

Managing Chaos

by

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"There is no order, only managed chaos, and those with the best information manage it the best." T. J. McCoy

Are your employees dissatisfied with their pay? Is your union positioning itself to demand a wage increase? How can you address these cost increases when competitive pressures demand lower prices and higher quality just to remain in business?

More and more, companies are using incentive pay, pay tied to performance, as an effective response to employee demands for higher income and customer demands for lower prices and higher quality. A recent survey by the American Compensation Association documented 10,000 variable pay plans, 2,200 of which were organizational performance-based reward plans directed at non-management employees.

A stringent analysis of the effectiveness of these plans has shown that the powerful dynamic of incentive pay is enhanced by the sharing and understanding of financial performance information. In companies with incentive pay plans, experience shows it is not uncommon for timely financial information sharing to improve performance more than 50% over incentive plans with no information sharing.

Witness a large manufacturing facility in the midwestern U.S. that installed a Gainsharing plan to motivate performance. For twelve months the plan failed to generate performance improvement or pay out to the employees. Not until the sharing of financial information was implemented as part of the process of power sharing did performance improve.

Employees pay attention to incentive pay because it can raise their standard of living. As a result, pay is an excellent communication tool. However, many companies fail to take advantage of this tool. For example, an organization will devote considerable amount of executive time to the design and implementation of a profit sharing plan...and then do nothing to educate the employees about how they can impact profit. Rather than sharing cost and margin information, pricing strategies and customer satisfaction information with employees, these companies publish quarterly profit statements and hope for the best.

In this type of information deficient environment, if there is a profit-sharing payout at the end of the year, employees view it as a gift or bonus. By not sharing financial information with employees and not clearly showing them how they can make an impact on the

performance measurement, the profit plan loses all motivational impact and becomes a gift of largess...another compensation cost with no justifiable return on investment.

Properly designed, reward systems help build a deep, solid business partnership between all stakeholders; employees, management, and customers. Sharing and understanding financial business information is an integral part of building this partnership. Only employees who are educated in how their company makes a profit and generates cash will have the capability to improve their company's profitability.

To paraphrase one CEO who is developing an open-book organization: Three elements are necessary to fully engage employees in the partnership.

1. Operational measures must be developed by the employees and then used by them to improve the process.
2. Everyone must understand how an improved process contributes to profitability.
3. Everyone must be provided with a reason to be interested in the profits.