

Industrial Relations and Labour Laws

Productive Bargaining and Gain Sharing

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Meaning

Productive Bargaining is a form of collective bargaining in which management and workers negotiate not only about wages and service conditions but also about productivity, efficiency, cost reduction, work methods and sharing of the benefits arising from higher productivity.

It aims to establish a relationship in which higher productivity benefits both the employer and employees.

Objectives of Productive Bargaining

The main objectives are:

- To increase labour productivity.
- To improve efficiency in the use of labour, machines and materials.
- To reduce unnecessary production costs and wastage.
- To improve wages and other benefits of workers through productivity gains.
- To promote cooperation between management and employees.
- To reduce industrial disputes.
- To improve the competitiveness and profitability of the enterprise.
- To create a sense of participation among workers.

Features

- It is based on collective bargaining between management and workers/unions.
- It links productivity with rewards.
- It requires mutual trust and cooperation.
- It may involve changes in work practices, technology, working methods and performance standards.
- Benefits obtained from increased productivity are shared according to an agreed formula.
- It attempts to balance the interests of labour and management.
- It generally requires measurable productivity indicators.

Process of Productive Bargaining

The process may involve:

- Identification of productivity issues → Negotiation → Fixing productivity standards → Introduction of improvements → Measurement of productivity → Calculation of gains → Distribution of benefits

Advantages

For Employees:

- Higher wages or incentives.
- Better employment opportunities through improved enterprise performance.
- Greater participation in workplace decisions.
- Improved working conditions in some cases.
- Recognition of employees' contribution.

Advantages

For Employers:

- Higher productivity.
- Lower unit cost of production.
- Better utilisation of resources.
- Improved industrial relations.
- Greater competitiveness.

For Industrial Relations:

- Encourages cooperation instead of confrontation.
- Reduces the possibility of industrial conflict.
- Promotes mutual understanding.
- Encourages workers to participate in organisational improvement.

Limitations

- Productivity is not always easy to measure.
- Workers may fear that productivity improvements could lead to job losses.
- Disputes may arise regarding the calculation of productivity gains.
- Poorly designed incentive schemes may create unhealthy competition.
- It requires reliable data and transparent accounting.
- Management and workers may disagree about the distribution of gains.

Gain Sharing

Meaning

Gain Sharing is a system under which employees receive a share of the financial or economic gains resulting from improvements in productivity, efficiency, cost savings or organisational performance.

The basic idea is:

- Improved Performance → Economic Gain → Sharing of Gain between Organisation and Employees
- Gain sharing is different from ordinary wages because the additional payment is generally connected with measurable improvements in organisational performance.

Objectives of Gain Sharing

- To motivate employees to improve productivity.
- To encourage teamwork.
- To reduce costs and wastage.
- To improve quality and efficiency.
- To establish a direct relationship between performance and reward.
- To promote cooperation between management and workers.
- To provide employees with a financial interest in organisational improvement.

Essential Elements

An effective gain-sharing system generally requires:

- A clearly defined performance standard or baseline.
- A measurable productivity or cost-saving target.
- A transparent method of calculating gains.
- A predetermined formula for distributing gains.
- Employee participation and understanding.
- Regular measurement and communication of results.

Types of Gain Sharing

1. Productivity Gain Sharing

- Employees receive a share of gains generated through increased productivity.
- Example: If output increases without a corresponding increase in labour cost, part of the resulting economic benefit may be distributed among employees.

2. Cost-Saving Gain Sharing

- Employees receive a share of savings achieved by reducing waste, material costs, energy costs or other operating expenses.

3. Quality-Based Gain Sharing

- Rewards may be linked to improvements in quality, reduction in defects, customer complaints or rework.

4. Group or Plant-Level Gain Sharing

- The gain is calculated for a department, work group or entire plant rather than for individual workers.

Advantages of Gain Sharing

- Increases employee motivation.
- Encourages teamwork.
- Improves productivity.
- Reduces costs and wastage.
- Strengthens labour-management cooperation.
- Provides employees with an additional financial incentive.
- Can improve employee involvement in organisational decisions.

Limitations

- Difficulties in determining the appropriate baseline.
- Disputes over the calculation of gains.
- External factors may affect productivity.
- Employees may focus excessively on measurable targets.
- Poorly designed schemes can affect quality or safety.
- Gains may fluctuate from period to period.

Gain Sharing vs Profit Sharing

Basis	Gain Sharing	Profit Sharing
Main basis	Productivity, efficiency or cost savings	Overall profit
Time of reward	Often linked to operational performance	Generally linked to profitability
Employee focus	Productivity and efficiency	Overall financial performance
Measurement	Operational indicators	Net/defined profits
Scope	May operate at group/plant level	Usually organisation-wide

Conclusion

Productive bargaining seeks to transform collective bargaining from a purely distributive process into a more cooperative and productivity-oriented process. Its success depends upon transparency, fair measurement of productivity, mutual trust and an equitable sharing of the resulting benefits.

Gain sharing is a performance-linked reward system designed to create a common interest between employees and management. When properly designed, it can support productivity, cooperation and industrial harmony.