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The Impact of the Scanlon Plan on Retail Store Performance

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K Dow Scott;Floyd, Jane;Benson, Philip G;Bishop, James W
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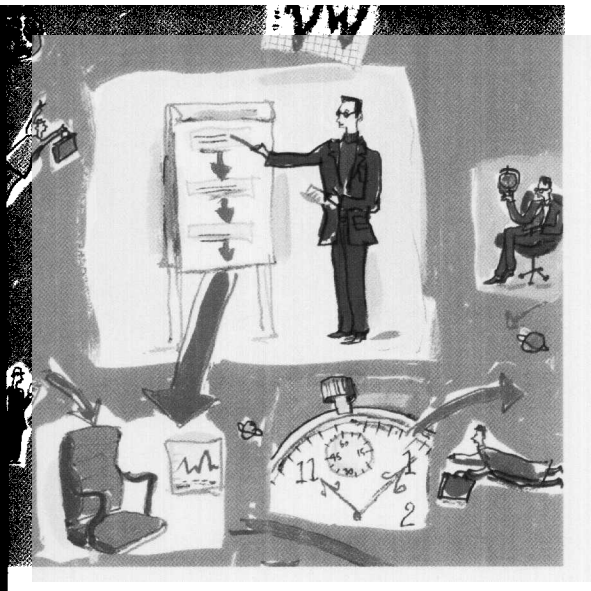

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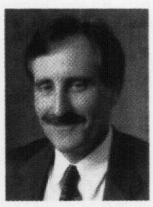

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In the late 1930s, Joe Scanlon, a steel worker and local union president, developed a management program in response to economic difficulties and fears of plant closure suffered by his employer, a large steel company. The concept was simple: Scanlon believed that workers possessed the most knowledge of their jobs and if employers listened, they could find ways to substantially reduce costs. In return for helping the company survive, workers, according to Scanlon, should be rewarded with a share of the cost savings they generated. The efforts resulting from Scanlon's perceptiveness successfully "turned around" the steel company, and later became known as the Scanlon Plan.

National Steel Workers Union leaders were so impressed with the results of this worker-driven cost saving plan, they asked Joe Scanlon to join their national staff and work with other struggling steel companies. Joe Scanlon's work came to the attention of Douglas McGregor, who was interested in employee involvement programs, and McGregor invited Scanlon to join him on the faculty at M.I.T. Through Joe Scanlon's efforts and the subsequent work of two associates, Fred Lesieur and Carl Frost, his program for employee involvement and shared rewards was refined and extended.

Based on its roots in the 1930s, the Scanlon Plan is often narrowly characterized as a gainsharing program, based on historic labor costs, most

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appropriate for manufacturing companies. However, during the last 60 years, Scanlon plans have been successfully implemented in virtually every industry, and utilize a variety of bonus formulas. Common among companies that have implemented the Scanlon Plan is their adherence to four fundamental principles that they believe gives their companies a competitive advantage. These principles were formally articulated by Carl Frost (Frost, Wakeley, and Ruh, 1974; Frost, 1996) and have been refined by numerous companies that have implemented the Scanlon Plan. Briefly the four principles can be described as follows:

"Most improvements or gains come from "working smarter, not harder."

Identity: The identity principle asserts that everyone in the organization must understand the business, especially that aspect of the business in which they are involved. In addition to the technical knowledge associated with each job, employees need fundamental knowledge of the customer's wants and needs, the strengths and weaknesses of competitors, and the contribution that investors make to the organization's success. Unless employees understand the business, they cannot make a meaningful contribution to its success.

Participation: The Scanlon Plan is based on the premise that most improvements or gains come from "working smarter, not harder." As a result, to increase productivity, employees must have the opportunity to provide input and influence decisions. A formalized suggestion process was the initial method for giving employees a voice, and still is often used today. This process typically requires that suggestions be written so they can be formally evaluated, their implementation monitored, and results shared with other employees. Unlike traditional suggestion programs, there is no incentive for just making a suggestion, only for reducing costs or increasing profits depending on how the shared gain formula is defined. As a result, other employees, the supervisor, or in some cases a Scanlon facilitator can help the employee develop his or her idea, and get the suggestion written down and evaluated by the appropriate people. Because everyone shares in the gains that result from suggested improvements, everyone has an interest in making sure good ideas are clearly articulated and quickly implemented.

Submitted suggestions are evaluated at different organizational levels, depending on the scope or impact the suggestion is expected to have on the organization, and how much the suggestion's estimated cost is to implement. Some companies actually give work units or teams a budget so they can make improvements immediately as long as work improvements do not affect another department or exceed their budget. Other methods for involving employees include project task forces, team structures and standing committees.

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Equity: The equity principle focuses on fairness and justice from the perspective of the investor, customer and employee. It should be noted that everyone, including the CEO of the unit defined by the plan, is considered an employee if they do not own a substantial share of the company. Timely, reliable and valid measures of performance or productivity must be developed if rewards are to be fairly allocated to the employee and investor (typically customers are rewarded with lower prices). There are a number of traditional measures that Scanlon companies use, including labor cost saving, waste reduction and equipment repair. However, Scanlon companies today use a variety of other measures, including profits, quality improvement, EVA and other measures of company success. The ideal measure(s) captures the essence of the business and can be affected by employees.

Once performance measures are established, equitable payouts are established in terms of level of performance/savings and how those saving are divided among employees and between employees and the investor (i.e., the company). Most often, employees receive their bonus as a percentage of their salary or wage. In other words, each employee receives the same percentage award, but the actual amount they receive depends on the size of their base wages or salary. A percentage award makes bonus calculations much easier when non-exempt employees who may work overtime participate in the plan. Bonuses are typically paid monthly or quarterly with a portion held in reserve in case costs exceed the targeted amount.

The bonus money generated by productivity improvements is often shared 50-50 between employees and the investor. Sharing with the investor communicates a strong message that capital makes an important contribution to the bottom line. Savings resulting from direct capital investment may be excluded from the savings formula.

Competency: This principle recognizes that meaningful input requires employees to be technically and interpersonally competent and business literate. Leaders of companies where Scanlon plans have been implemented often state that higher levels of competence are required than in more traditionally managed companies. Thus, considerable efforts are made through selection, training and job feedback to develop the capabilities of all employees. Development of a business-literate work force is interrelated with creating a strong company identity among employees.

Over the years, Scanlon companies and consultants also have developed a specific approach for implementing a new Scanlon Plan, or renewing commitment for existing plans. First, there is a widely held belief that a participative leadership approach should be installed participatively. Not only does this approach build commitment for participation, it also helps adapt the plan specifically to the unique characteristics and needs of the organization.

The process often followed has specific steps and has checkpoints to determine levels of commitment. Typically, management explores the potential of the plan for its organization by learning how the plan is designed, how it may affect the company, and what changes will be required to successfully implement the plan. Management attempts to obtain consensus to move forward with the development of the Scanlon Plan. Where unions exist, their leadership is often included in this initial exploration of the Scanlon principles and processes. Next, the senior management team presents to employees the need for such a plan and how the plan will be developed, allowing employees to voice their approval. Usually, some mechanism to judge support for the development of such a plan is used, such as a secret ballot vote. Then, a joint management-employee committee is empowered to develop the plan. Both senior management (representing the investors) and employees must approve a

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test or trial period for the plan, with employees often giving their approval through a secret ballot. Finally, the plan is revised as necessary and there is a final approval by senior management and employees to continue use of the plan. Because the markets, competitors and technologies change rapidly today, many companies specify that the plan must be reviewed periodically and redesigned as necessary.

Although the Scanlon Plan was first developed more than 60 years ago, Scanlon-type programs have only become popular in the 1980s and 1990s. Based on estimates derived from a number of surveys (e.g., Markham, Scott, and Little, 1992; O'Dell and McAdams, 1987), 15 percent to 20 percent of *Fortune* 500 companies have incentive programs that share the characteristics of a Scanlon Plan for at least one unit within the company. Most work on Scanlon plans has focused on the manufacturing sector, but the application of the method described here is in a service organization, specifically the implementation of these concepts at a large retailer. Such service applications have been notably absent in the literature on Scanlon plans (O'Bannon and Pearce, 1999), and this large retailer was motivated to try a different motivation strategy because of sagging sales and loss of market share.

The goals of the Scanlon Plan are to promote employee ownership perceptions and behavior.

Research Location and Method

The Scanlon Plan was implemented on a trial basis in six stores. Adopting the Scanlon principles and processes at a specific store was voluntary, and required both store management and employee commitment. Each retail store was matched with a control store that closely resembled the store adopting the Scanlon Plan on a number of dimensions (e.g., size, sales volume and location type). For comparison purposes, comparable data were collected from the control stores at the same points in time.

The goals of the Scanlon Plan are to promote employee ownership perceptions and behavior by:

- Involvement of all store employees in improving business performance
- Sharing information about business performance and performance goals
- Sharing the benefits/consequences of business performance (i.e., shared rewards program).

Although the retailer adapted some of the terminology associated with traditional Scanlon Plans, the fundamental principles of the plan and the process of implementation were carefully followed. The company used both internal and external consultants to help design the plans for each of the six stores, relying heavily on the Scanlon Leadership Network for technical support. The Scanlon Leadership Network is a non-profit organization, established in 1964, that has been funded by an alliance of companies that have implemented Scanlon plans.

The size of the stores ranged from 83 to 232 employees; and each store had been in operation at least two years.

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Retail store performance was measured on a number of dimensions. First, a customer survey was administered at both the stores where the Scanlon process had been implemented and at the stores used as controls. The customers were asked to rate store friendliness, whether the customer would recommend the store to others, whether the store met their expectations, their loyalty to shopping at the store, and their satisfaction with their shopping experience.

The percentage of employee turnover and the percentage net sales to store plan also were collected. Store turnover ranged from 37.3 percent to 95 percent, and net sales percent to plan ranged from 95.5 percent to 106.2 percent. These data were collected during the first year the plan was in operation, and the data collected from the comparison stores were for the same time period.

Finally, perceptual data were collected from employees concerning their willingness to make suggestions for improvements and cut costs, as well as their interest in financial information.

Findings and Discussion

Stores with Scanlon Plans on average received a more favorable response on all customer satisfaction measures of performance than found for control stores. In some cases the difference in scores between stores with and without the Scanlon Plan were substantial. Customers expressed significantly higher levels of satisfaction with their shopping experience and were more likely to have their expectations met in stores with Scanlon Plans than the control stores. Customers indicated that Scanlon stores provided friendlier service and they were more loyal to Scanlon stores than control stores.

Scanlon stores had consistently higher sales performance to sales goals than the control stores. This is particularly impressive since sales are affected by many factors beyond the control of store employees (e.g., economic variables, weather, and changes in customer tastes). Turnover was lower in Scanlon stores (49 percent) than in the control stores (63 percent) by a rather substantial amount (14 percent).

Finally, employee willingness to make suggestions is higher in Scanlon stores (53.2 percent) than control stores (48.3 percent). Interestingly, employees involved in the implementation of the Scanlon Plan had substantially more favorable response to the question than did employees who were not involved in the implementation of the plan (66.9 percent and 48.3 percent, respectively). This same pattern of responses was consistent across the other three questions directed to those involved in the implementation of the plan and employees not directly involved:

- Try to find ways to cut costs (76.8 percent and 54.9 percent, respectively)
- Seek out financial information on company performance (59.7 percent and 36.7 percent, respectively)
- Share in the consequences of company financial setbacks (74.0 percent and 54.6 percent, respectively).

Although this study indicates that the Scanlon Plan has a positive impact on retail store performance, certain weaknesses are inherent in a study of this type. First, a limited number of stores adopted the Scanlon Plan, making statistical comparisons very difficult. Second, stores were not chosen randomly so other store characteristics may have impacted the findings. Third, the specific aspects of the Scanlon Plan that contributed to the higher scores on any one of the Scanlon dimensions were not isolated. As such, there is considerable room to further explore the impact of the Scanlon Plan on retail performance data, and customer and employee attitudes.

Conclusions

These findings support the contribution that Scanlon Plans make to effectiveness of retail stores and, to a somewhat lesser degree, to customer satisfaction

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perceptions. Thus, one need not restrict the use of the Scanlon Plan to manufacturing organizations. Furthermore, employee responses show stronger ownership perceptions among stores that have implemented a Scanlon Plan than those that did not. Not surprisingly, those employees involved in the implementation of the plan had a much more positive response than those who were not involved. This indicates that involvement in the implementation process contributes to employee commitment to the value of the program.

Store outcomes depend heavily on the service orientation of employees.

In the course of implementing the Scanlon Plan, the primary internal consultant learned several lessons. First, it is critical to have senior management support and commitment. Second, this is an initiative that cannot be delegated. It also is disruptive to have a store manager leave because the new store manager may not have the same level of commitment or understanding of the program. Third, there will be inherent skepticism among employees that only time and good leadership can overcome. Fourth, it is difficult to recover from false starts. Finally, the Scanlon Plan is not for every store. It is not a panacea; it demands a committed and participative leader, and can create some turmoil when it is initiated.

Another lesson learned was the importance of having a systematic and participative implementation process. Based on Scanlon methodology, a six-step process was developed for implementing the plan in the retail stores. These six steps involved:

- An assessment of the store leader to ensure that he or she would be able to provide the leadership for the Scanlon Plan.
- An introduction of the Scanlon Plan to store management team and polling them to determine if they thought it would contribute to the success of their store.
- An introduction of the Scanlon Plan to store employees and polling them to determine if they thought it would contribute to the success of their store.
- Assembly of a joint employee and management design team to adapt the Scanlon Plan for its store.
- Having management and employees vote to try the plan for a trial period.
- At the end of the pilot period, having store management and employees review their experience with the plan, revise it as necessary and assess their commitment to continue the program.

As one can see from this implementation process, a high level of commitment is generated for a plan that impacts productivity. This study is not able to determine what aspect of the plan contributed to the success, such as commitment to participative management, shared rewards for meeting goals, or a focus on understanding store performance. Thus, there are several avenues for future research. First, more rigorous research needs to examine what aspects of the Scanlon Plan impacts performance. This extension of research is particularly true in the service industry, where store

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outcomes depend heavily on the service orientation of employees, making traditional views based in formal production methods seem less relevant. Overall, the findings from this study are encouraging, but the use of Scanlon Plans in service companies needs further consideration. WJ

Webnotes

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For more information related to this article:
⇛ Go to ResourcePRO Search and select Simple Search
⇛ Select the Rewards Category: Compensation
⇛ Type in this key word string on the search line: "Scanlon plan" OR "cost and savings" OR "incentive" OR "employee ownership" OR "gainsharing"

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Authors' Note

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