developing supervisory and management training...
* Providing initial employee gainsharing education...
* Preparing an overall communications plan and reporting format, and conducting an examination of parallel programs.

In union environments, the program launch provides a key opportunity for working collectively with the union. While the exact approach to communications depends upon the facility and its broader approach to communications, this is a situation where more is better. Most employees, including managers, will have scant knowledge of the gainsharing plan or the objectives which the company is seeking to achieve with the plan. A comprehensive communications plan, including calendar of events, list of training sessions, and detailed questions and answers helps focus needed activities.

3.6.2.5 Training And Development

Introduction of gainsharing requires a renewed commitment to the training and development of all levels of employees. At a minimum, employees need to understand the gainsharing concept and their own plan. In addition, gainsharing implementation creates an opportunity to review current training programs for their appropriateness not only to gainsharing but to achieving overall business strategy. Training and development thus should be considered both in the context of the introduction of gainsharing and the ongoing need to link parallel programs with gainsharing and attainment of the firm's business strategy".

3.6.2.6 The Administrative Committee

Once the introductory efforts are completed, the implementation team disbands and a gainsharing administrative committee is formed and begins it's monitoring and promotion activities. This is a good opportunity to assure a representative cross-section of all employees participating in the plan, including hourly, salary and all areas and shifts.

The gainsharing co-ordinator (discussed above) interacts closely with the administrative committee, and may either sit as a member of the committee or act as a resource to it.

The primary responsibility of the administrative committee is to apply the plan rules when needed :

* On eligibility...
* Review the bonus calculation....
* Analyse why or why not a payout was made, and whether the payout was unacceptably low or high.

This activity typically is performed on a monthly basis, or at whatever intervals payouts occur. It is a good idea to publish the minutes of these meetings and make them available to all employees as a communications vehicle.

Recommending modifications.......The administrative committee also is charged with recommending modifications to the bonus formula or other plan provisions. The exact scope of responsibility will depend upon the group's initial charter, but as the employees most knowledgeable of the plan, they should be granted wide authority to identify needed corrections when the plan is not operating as anticipated.

Ongoing promotion.......Another responsibility of the committee is the ongoing promotion of the plan. Whatever the situation or activity, the more gainsharing is used as a common theme, the more chance there is for the plan to be successful.

In summing up their research, Schuster, Montague and Schuster note that "effective, ongoing administration of the gainsharing program should not be ignored. For gainsharing to play the role it is capable of playing, that of integrating and harmonising diverse company efforts, it must be a living, changing program which can respond to alterations in business strategy.

Gainsharing implementation necessarily reflects the specific environment in which, the gainsharing plan was created. In all cases, however, it requires resources and planning which match up to the major change effort it represents. The results can be exciting".

3.7 Conclusion

The most important discovery in this chapter is that gainshare schemes cannot be devised and imposed by management alone if they are to have any chance of success. The participants in the scheme must be involved from the very earliest stages in the planning and formulating of the gainshare formula, and must retain representation on the committees and teams that implement and control throughout it's life cycle.

The formula governing the financial gain to the company and to the participants can vary greatly from a very simple one, to one that is quite complex in nature, the important factors being that it is understood and accepted by all, and that the gain is attainable.

Communication of progress is vital to ensure continuing acceptance and enthusiasm, whilst education and training also play very important roles in gainsharing.

Positive changes in cognitive, behavioural, and attitudinal variables may occur to the extent that the norms of the work group change. These changes may have a residual effect, remaining in operation after the scheme has ended, or when the gains have stopped or hit a plateau beyond which future gains and the consequent bonus payments do not appear to be attainable.

A considerable data base of knowledge has been obtained from various authors. A wide spectrum of theory and experience has been covered, yielding a comprehensive spread of the latest recommendations published. This information will be summarised in Chapter Eight as part of the basis for the development of a recommendation for T.B.A.

Before doing this however, it would be useful to determine the nature and success of gainsharing schemes in companies similar to TBA, and to use this information in the development of the recommendation.

This research is detailed in Chapter Seven immediately hereafter.

CHAPTER SEVEN

STATUS OF GAINSHARING PROGRAMMES IN USE IN T&N IN SOUTH AFRICA

1 Introduction

The literature research conducted in the previous chapter has yielded a theoretical sufficient for the development of of the proposal. However, it would be useful to determine experience in a context as close as possible to that of the TBA situation i e in South Africa and in companies wherein cultures exist approximating that of TBA. Since T&N through it's close financial control and policy generation exerts a strong influence on the cultures of it's subsidiaries, it was decided to determine the gainsharing experience of of T&N group companies.

The main objectives of the research were

What degree of joint planning was used?

What planning and and communication process was used?

What parameters of measurement and reward were used?

How successful has the sheme been?

Thirteen questions were asked.

1.1 Was your scheme negotiated with your union and agreement reached before implementation?

1.2 Did it have top management support at implementation?

1.3 Did it have grass-roots support at implementation?

1.4 Was a scheme co-ordinator appointed, as well as an implementation team?

1.5 Was external professional assistance used?

1.6 If not, what source of gainshare theory, if any, was researched?

1.7 In communicating the scheme to employees, which of the following vehicles were used :-

Booklet

Video

Newsletter

Bulletin Boards

Gainsharing Reporting Charts

Personal Letters to Homes

Meetings

Handouts.

1.8 Were managers and supervisors trained to explain the scheme, and to answer any questions?

1.9 Is the scheme run by an administrative committee?

1.10 What were the parameters of the scheme on implementation?

1.11 Have the parameters changed since initial installation?

If so, please give details.

1.12 How long has your scheme been running?

1.13 On a scale of 1 to 10, how successful would you say your scheme has been from the point of view of :

a) Management?

b) Participants?

The success rate was defined as the perceived degree to which management and participants felt that the scheme had met their expectations.

Information obtained from the T & N Human Resource department revealed that four group companies were conducting gainsharing schemes. These companies were :

AE Pistons & Liners in Roodepoort

AE Valves in Pinetown

Payen Components in Port Elizabeth

Multi Axis in Sebenza

The questionnaires were completed by the General Managers of AE Pistons and Liners, AE Valves and Multi Axis, whilst that of Payen Components was completed by the Human Resource Director. These questionnaires are attached to this report as appendices one, two, three and four respectively. The first three appendices contain also the documented rules of the schemes. The information yielded by the answers is summarised below in Paragraphs 8.2 to 8.5.

1.2 AE Pistons & Liners

This company has the longest experience in the T & N group of gainsharing schemes - 2,5 years.

The plan was negotiated with the participants, but is administered by senior management only (Executive Director and the Financial Manager). In common with all four companies questioned, no professional assistance was used in drawing up the plan. Again in common with the other companies, no specific gainshare theory was used in the planning stages.

On examining the answer to question 11 and the details of the scheme, two points of interest are noted. Firstly, the scheme is not pure gainshare, but is aligned more to profit sharing, the unit of measure being profit before royalties.

Secondly, the parameter has changed during the period of operation from gross margin to profit before royalties i.e. it has remained a financial measurement, but has been modified as the need has arisen.

A last finding of interest is the perceived success rating of 70 percent on the behalf of both management and participants, and the comment by the General Manager that continual education and training is required and is being given to get participants to fully understand how they can impact on their bonuses.

1.3 AE Valves

Again the result of negotiations, this scheme is

truly gainsharing in nature, although the impact on profit levels has been taken into account in the drawing up of the plan.

A bonus is paid in proportion to the number of units produced per day in excess of a specified standard.

The scheme is run by an administrative committee, and

parameters have changed since installation.

It would appear that further modifications are necessary, since perceived success rates of only 50 percent by management, and 60 percent by participants, are given.

1.4 Payen Components

The approach adopted by Payen has been far more simplistic and aimed at curing specific problems.

No prior negotiations were conducted,

no theory researched and

no professional assistance used.

No managers were trained to explain the scheme, and

an administrative committee is non-existent.

However, the perceived success rating for the initial scheme on behalf of management is 100 percent, and 80 percent on behalf of the participants,

the only demotivating factor for the latter group being the tax implications of the cash bonus.

This appears to be a general problem in many businesses and therefore the initial training and education module should fully cover the negative aspects in addition to the positive.

The first specific problem addressed via the gainsharing approach was that of an unacceptable back order situation. The target set was that of reducing back orders from R4 million to R1 million within three months, the reward being a bonus of R400 per employee. This was achieved.

The target for the second scheme is that of sales turnover. If a level of R22 million is reached during the period July to September, each employee will receive a bonus of R500.

1.5 Multi Axis.

Not dissimilar to the AE Pistons & Liners plan, the Multi Axis plan is

profit sharing rather than gainsharing,

the parameter of measure being profit before royalties. Interestingly,

the plan was not pre-negotiated, but is now run by an administrative committee.

The perceived success rating is high - 90 percent for management and 70 percent for participants.

1.6 TBA

Not included in the questionnaire program, but of relevance and interest, is the current experience of TBA. After experiencing very disappointing productivity in May and June 1995 due to machinery breakdowns and a deliberate go-slow on behalf of production personnel, a promise of a celebratory feast was offered should a particular sales figure be reached during the month of July. The attainment of this target entailed a reduction in the lead time requirement from 4 weeks to 2 weeks, which in turn required an increase in production output of 30 percent above the levels recorded in May and June. The change in attitude was remarkable and conspicuous, and whilst other factors contributed, the promised feast was a frequent topic of conversation on the factory floor, a drawing of an ox even appearing on the notice board! (The feast was designed around the Zulu culture). The target was achieved, the perceived success rating being 100 percent for both parties.

Management was particularly pleased to note that the quality of goods manufactured actually improved, and that reject levels decreased.

1.7 Conclusion

Practical experience with gainsharing is very limited in T&N when compared to countries such as America. AE Pistons & Liners, with 2,5 years experience, has the longest running programme in T&N.

Notwithstanding this short exposure to the concept, the different programmes that are running or have been run, have met most of the expectations of the company and the employees.

The parameter of measure may or may not be financial in nature, but the target must be easily understood by the participants.

The most successful scheme (success being the degree to which the expectations of management and participants were met), was of a short term nature i e three months, and addressed a specific short term problem - the Payen back order situation.

Although no specific gainsharing theory was used in designing the programmes, the formulas used have been simple and therefore easily understood. It is concluded that this has been an important factor in the success of the programmes.

The information gained in this chapter will be summarised in conjunction with a summaryof the findings of the literature research contained in Chapter Six. This summary is found in the next chapter.

CHAPTER EIGHT

SUMMARY OF GAINSHARE PROGRAMMES : THEORY AND PRACTICE

1 Introduction

The research phase of this report has been completed and reported on in the previous two chapters. This information now will be summarised in this chapter in order to facilitate the final development of a proposal.

The two areas of research, those of literature and practice, have revealed different areas of information regarding the theory of gainsharing, followed by planning, installation and maintenance. The T & N practice research has been more limited in value since a very much narrower field of experience has been evaluated. However, no divergence of conclusion is apparent between the two, complementary evidence being obtained between the theory gained from literature, and the practice gained from the T & N companies (T & N Co.)

2 Comparison Between Theory & Practice.

2.1 Planning

T & N Co. generally have followed the recommended practice of involving the scheme participants in the planning stages, and in the administration. The exception to this occurred in Payen, where the formula was so simple and management's intention so specific, that no pre-negotiation was necessary.

2.2 Communication

Significant attention was paid by T & N Co. to communication. All four companies utilised meetings for this purpose, whilst three also used bulletin boards and gainsharing charts. As in 2.1 above, no divergence is found between the theory and the practice.

2.3 Programme Parameters & Gainshare Types.

The literature research revealed that the parameters of a gainsharing scheme are almost limitless. Thus it is not surprising to find that the T & N Co. schemes all fell within the prescribed boundaries.

In the case of AE Pistons & Liners and Multi Axis, the schemes are profit-sharing rather than truly gainsharing, but are not outside the definition quoted in Chapter One where gainsharing includes profit-sharing where a level of profits is adopted as the standard.

The scheme of AE Valves is pure gainsharing in that a bonus is paid in proportion to the number of units produced per day in excess of a specified standard.

Payen's use of the concept is a typical example of spot gainsharing.

2.4 Results

The experience of T & N Co. parallels that of the literature research - gainsharing promotes productivity improvements, and the effect of these improvements will flow right down into the financial statements, improving both profits and cash flow.

2.5 Summary

All the companies surveyed within the T & N group who have had experience with gainsharing, report positively on the concept. The procedures that have been followed have been broadly in line with theory, as have been the beneficial results obtained.

The exact natures of the schemes have varied quite widely, but all have been within the definition of gainsharing, and all have been successful.

It is concluded that TBA would benefit substantially from the introduction of a properly planned and negotiated gainsharing scheme.

3 Summary

A remarkable consistency of thought has been found between the various authors examined. All have proposed the same base premises for the devising and installing of gainsharing programmes. This consistency possibly should not be considered to be remarkable, since gainsharing has been practised for many years, time enough for the best method of operation to have surfaced, and to have been identified by the research conducted by the various authors.

3.1 Principles

Seven basic principles have been identified as being necessary for the successful operation of a gainshare scheme. These principles are described below.

3.1.1 **Planning** - Fundamental to all the programmes researched, is the necessity of correct planning. If this aspect is not carried out correctly and with patience, then the chances of the scheme succeeding, are severely diminished.

3.1.2 Management Commitment - If employees note a lack of commitment on the part of management to the scheme and to sharing gains, then they in turn, will not commit their optional behaviour to performance improvement.

3.1.3 Employee Commitment - Unless this is obtained, no scheme will succeed. The best means of obtaining this commitment is involvement in the design of the programme from the very earliest stages.

3.1.4 Communication - Starting again at the very commencement of the planning and not stopping until the plan is concluded, it is essential that full and proper lines of communication are established and utilised. Initially, employees must carefully and methodically be sold on the programming, including the recognition that they can make a difference. Thereafter, effective two-way communications must be maintained throughout the design and implementation phases, and indeed throughout the full life-cycle. The later stages of this communication should be aimed at evaluating and re-evaluating the parameters (See later)

3.1.5 Programme Parameters - The parameters comprising the gainsharing formulae should be accurate and equitable for all the employee participants. The participants must believe that they can directly influence the amount of their earnings through commensurate performance improvement, thereby making a measurable difference.

3.1.6 Education and Training - All employees, including managers, will have scant knowledge of the concept of gainsharing or the objectives which the company has in mind. They need to be educated and trained, not only in these aspects, but this opportunity also should be taken to review current training programmes for their oppropriateness not only to gainsharing, but to achieving the overall strategy of the business.

3.1.7 Ongoing Evaluation - No plan should be considered as cast in stone. An essential part of the programme should be reviews at regular intervals to evaluate the suitability of the plan to the then current needs of the business.

3.2 Gainshare Types

Differing opinions were found concerning the interpretations of gainsharing. Most of the authors differentiated between gainsharing and profit sharing, claiming that gainsharing requires that the parameter of measure is the criterion of documented productivity improvements within a specified work group, whereas profit sharing is a system of paying employees a portion of any of the overall profits of an aggegated organisation, whether any performance benchmarks were met or not. The advocates of gainsharing claim that gainsharing has the superior benefit over profit sharing that it creates a stronger contingency or link between pay and performance by not allowing savings or improvements in one department to be offset by a lack of diligence in others as may occur with profit sharing.

However, Timothy L. Ross noted that current trends include the preference to develop customised plans including the tying of the calculation directly or indirectly to profits.

The research of the gainsharing plans of the T & N companies supports the comment concerning customised plans totally. Support from this source is also found for Ross's comment concerning the tying of the calculation directly or indirectly to profits. All of the five companies investigated are using customised plans, with those of AE Pistons & Liners and Multi Axis being based on profit generation.

It is interesting to note the use that has been made by both Payen and TBA of short term gainshare schemes to resolve specific problems. These are both examples of the spot gainsharing variant referred to by Schmid in his article, where high performance is promoted in order to resolve a particular problem.

4 Conclusion

The seven principles identified above must constitute an integral part of a gainsharing scheme. The fifth principle, that of the programme parameters, is perhaps the most important, governing as it does the measurement itself. Various parameters may be used, varying from profit sharing, through productivity or quality improvements, to specific problem solving. Factors which may not vary are that the parameters must be accurate and equitable for all participants, and the participants must believe that they can directly influence the amount of their earnings.

The next chapter will utilise the information summarised in this chapter, as well as drawing from some of the detail in previous chapters, in order to develop a proposed action plan for TBA.

CHAPTER NINE

THE DEVELOPMENT OF A PROPOSAL FOR T B A

1 Introduction

None of the articles researched contained a development and implementation plan completely suited to the needs of TBA. All contained elements of need, and these elements will be extracted and combined in a proposal that will incorporate the seven principles identified in the previous chapter, as will be the findings of the T & N survey.

It is important to note that the proposal developed is a general plan that is not restricted to a single gainsharing scheme. The structures once put in place may be used repeatedly for more than one scheme, be it short-term in the nature of a spot scheme as illustrated in the Payen example where an unacceptable back-order situation was eliminated in three months, or long term such as the AE Pistons & Liners example where it has run, with modifications, for over 2 years.

2 The Proposal

A gainsharing implementation process model is proposed below that will take management and participants from the initial concept phase, through communication, education, planning, implementation and administration, and conclude with evaluation and re-evaluation.

2.1 Step One - Appointment of the Investigatory Committee.

Management and employee commitment is best obtained if both parties are involved from the outset in the conceptualising of the scheme. In addition, the whole process will be a learning experience for both parties, and better acceptance will result if neither side is seen to dominate the process via prior involvement.

Fortunately, the co-operative nature of the relationship between management, shop stewards and NUMSA officials will be conducive to rapid progress in the process. Since much of the ground work has been completed in the course of the negotiations of the current wage agreement, all that remains is for management to pursue the establishment of the already agreed joint committee.

2.2 Step Two - Appointment of the Gainsharing Co-ordinator.

Once established, the first task of the committee should be to appoint a gainsharing co-ordinator. As suggested by Schuster, Montague & Schuster, this person should be a member of top management, and who should take responsibility for the management of gainsharing as part of his existing job responsibilities, and who should assume the role of the champion for gainsharing.

The candidate for the co-ordinator position should :-

* Possess undoubted commitment and enthusiasm for the gainsharing concept.
* Enjoy considerable credibility in the organisation.
* Be trusted by employees and be highly regarded by management.
* Come from an operations background, providing a solid understanding of the production processes in terms of technology, materials, work flow and

customer requirements.

* Be a good listener and communicator.

2.3 Step Three - Establishment of Communication Channels.

Before embarking on further work, the investigatory committee must commence communication with all other employees. Channels must be opened and established to ensure a two-way transfer of information - telling all concerned of what has happened, what is happening, and what is going to happen, and inviting, and giving opportunity for, questions and suggestions. Suggestions for potential vehicles for this communication are those contained in the questionnaire used earlier in this investigation, viz, booklets, videos, newsletters, bulletin boards, gainshare reporting charts, personal letters to homes, meetings and handouts.

In stressing the importance of communication, sight should not be lost of the dangers of incomplete reporting, whether this be in the form of omission of information, or in the form of omission of certain sectors of the employee complement. Employees not involved in the gainshare plan must also be included in the information and communication process to prevent misunderstanding developing and impacting negatively on company team work and morale.

Part of the communication channel infra-structure is a structure of employee involvement support systems. These would include :

* On-the-floor departmental problem-solving teams
* Regular gainsharing (steering) committee meetings
* A high priority "idea" program with prompt, effective feedback;
* Semi-autonomous work teams/problem-solving teams.

* Product rationalisation task forces and
* Brainstorming sessions (periodic or as-needed basis).

2.4 Step Four - Establishment of Training and Education Procedures

Once people have been told that the company is investigating gainsharing, the first question that will arise will be "What is gainsharing?" This is a question that will be asked by management as well by shop-floor personnel. This means that the education process will have to begin at the very outset of the committees deliberations. As the plan develops, this teaching process will need to be expanded in order to ensure understanding of the concept and the plan. The opportunity should be taken to review current training programs for the appropriateness not only to the plan in process of development, but also to achieving overall business strategy.

The investigatory committee, followed by the successor committees governing implementation and administration, must have training and education (and indeed communication) as permanent items on the agendas for their meetings, and must ensure that these aspects are not allowed to decline below the high level of importance that is their due.

2.5 Step Five - Design of the Plan.

Once communication and training procedures are in place, work can commence on the development of the plan itself. The nature of the parameter or parameters of measure will depend on the needs of the company, and on the deliberations of the committee. The formula or formulas developed may be simple or complex - the important factor is that both the company and it's employee participants believe that the bonus formula(s) are accurate and equitable. The company data used for developing the selected formulas should possess a good record of validity and stability.

Examples of simple formulas are to be found in spot gainsharing and profit sharing. Spot gainsharing may be used to overcome a specific problem such as a back order situation, disposal of excess stock (either as sales by the sales force, or conversion into alternative saleable product by the production unit), or the attainment of a specific sales target. Profit sharing likewise is simple in concept and easily understood. Both spot gainsharing and profit sharing would require less training and explanation than the more complex formulas referred to below.

More specific productivity performance measurements for investigation by the committee would include :-

* Measurement of physical productivity (non-financial) where input and output are expressed in units rather than Rands. For example, hours worked versus standard hours earned, material used versus allowed usage, and absorption of indirect labour hours worked versus standard hours earned. By their nature, such formulas limit eligibility to factory floor personnel and certain selected salaried personnel.
* Measurement of economic or financial productivity generally includes input/output ratios reflecting the relationship between sales value of production and labour costs, or between production value (sales value less cost of goods sold) and labour costs. This type of financial formula would be used when plan eligibility is offered to all employees, fitting in well in a total team environment. Disadvantages are that the balance of the financial formulas can be upset when economic conditions change (causing price changes for example), and their intrinsic complexity can make them a bit

difficult for employees to understand.

* Financial or economic productivity formulas may also be used to determine the threshold at which bonus payments will commence and in what sharing proportion, should overall company financial performance reach certain predefined levels. For example, should performance gains be measured only in terms of physical productivity, a threshold based on a financial formula can be used to limit payouts temporarily for as long as the company is experiencing inadequate profit levels, or even losses.

Formulas may be used in any combination that may be required to fit company culture, and both near and long-term objectives. Often, a combination of formulas can offer the best approach to meeting the need.
Examples of gainsharing measurements reflecting specific company objectives might include improvement of :

* Output (Units Produced)
* Direct and indirect costs
* Customer satisfaction
* Product or service quality
* Inventory control
* On time delivery
* Safety and workmen's compensation costs; and
* Company growth rate.

This plan design stage should include also the feasibility study. This study should address the question, "Is the company really ready for gainsharing and to what extent?"

The following factors should be assessed :

* Top management's acceptance and enthusiasm for sharing gains.
* Employee attitudes and reaction to gainsharing.
* The size and composition of the company and it's growth history.
* The timing of the program.
* The corporate and operational culture.
* Supervisory day to day attitudes.
* Technical fit with existing company systems.
* Administrative software needs.
* Fine tuned projection of returns to the company and employees.
* Probability of success
* Identification of non-monetary quality-of-life factors.

2.6 Step Six - Appointment of the Implementation Team

The investigatory committee must appoint a team to implement the plan that has been developed. It may be that the same group of individuals who designed the plan may also carry out the implementation stage.

"The role of the gainsharing implementation team is to provide a structure for the transition from plan design to plan implementation. This team has a dual responsibility : first, launching the gainsharing plan and second, selecting and training the gainsharing administrative committee. These separate responsibilities highlight the distinct nature of the work required in introducing and administering the plan. A great deal of communications activity and training are often needed to launch the plan. Following that phase, the important but more regular administrative process takes over.

The investigatory committee may feel that no assistance is required for implementation. On the other hand, specialised assistance may well facilitate and speed up this phase. In order to maintain continuity, it is advisable that a significant proportion of the implementation team should consist of members of the investigatory committee. This principle should be continued through to the latter stage when an administrative team is appointed. It is probably not advisable that the same group of individuals should exclusively provide all the individuals as this could result in an elite group being formed that could become removed from the day-to-day realities of the operation.

2.7 Step Seven - The Launch of the Plan.

The implementation team must do a thorough job of communicating the plan and building enthusiasm during the launch phase. It should build on the communication and training systems already in place in order to ensure acceptance and to gain commitment. The task of the implementation team is to ensure that the plan as developed is put into operation in toto throughout the organisation. Some minor adjustments or refinements may be necessary, and these can be addressed as the installation proceeds.

2.8 Step Eight - Administration of the Plan.

Once the introductory efforts are completed, the implementation team should disband after selecting, appointing and training a gainsharing administrative committee. This is a good opportunity to assure a representative cross-section of all employees participating in the plan, including hourly, salary and all areas and shifts.

The gainsharing co-ordinator should interact closely with the administrative committee, and may either sit as a member of the committee or act as a resource to it.

The primary responsibility of the administrative committee is to apply the plan rules when needed :

* On eligibility....
* Review the bonus calculation...
* Analyse why or why not a payout was made, and whether the payout was unacceptably low or high.

This should be performed on a monthly basis, or at whatever intervals payouts occur. Minutes of these meetings should be published and made available to all employees as a communications vehicle.

2.9 Step Nine - Evaluation and Re-Evaluation

The administrative committee also should be charged with recommending modifications to the bonus formula or other plan provisions. The exact scope of responsibility will depend upon the group's initial charter, but as the employees most knowledgeable of the plan, they should be granted wide authority to identify needed corrections when the plan is not operating as anticipated.

Another responsibility of the committee is the ongoing promotion of the plan. Whatever the situation or activity, the more gainsharing is used as a common theme, the more chance there is for the plan to be successful.

3 Summary

A process has been established that can be used by the company to develop any number of gainsharing schemes. The process commences with the appointment of an investigatory committee and a gainsharing co-ordinator, guides them through the essential steps of establishing communication channels and training procedures, and provides guide-lines for the design of the plan itself. Once ready for implementation, an implementation team is appointed and the plan is launched. Finally, an administration team is appointed, whose task it is to ensure that the plan runs smoothly and is modified if necessary. An essential part of the administration is evaluation and re-evaluation.

CHAPTER TEN

CONCLUSION

In this paper, a description has been given of the problem facing TBA, whereby a means has to be found of improving productivity. Gainsharing was chosen as the vehicle of use, and a thorough research has been undertaken of documented findings on this subject. An unusual consistency of thought has been found between the various authors, and this information has been used, in conjunction with the findings of research into the practical use of the concept in four T & N companies, to develop a plan of action for TBA to use to develop, install and administer an effective gainsharing scheme. The change in productivity that will occur will result in improved business performance and long-term growth.

CHAPTER ELEVEN

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GAINSHARE QUESTIONNAIRE

COMPANY : A E LINERS

1. Was your scheme negotiated with your union and agreement reached before implementation?

YES

2. Did it have top management support at implementation?

YES

3. Did it have grass-roots support at implementation?

YES

4. Was a scheme coordinator appointed, as well as an implementation team?

NO

5. Was external professional assistance used?

NO

6. If not, what source of gainshare theory, if any, was researched?

MANY YEARS OF READING MANY ARTICLES AND THEORIES

7. In communicating the scheme to employees, which of the following vehicles were used :-

Booklet	....
Video	....
Newsletter	....
Bulletin Boards	YES
Gainsharing Reporting Charts	YES
Personal Letters To Homes	....
Meetings	YES
Handouts	....

8. Were managers and supervisors trained to explain the scheme, and to answer any questions?

YES - MANAGERS

9. Is the scheme run by an administrative committee?

NO (BY THE EXEC DIRECTOR AND FINANCIAL DIRECTOR)

10. What were the parameters of the scheme on implementation?

SEE INCENTIVE SCHEME DOCUMENT

11. Have the parameters changed since initial installation? YES

If so, please give details CHANGED FROM GROSS MARGIN TO TURNOVER MINUS LABOUR, MATERIALS AND VARIABLES TO PBR. MAXIMUM LIMIT CHANGED FROM R250 TO R500 VARIOUS OTHER DETAILS. (ALL CHANGES ARE NEGOTIATED)

12. How long has your scheme been running?

+/- 2,5 YEARS

13. On a scale of 1 to 10, how successful would you say your scheme has been from the point of view of

a) Management? 7

b) Participants? 7

CONTINUAL EDUCATION AND TRAINING IS REQUIRED AND BEING GIVEN TO GET PARTICIPANTS TO FULLY UNDERSTAND HOW THEY CAN IMPACT ON THEIR BONUSES.

COMPANY POLICY

AE LINERS

AE ROODEPOORT - INCENTIVE SCHEME

1. PURPOSE

Encourage and reward hourly paid employees for a positive contribution toward team performance which results in the Company exceeding it's sales and profit targets, and maintaining a process of ongoing improvement.

2. PROCEDURE

2.1 Method of Calculation per Period

Individual Bonus = (Actual Gross Contribution - Planned Gross Contribution) ÷ 3 ÷ 150

This bonus will be paid to all qualifying personnel.

Qualifying personnel are as defined under 2.3.

The maximum bonus will be R250-00 per person per period.

Gross Contribution = Nett Sales - Direct Material - Total Wages - Buyouts - Consumables.

Net sales = gross sales - credits.

All calculations will be based on the final months results as per Micross reports.

(See attached examples of calculations)

2.2 Method of Payment

2.2.1 All incentives will be taxed as per the Income Tax Act.

2.2.2 All incentives will be paid monthly, 3 weeks in arrears.

2.2.3 Resulting from a policy of decreased cash on site, payment of incentives are to be made by bank transfer and not in cash.

(All employees will be required to open a bank account and submit banking details to the Wages Department i.e. Name of Bank, Branch, Type of Account and Account Number).

Should certain employees not open accounts, then the bonus will be paid 3 monthly by cheque.

2.2.4 A list of all qualifying employees, together with value to be approved by the General Manager, before incentive payment is affected.

2.3 Qualification for Incentive (Only Hourly Paid Employees)

2.3.1 AE Liners Employees

All hourly paid personnel exclusively employed by AE Liners only, will qualify for the full incentive approved.

2.3 Qualification for Incentive
(Only Hourly Paid Employees) continued

Iron Foundry

Packers, Loaders, Fork-lift Drivers, Furnace Operators, Mould Turners, Production Moulders, Setters, Spinners, Cut-off Operators, Inspectors, Clerks, Ladle Carriers, Furnace Drivers, Cleaners, Plunger Repairers, Pot Liners, Furnace Liners, Supervisors.

Machine Shop

Operators, Fork-lift Drivers, Material Handlers, Setters, Line Inspectors, Storemen, Supervisors.

Final Inspection

Final Inspectors

Service Departments (AE Liners)

Fitters, Electricians, Boilermakers, Assistants.

2.3 Qualification for Incentive
(Only Hourly Paid Employees) continued

2.3.2 Central Department Employees

Hourly paid personnel reporting to the central department and who are responsible to both AE Pistons and AE Liners, will receive one third (⅓) of the bonus paid to personnel as defined in 2.3.1.
(The other ⅔ of their bonus will be based on the performance of AE Pistons when the AE Pistons Incentive Scheme is implemented).

Cleaners (4)
Maintenance - Building (3)
Laboratory (3)
Driver (1)
Tool Grinder (1)
Receiving Inspector (1)

2.3.3 Personnel reporting to the Central Deparments, but who are solely employed by AE Pistons, will only qualify for the AE Pistons bonus.

2.4 Disqualification of Individuals

Based on the following criteria and Management discretion, individuals categorised as below will forfeit incentives.

a. More than 2 days absent during measuring period.

b. Any individual who receives a written warning for any misconduct/offence during measuring period.

c. During first 3 months of consecutive service with the Company - (probation period).

d. Temporary employees employed on contracts for 3 months and shorter.

e. Contract workers.

f. Any person who consistently refuses to work overtime or who consistently does not work overtime.

Note:-

1. *Should any disputes occur, then the decision of the Executive Director is final - see Point 4.*
2. *Absent means absent without prior permission of the Section Manager.*

3. MANAGEMENT RIGHTS

3.1 Due to the fact that this incentive scheme is in a process of development, Management reserves the right to alter, change and update this policy as deemed necessary from time to time.

3.2 Financial and economic factors may have an influence on the incentive scheme and it is Management's right to cancel this scheme as and when deemed necessary.

3.3 Should this scheme be deemed not to achieve it's purpose, Management reserves the right to alter, change or cancel this scheme completely.

3.4 The Planned Gross Contribution will be set by management and management alone will decide on what is a fair target.

3.5 The nett sales, consumable costs, wages and buyouts will be displayed weekly, but the bonus calculation will be based on the final monthly Micross reports only.

4. APPEAL RIGHTS

Any individual or group who perceives that they have been omitted from a payment or paid incorrectly whilst qualifying for an incentive, should lodge their grievance with the General Manager.

Should a dispute occur in this regard, the decision of the Executive Director would be final.

In any dispute whatsoever, the decision of the Executive Director is final.

L. GRUBB
GENERAL MANAGER

T. BOTHA
MANPOWER MANAGER

EMPLOYEES COUNCIL

1. ....
2. ....
3. ....
4. ....
5. ....

T. BOTHA
MANPOWER MANAGER

mc/LG/WPWIN/INCENT.POL

EXAMPLES OF CALCUATIONS

PLAN

SALES	1419	1550	1600
DIRECT LABOUR	311	311	311
DIRECT MATERIAL	171	181	181
BUY OUTS	125	125	125
WAGES	56	56	56
VARIABLES	126	134	134
PLAN GROSS CONTRIB.	630	743	793

ACTUAL PERFORMANCE

SALES	1469	1600	1700
DIRECT LABOUR	311	326	311
DIRECT MATERIAL	176	192	190
BUY OUTS	125	125	125
WAGES	56	56	53
VARIABLES	126	146	140
ACT. GROSS CONTRIB.	675	755	881
PLAN. GROSS CONTRIB.	630	743	793
DIFFERENCE	45	12	88
INDIV BONUS REC'D	R100	R27	R195

AE LINERS

AE ROODEPOORT - INCENTIVE SCHEME

1. PURPOSE

2. PROCEDURE

2.1 Method of calculation.

2.2 Method of payment.

2.3 Qualification for incentive.

2.4 Disqualification of individuals.

3. MANAGEMENT RIGHTS

3.1 Revision.

3.2 Waiving.

3.3 Cancellation.

3.4 Setting of Targets

4. APPEAL RIGHTS

AE LINERS

AE ROODEPOORT - INCENTIVE SCHEME

1. PURPOSE

Encourage and reward all employees for a positive contribution toward team performance which results in the Company exceeding it's sales and profit targets, and maintaining a process of ongoing improvement.

2. PROCEDURE

2.1 Method of Calculation per Period

Individual Bonus = (Actual PBR (Profit Before Royalties) - Planned PBR) ÷ 3 ÷ 150

This bonus will be paid to all qualifying personnel.

Qualifying personnel are as defined under 2.3.

The maximum bonus will be R500-00 per person per period.

All calculations will be based on the final months results as per Financial reports.

(See attached examples of calculations)

AE LINERS

AE ROODEPOORT - INCENTIVE SCHEME

2.2 Method of Payment

2.2.1 All incentives will be taxed as per the Income Tax Act.

2.2.2 All incentives will be paid monthly, 3 weeks in arrears.

2.2.3 Resulting from a policy of decreased cash on site, payment of incentives are to be made by bank transfer and not in cash.

(All employees will be required to open a bank account and submit banking details to the Wages Department i.e. Name of Bank, Branch, Type of Account and Account Number).

Should certain employees not open accounts, then the bonus will be paid 3 monthly by cheque.

2.2.4 A list of all qualifying employees, together with value to be approved by the General Manager, before incentive payment is affected.

2.3 Qualification for Incentive

2.3.1 AE Liners Employees

2.3.1.1 All hourly paid personnel exclusively employed by AE Liners only, will qualify for the full incentive approved.

2.3.1.2 All salaried staff employees excluding Managers who participate in the T & N profit sharing scheme.

2.4 Disqualification of Individuals

Based on the following criteria and Management discretion, individuals categorised as below will forfeit incentives.

a. More than 2 days absent during measuring period.

b. Any individual who receives a written warning for any misconduct/offence during measuring period.

c. During first 3 months of consecutive service with the Company. - (probation period).

d. Temporary employees employed on contracts for 3 months and shorter.

e. Contract workers.

f. Any person who consistently refuses to work overtime or who consistently does not work overtime.

Note:-

1. *Should any disputes occur, then the decision of the Executive Director is final - see Point 4.*
2. *Absent means absent without prior permission of the Section Manager.*

3. MANAGEMENT RIGHTS

3.1 Due to the fact that this incentive scheme is in a process of development, Management reserves the right to alter, change and update this policy as deemed necessary from time to time.

3.2 Financial and economic factors may have an influence on the incentive scheme and it is Management's right to cancel this scheme as and when deemed necessary.

3.3 Should this scheme be deemed not to achieve it's purpose, Management reserves the right to alter, change or cancel this scheme completely.

3.4 The Planned Profit Before Royalties will be set by management and management alone will decide on what is a fair target.

AE LINERS

4. APPEAL RIGHTS

Any individual or group who perceives that they have been omitted from a payment or paid incorrectly whilst qualifying for an incentive, should lodge their grievance with the General Manager.

Should a dispute occur in this regard, the decision of the Executive Director would be final.

In any dispute whatsoever, the decision of the Executive Director is final.

L. GRUBB
GENERAL MANAGER

EMPLOYEES COUNCIL

1. ....

2. ....

3. ....

4. ....

T. BOTHA
MANPOWER MANAGER

5. ....

mo/LG/WPWIN/INCENT.POL
14 November 1994

GAINSHARE QUESTIONNAIRE

COMPANY : A E VALVES

1. Was your scheme negotiated with your union and agreement reached before implementation?

YES - OWN FACTORY ONLY

2. Did it have top management support at implementation?

YES

3. Did it have grass-roots support at implementation?

YES

4. Was a scheme coordinator appointed, as well as an implementation team?

YES

5. Was external professional assistance used?

NO

6. If not, what source of gainshare theory, if any, was researched?

SHARE OF N.P. OVER AND ABOVE CURRENT RETURN.
NO OFFICIAL RESEARCH INTO THEORY.

7. In communicating the scheme to employees, which of the following vehicles were used :-

Booklet	....
Video	....
Newsletter	....
Bulletin Boards	YES
Gainsharing Reporting Charts	YES
Personal Letters To Homes	....
Meetings	YES
Handouts	....

8. Were managers and supervisors trained to explain the scheme, and to answer any questions?

YES

9. Is the scheme run by an administrative committee?

YES

10. What were the parameters of the scheme on implementation?

VALVES PRODUCED PER NORMAL WORKING DAY FROM 5250 TO 6000 PLUS - PAID FROM R0,20 TO R1,10 PER CLOCKED HOUR - 70 OPERATORS MAXIMUM EMPLOYED.
REVIEWED EVERY THREE MONTHS
(SEE INCENTIVE SCHEME DOCUMENT FOR FULL DETAILS)

11. Have the parameters changed since initial installation? YES

If so, please give details
EACH PARAMETER REVIEWED EVERY THREE MONTHS. SET DEPENDING ON WORKLOAD, OPERATORS EMPLOYED AND MAXIMUM ACCEPTABLE LEVEL OF PERFORMANCE.

12. How long has your scheme been running?

SINCE OCTOBER 1994

13. On a scale of 1 to 10, how successful would you say your scheme has been from the point of view of

a) Management? 5

b) Participants? 6

A E VALVES

MEMORANDUM

TO: M H HICKMAN
FROM: E C SEEKINS
DATE: 17 OCTOBER 1994
RE: GAIN SHARING - A E VALVES

The 1995 Plan requires the average production of 5350 units per working day. The operators allowed in the Plan are 78, and the total people cost averages R364k per 20 day month. Operating profit for the year is 17,8% of sales.

We presently have 70 operators and are required to produce in excess of 6000 units per working day. This volume is expected to continue well into 1995.

We have drawn up a Gain Sharing Scheme whereby all employees below 'D' band would be paid a bonus amount per hour for every valve produced above 5250 per day.

The effect of this would be as follows:-

	1995 Plan	Gain Sharing Scheme	
		100 above (?)	750 above
	5350/Day	5350/Day	6000/Day
SALES	14446	14446	16200
Matl. Cost	3104	3104	3480
People Cost	4299	(70 opers) 4069 (69 bonus)	4303 (303 bonus)
Variable Cost	2469	2469	2770
Fixed Cost	750	750	750
Admin.	1252	1252	1252
O.P.	2572	2802	3645
	17,8%	19,4%	22,5%

2/...

The bonus would be shared between 102 people per month and is on an increasing curve from 5250/day worth 20 cents an hour to 6100 worth R1.50 per hour.

The scheme would be reviewed every three months and would start on 1st November 1994.

The Rand amounts paid in bonus represent approximately 50% of the extra income generated over 17,8% operating profit.

Regards

ELWYN SEEKINS

AE BEARINGS

PROPOSAL

PRODUCTIVITY INCENTIVE SCHEME

A study of the Rainbow gain-sharing System together with investigations of production incentive schemes currently being used in other factories, specifically, Gabriel, has confirmed the need for a different approach to motivating a workforce in the achievement of substantial productivity improvement.

The following proposal sets out a bonus scheme that I believe has the potential to increase productivity at AE Bearings over and above that which would be possible with more conventional management practices and reward systems.

The proposal is fully supported by Management and, although actual momentary bonus values were not communicated, the AE Bearings consultative committee which includes, Management, (at all leveles down to foremen), Shopstewards and non-bargaining unit representation are also positive towards such a scheme.

Some basic guidelines or rules have been communicated as follows:

- it must have board approval
- it must be accepted by the union
- it will be of a trial nature and be reviewed after 3 to 4 months
- the calculations of the measurement standards be transparent and simple to understand *
- all employees must participate
- bonus payments must be self funding from productivity gains
- regulation of cost input must be present in the calculation of the productivity index
- output measurement will be invoiced sales
- input measurement will be manhours worked
- bonus to be x cents/hour of normal time worked. All employees receiving the same bonus value.
  (ie lower paid employees will realise a larger percentage bonus)
- Management will still retain control of operations and normal consultative communication channels to remain.

THE SCHEME

A productivity bonus will be paid on the basis of a linear relationship between throughput (bearings/manhour) and cents/hour. Further development may involve the conversion to an exponential curve of cents/hour vs throughput.

At this stage of implementation true TOC throughput (volume x selling price) will not be used. The measurement will consist of bearing volume sold per total factory manhours worked.

Calculations are based on a linear scale of current productivity levels to ± 20% improvement.

The attached graph shows the productivity index and proposed bonus amounts which have been calculated as follows:

Average daily sales	Jan -July 1994	52,9k
Planned daily sales	Jan - July 1994	53.9k

Variations due to unplanned public holidays and product mix changes have obviously occurred however the figures are close enough for us to set a current base figure of 53k bearings per day average.

Above plan overtime has been necessary to achieve the current average - however an increase in copper lead, complex and flanged bearings has also been experienced which are inherently of higher value but at lower output rates.

Normal time manhours worked for Jan - July average at 18275 per week (425 x 43)
Less 4% absenteeism = 17544 manhours/week
overtime for the same period was 12% of normal hours worked

Total average manhours/week = 17544 + 12% = 19649

PRODUCTIVITY INDEX (PI)

productivity Index (PI)

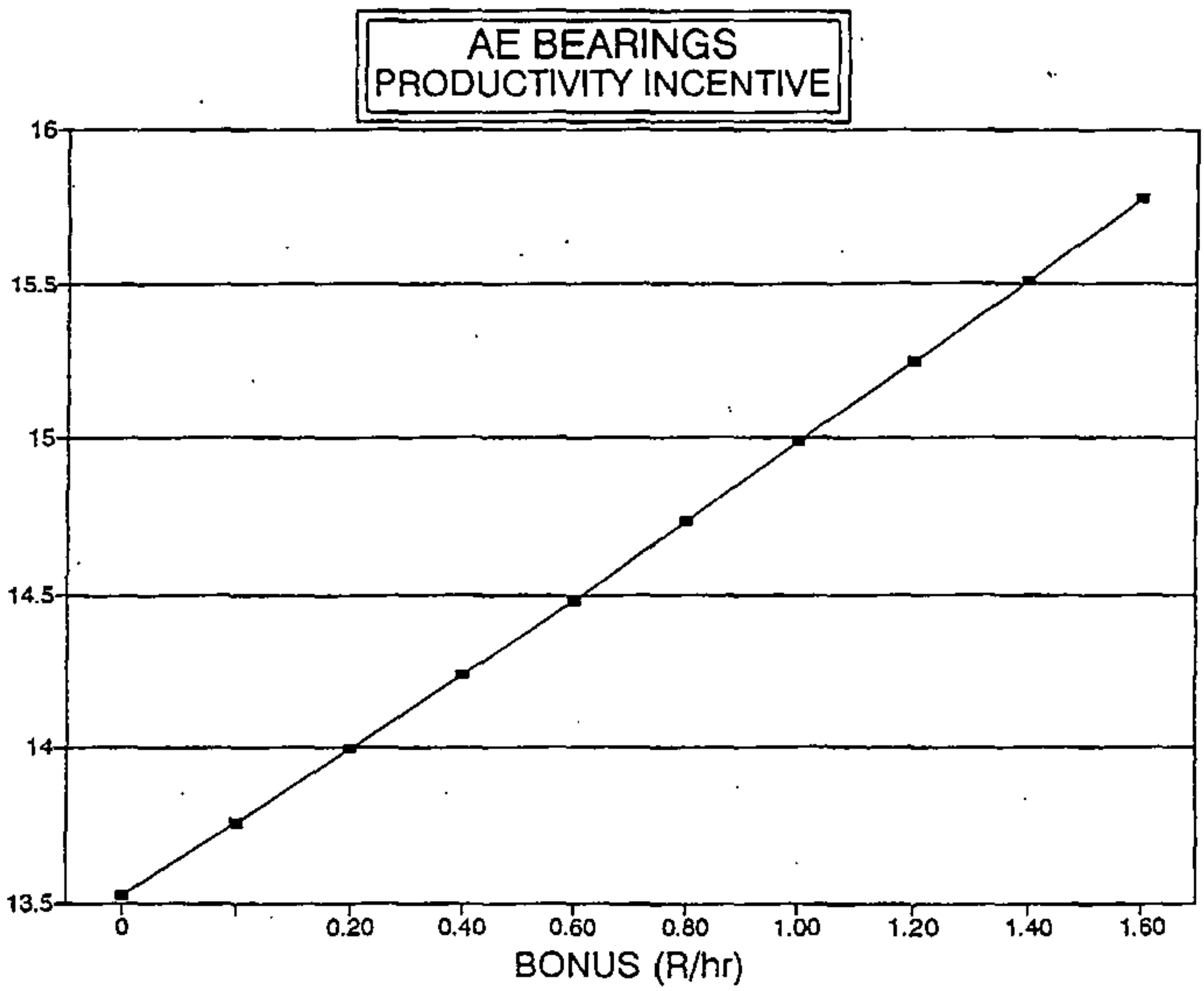
$$PI \quad \frac{\text{bearings/week}}{\text{manhours/week}} = \frac{53x5}{19649} = 13{,}51$$

The start point for bonus calculations would therefore be 13,5 bearings/manhour.

The attached table of monthly scenarios show the affect of increased sales, variable costs and manpower costs on increased profitability. The effect of bonus payments during the Productivity Index is also shown.

AE BEARINGS
BONUS SCENARIOS

(R000's)		SALES +5%	% OF INC SALES	SALES +10% MHRS +5%	% OF INC SALES	SALES +15% MHRS +5%	% OF INC SALES	SALES +20% MHRS +5%	% OF INC SALES
SALES	2600	130		260		390		520	
MATERIAL	15.00%	20		39		59		78	
PAYROLL	51.00%			66		66		66	
FACTORY	10.00%	13		26		39		52	
G.M.		98	75%	129	49%	226	58%	324	62%
S&D EXPENSES	1.00%	1		3		4		5	
ROYALTIES	3.50%	5		9		14		18	
CONTRIBUTION		92	71%	117	45%	209	54%	300	58%
PI	Brg/mhr	14.18		14.13		14.77		15.41	
BONUS	R/hr	0.20		0.20		0.80		1.20	
PAYOUT	(78596hrs/m	16	12%	16	12%	63	48%	94	73%
SURPLUS		76	58%	101	39%	146	37%	206	40%


AE BEARINGS
PRODUCTIVITY INCENTIVE
16
15.5
15
14.5
14
13.5
0
0.20
0.40
0.60
0.80
1.00
1.20
1.40
1.60
BONUS (R/hr)

GAINSHARE QUESTIONNAIRE

COMPANY : PAYEN COMPONENTS

1. Was your scheme negotiated with your union and agreement reached before implementation?

   NO

2. Did it have top management support at implementation?

   YES

3. Did it have grass-roots support at implementation?

   YES

4. Was a scheme coordinator appointed, as well as an implementation team?

   YES

5. Was external professional assistance used?

   NO

6. If not, what source of gainshare theory, if any, was researched?

   NONE

7. In communicating the scheme to employees, which of the following vehicles were used :-

Booklet	....
Video	....
Newsletter	....
Bulletin Boards	YES
Gainsharing Reporting Charts	YES
Personal Letters To Homes	....
Meetings	YES
Handouts	....

8. Were managers and supervisors trained to explain the scheme, and to answer any questions?

NO

9. Is the scheme run by an administrative committee?

NO

10. What were the parameters of the scheme on implementation?

PROJECTS ARE IDENTIFIED WHERE THE COMPANY CAN GAIN A FINANCIAL ADVANTAGE. FIRST ONE ADDRESSED BACKORDER PROBLEM - HAD TO REDUCE BACKORDERS FROM R4m TO R1m IN THREE MONTHS. THIS WAS ACHIEVED AND EACH EMPLOYEE RECEIVED R400. SECOND PROJECT BASED ON ACHIEVING A SALES TARGET OF R22m. EMPLOYEES TO RECEIVE R500. RUNS FROM JULY TO SEPTEMBER.

11. Have the parameters changed since initial installation? NO

If so, please give details

....

....

12. How long has your scheme been running?

FEBRUARY WAS FIRST ONE
JULY SECOND STARTED

13. On a scale of 1 to 10, how successful would you say your scheme has been from the point of view of

a) Management? 10

b) Participants? 8 (TAX IMPLICATIONS WERE SLIGHTLY DEMOTIVATING)

GAINSHARE QUESTIONNAIRE

COMPANY : MULTI AXIS

1. Was your scheme negotiated with your union and agreement reached before implementation?

   NO

2. Did it have top management support at implementation?

   YES

3. Did it have grass-roots support at implementation?

   YES

4. Was a scheme coordinator appointed, as well as an implementation team?

   YES

5. Was external professional assistance used?

   NO

6. If not, what source of gainshare theory, if any, was researched?

   NONE

7. In communicating the scheme to employees, which of the following vehicles were used :-

Booklet	....
Video	....
Newsletter	....
Bulletin Boards	....
Gainsharing Reporting Charts	....
Personal Letters To Homes	....
Meetings	YES
Handouts	....

8. Were managers and supervisors trained to explain the scheme, and to answer any questions?

YES

9. Is the scheme run by an administrative committee?

YES

10. What were the parameters of the scheme on implementation?

30 PERCENT OF THE PROFIT OVER BUDGET

11. Have the parameters changed since initial installation? NO

If so, please give details

....

....

12. How long has your scheme been running?

SINCE JANUARY 1994

13. On a scale of 1 to 10, how successful would you say your scheme has been from the point of view of

a) Management? 9

b) Participants? 7

Multi Axis

division of Asseng Industrial Ltd.

9 Ingwe Road, Seberiza - P.O. Box 1732 Edenvale 1610 - Phone: (011) 6092170/Fax: (011) 4523185

TO: ALL EMPLOYEES

FROM: THYS LABUSCHAGNE

DATE: 22 MARCH 1995

SUBJECT: INCENTIVE BONUS SCHEME

As we have been on the Incentive Bonus Scheme from January 1994 at this unit it has opened doors for many other units. The share holders have now given the go ahead to proceed in the various Companies.

1. PURPOSE

To encourage and reward all employees for a positive contribution towards team performance which results in the Company exceeding it's sales and profit targets, and maintaining a process of an on going improvement.

2. PROCEDURE

2.1 METHOD OF CALCULATION PER PERIOD

2.1.1 Individual Bonus = Actual PBR (Profit Before Royalties) - Planned PBR ÷ 3 ÷ No employees.

2.1.2 This bonus will be paid to all qualifying personnel.

2.1.3 Qualifying personnel are as defined under 2.3.

2.1.4 Maximum bonus will be R500.00 per person, per period and shortfalls should be recovered.

2.1.5 All calculations will be based on the final month's results as per financial report.

2.2 METHOD OF PAYMENT

2.2.1 All incentives will be paid monthly plus/minus 3 weeks in arrears.

2.2.3 All incentives to be paid by bank transfer and not in cash.

Manager: M.J. Labuschagne
Directors: W.W. Cooper (Chairman), M.L. Roseblade* (Managing)
R.W. Bird, L.J. Holmes, D.B. Phillpotts*, P. Rose*, R.R.G. Thorp, M.G. van Zyl * British

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City West, Johannesburg
2001
Reg No 05/18699/06

2.2.4 Employees with no Bank Accounts will be paid 3 monthly by cheque.

2.2.5 Casuals or Contractors will get paid 3 monthly by cheque.

2.2.6 A list of all qualifying employees together with value to be approved by the General Manager before incentive payment is effected.

2.3 <u>QUALIFICATION FOR INCENTIVE</u>

2.3.1 All hourly paid personnel exclusively employed by Multi Axis only will qualify for the full incentive approved.

2.3.2 All salaried staff employees excluding Managers who participate in a yearly profit sharing scheme.

2.4 <u>DISQUALIFICATION OF INDIVIDUALS</u>

Based on the following criteria and management discretion individuals categorised as below ill forfeit incentive.

a) More than 1 day absent during measured period. (Absent without prior permission.)

b) More than 3 days absent during this period by means of illness or proper permission from General Manager only.

c) Any individual who receives a written warning for any misconduct / offence during measured period.

d) Any Casual or Contract employee will only qualify for the incentive the month when he is employee from day one of the measuring period.

e) Any Casual or Contract employee not qualifying for the Tax Act will only receive 75% of incentive worked out.

f) Any person who consistently refuses to work overtime or who consistently does not work overtime. (Excluding Public holidays.

g) Coming late on a regular basis more than 4 times in one measuring period.

h) Annual Leave more than one week.

i) Working shorter Normal Hours.

NOTE: Should any disputes occur then the decision of the Executive Director is final. Point 4.

3. MANAGEMENT RIGHTS

3.1 Due to the fact that this scheme is still in a process of development, Management reserves the right to alter, change and update this policy in consultation with the necessary people.

3.2 Financial and Economical factors may have an influence on the incentive scheme and it is Managements right to cancel this scheme as and when deemed necessary.

3.3 Should this scheme be deemed not to achieve it's purpose Management reserves the right to alter, change or cancel this scheme completely.

3.4 The planned profit before royalties will be set by Management and Management alone will decide on what is a fair target.

4. APPEAL RIGHTS

Any individual or group who perceives that they have been omitted from a payment should lodge their grievance with the General Manager.

Should a dispute occur in this regard the decision of the Executive Director after consultation with individual or group would be final.

5. VALIDATION

The legitimate employee representatives who are party to this agreement at the time and date of signing this agreement will be bound by rules taken up herein and all previous agreements relating to incentive schemes are nil and void.

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THYS LABUSCHAGNE
GENERAL MANAGER

EMPLOYEES COUNCIL

1)..........................
WISE MOLEFE

2)..........................
BETHUEL MOATSHE

3)..........................
SHOP STEWARD