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A Tried-and-True Method for Encouraging Innovation

Dow Scott
Loyola University Chicago, dscott@luc.edu

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Dow Scott, Ph.D.,
Loyola University Chicago

CEOs recognize that continuous innovation is absolutely essential for company survival (e.g., Craren 2010; Mitchell, Ray, and van Ark 2015; Pawlenty 2014). McMullen and Lash (2014) found that the "best companies for leadership" are more likely to reward innovation and collaboration than are other companies. Thus, the trend toward expanding the responsibility for innovation beyond the research and development (R&D) department to employees throughout the organization is not surprising (Baumann and Stieglitz 2013).

There are two distinct forms of innovation. The first focuses on developing products and services that allow companies to charge a premium for their products and services and compete in new markets. Second, innovation allows companies to improve quality and drive costs down through process improvement. Although most business leaders agree that continuous innovation is absolutely essential, this is easier said than done. This is especially true when one is trying to create an environment where all employees are in a position to create innovation — not just senior management or those involved in research and development (R&D).

In the 1940s and 1950s, Carl Frost and Joe Scanlon created a management process that effectively channeled innovation that reduced costs, improved quality and created an organizational culture where disruptive innovation could flourish (Scott and Davis 2015; Scott, Davis, and Cockburn 2007). As a doctoral student at Michigan State University, the author studied the Scanlon Plan under Frost. Since then, the author has implemented Scanlon Plans in a variety of companies and also written extensively about it. This article is designed to demonstrate how the Scanlon Plan can create a formal structure and nurture an organizational culture where innovation can flourish.

FUNDAMENTAL PRINCIPLES THAT DRIVE INNOVATION

Developing new ideas that a company can turn into a profitable product or service is not easy, nor is changing processes to reduce cost and improve quality. Senior leadership must be committed to the process and willing to invest time in this endeavor. Employees must not only understand the business model/strategy and processes and technologies, but they must also have the freedom to experiment with new processes and new ways to serve their customers. Finally, employees should be rewarded for their contributions, especially when they are required to step outside their normal job duties and take risks. A robust, reliable process must be in place to ensure that continuous innovation is built into an organization each day, each week, each month as a fundamental way of doing business.

What follows is how the Scanlon Plan can be used to unlock innovation among hourly, professional and managerial employees, and apply that innovation to create a more competitive and profitable company. These Scanlon fundamentals have been developed throughout many decades by numerous companies, and substantial information on how to apply these concepts is demonstrated in the references provided.

Examples demonstrating the successful use of Scanlon Plans typically focus on productivity improvement and cost savings. Although innovation is often not mentioned, the productivity improvement is driven by a process encouraging innovation among employees at all levels through engagement, rewards and a disciplined approach to implementing change. Atlantic Automotive Components implemented a Scanlon Plan and reported improvement in its measure of economic value added (EVA) and substantial increases in employee process improvement suggestions (Scott et al. 2004). Similar EVA and employee engagement improvements were found when the U.S. Postal Service implemented a Scanlon Plan (Shives and Scott 2003). Sears showed a dramatic increase in performance among stores that implement a Scanlon Plan compared to stores that did not implement the plan on levels of customer satisfaction, sales to sales goals and lower employee turnover (Scott et al. 2002).

Develop Business Literacy

To generate innovations valued by the organization, each employee must understand the business and how each individual and team contributes to its success. In Scanlon Plan terminology, this is the company's "identity." Management must help employees understand the wants and needs of customers, the strengths and weaknesses of competitors, and the company's competitive model or strategy that drives success. Management has to frame a meaningful vision for the organization and a strategy for obtaining that vision that makes sense for employees within the context of their jobs. In other words, management must develop business-literate employees. Without business literacy, management's innovation program will not be compelling and innovation will not be directed at problems and opportunities relevant to the business.

There are a variety of ways that companies who have adopted the Scanlon Plan have developed business-literate employees. These include:

■ Conducting regular senior management presentations to employees (sometimes as many as four meetings a year) about the business strategy, the competition, performance drivers and business challenges

■ Educating employees about business fundamentals. Some companies use games that teach the principles of business (e.g., Big Biz Tycoon, FreshBiz and Tin Goose)

■ Explaining operations and financial processes so employees can understand the economic, legislative and other factors that impact the business.

One notable characteristic of the Scanlon Plan companies is that both financial and accounting professionals work directly with employees to identify opportunities for innovation and the costs associated with implementing innovative ideas.

Create Employee Voice

To establish and support an innovative culture requires employee voice. Employees need to believe that their ideas will be heard, respected and acted upon. Informal open-door policies and suggestion boxes seldom work. Effective employee voice requires a systematic way to solicit ideas, evaluate the quality of those ideas, implement those ideas and reward those ideas, especially if an idea results in cost saving or new sources of revenue. To solicit ideas, the Scanlon Plan uses a formal committee structure that either represents or includes employees from every unit/department within the company. These committees focus on productivity and innovation issues, not employment issues. Allowing employees to give voice to employment issues may distract from the specific purpose of the committee, which is innovation.

Employee committees, led by supervisors and managers, are charged with soliciting ideas from employees, evaluating those ideas and implementing ideas within the scope of their representation and ability to invest resources. Some companies give committees a budget to invest in equipment and materials that will increase productivity. When ideas fall outside the purview of the employee-participation

committees, they are reviewed and evaluated and then passed to a higher level committee with the authority to implement or reject an idea. The key factor is that these participation committees are composed of peers and managers who must review and take timely action on each suggestion submitted.

There are numerous other ways to solicit employee ideas, including quality circles and task forces. However, it must be recognized that for employees to make meaningful contributions, they must first understand the business, be competent and believe their ideas will be heard. Employee suggestions must be acted upon quickly, and a disciplined process for handling suggestions is an important part of this process.

Companies that adopt Scanlon Plans create a senior review committee responsible for evaluating, responding to and processing suggestions received from employee-participation committees. Appointed department managers or supervisors lead the review committee. Half the members of this committee are generally professionals with relevant expertise, appointed by senior management. The other half of the committee is drawn from employees on participation committees.

The review committee (sometimes called the screening committee) examines all suggestions forwarded by participation committees. The review committee prioritizes, approves and oversees implementation of suggestions that fall outside the authority of the participation committees. Consistent with Scanlon philosophy, employees do not receive any individual payment for making suggestions or having suggestions adopted. The financial reward, as will be described, results from actual improvement in productivity or innovations that provide a financial return for the company. Because all employees share in the financial return from suggestions, it is in every employee's best interests to help develop and implement a suggestion, regardless of who initially made it.

To facilitate employee involvement, companies often add a coordinator who encourages employees and participation committees to develop innovative ideas and serves as a liaison among participation committees, review committees and management. Furthermore, employee suggestions are recorded and the time from submission to rejection or implementation is monitored. A reduction in the number or quality of suggestions is an early warning system that the process has been compromised.

Reward Innovation

Although many religions teach that good works are their own rewards, businesses are founded on a principle of exchange. Customers must pay for the products and services a company provides and employees are paid for their labor. The pay an employee receives is most often defined by the job he/she performs, and typically, especially at lower levels where most employees reside, that is defined in terms of tasks and activities that an employee is required to perform. Only in certain types of professional and high-level managerial positions is there

a clear expectation the employees should contribute innovative ideas and work toward implementing those ideas.

Providing clear rewards for innovation adds value. First, it elicits innovative ideas and contributions from employees. Second, it stimulates employees to implement those innovative ideas and, if structured properly, can reduce employee resistance to change. Furthermore, reward metrics can focus employees on innovations that have the most value for the organization.

Recognizing that innovative ideas seldom spring from a single employee, and even if they do, implementation requires involvement of numerous employees, the Scanlon Plan is based upon shared rewards, which may extend from the janitor all the way up to the facility or plant manager. Thus, the metrics may include labor cost saving, EVA, profit, earnings and waste reduction. Employees must believe that their ideas can affect these performance criteria. This is in large part why a strong emphasis is placed on helping employees understand the business and building a level of competency that transcends employees' immediate jobs.

A basic formula is a productivity ratio of operating expenses that employees can affect (e.g., labor costs, supplies, telephone expenses and software/hardware maintenance) divided by gross income (e.g., loan, investment and fee income). Considerable information is available on how these measures are created and the structure for rewarding employees when the performance targets are met in the literature, including articles listed in the reference section, and those articles suggested as additional readings. Information about measures and experience with the Scanlon Plan can be found at http://epic-organizations.com/index.php/scanlon-plans.

Build Competence

This principle is based on the belief that continuous improvement requires continuous learning. The Scanlon Principles recognize that operating in a flexible and proactive work environment requires employees to have broad-based job skills, strong interpersonal competencies and a fundamental understanding of how the business operates (i.e., business literacy). For employees to contribute ideas that have the potential of increasing productivity, they must be more knowledgeable than employees in traditional organizations.

Organizations must make a major investment in employee development to create a viable innovation process in which all employees contribute. Some companies have used pay-for-skills programs and self-managed work teams to build more general levels of employee competence. Other companies offer extensive development programs that extend far beyond the domain of individual jobs. For example, one company offered home ownership courses as means of teaching employees about investing and the value of money. In successful Scanlon Plans, employees receive more training and in more diverse areas than just job training.

Although not discussed in this article, employee development is an important element of adapting a Scanlon Plan. The process of designing a Scanlon Plan can be an effective way to build both understanding and commitment for the program. Typically, companies involve employees in the design process and offer numerous classes concerning the financial requirements of the business, how to operate in teams, safety, performance metrics and decision making/problem solving.

CONCLUSIONS AND RECOMMENDATIONS

Decades of Scanlon Plan experience indicate that innovation requires organizations to develop a systematic strategy that revolves around employees understanding the business. Additionally, employees must possess the intellectual skills necessary to both perform their jobs and contribute to the business. Furthermore, employees need a reliable and trusted process for conveying those innovative ideas to management and an assurance that their contribution will be acted upon. Finally, employees need to feel they are fairly rewarded for their contribution.

Experience demonstrates that Scanlon Plan-type programs that effectively enhance innovation share certain attributes:

▮ Employees at all levels understand the business strategy and how they compete with other companies.

▮ Rigorous and timely processes are in place to give employees voice, quantify ideas, evaluate those ideas and implement change.

▮ Suggestions are carefully monitored to determine if the process is working and ensure employees receive feedback.

▮ Financial rewards are shared among all employees who are involved in the business location or facility. Individuals are recognized with nonfinancial rewards.

▮ Leadership commitment and guidance are essential for creating an organization that continuously incorporates innovation in process improvement and product and service development.

The Scanlon Plan provides a process for creating innovation, particularly process improvement. When employees understand the business, have a robust process for sharing ideas, are rewarded for those ideas and are highly competitive, they will generate ideas for new and better services and products.

There is an extensive literature on the Scanlon Plan. Following are some good resources that will help the reader explore how this program can encourage innovation in his/her company. ▮

AUTHOR

Dow Scott, Ph.D. (dscott@luc.edu), is a professor of human resources at Loyola University Chicago and president of Performance Development International Inc. Scott is nationally recognized as a thought leader in compensation and HR program evaluation. He has more than 100 publications. His teaching, research and consulting have focused on the creation of effective teams, employee opinion surveys, performance improvement strategies, pay and incentive systems, and the development of high-performance organizations. Before following an academic and consulting career, Scott held a variety of HR positions at B.F. Goodrich Co. He obtained his master's degree and Ph.D. from the School of Human Resources and Employment Relations at Michigan State University.

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