



Strategic Talent Management

Designing Employee Performance Reward Programs That Support Lean Initiatives

Presenters:

Gerry Ledford, President, Ledford Consulting Network, LLC

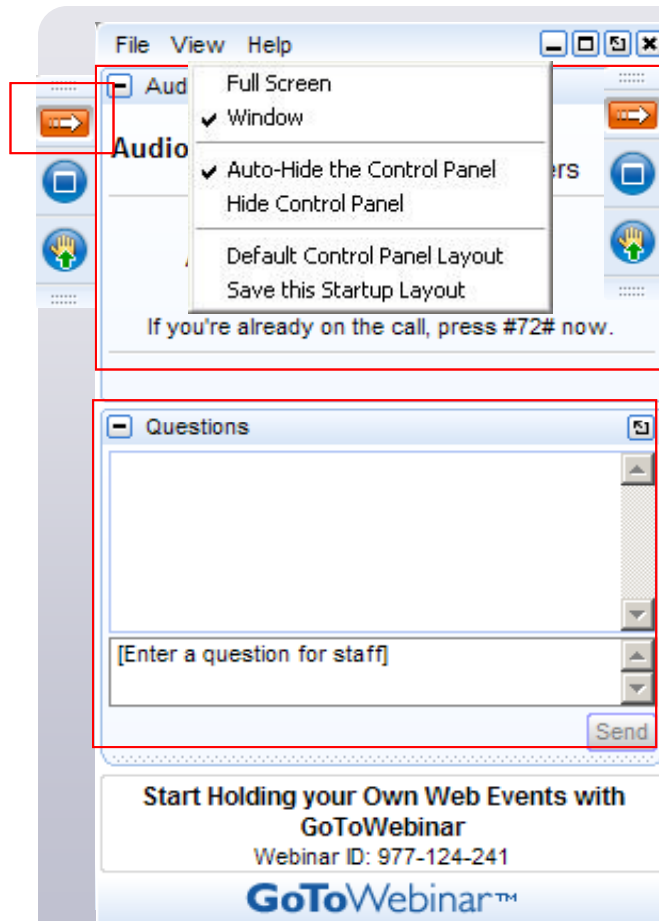
Timothy Haines, Director of Human Resources, Quaker Chemical Corporation

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- Q&A addressed at the end of today's session
- Everyone will receive an email within 24 hours with a link to view a recorded version of today's session

Today's Presenters:



Gerry Ledford

President

Ledford Consulting Network, LLC



Timothy Haines

Director of Human Resources

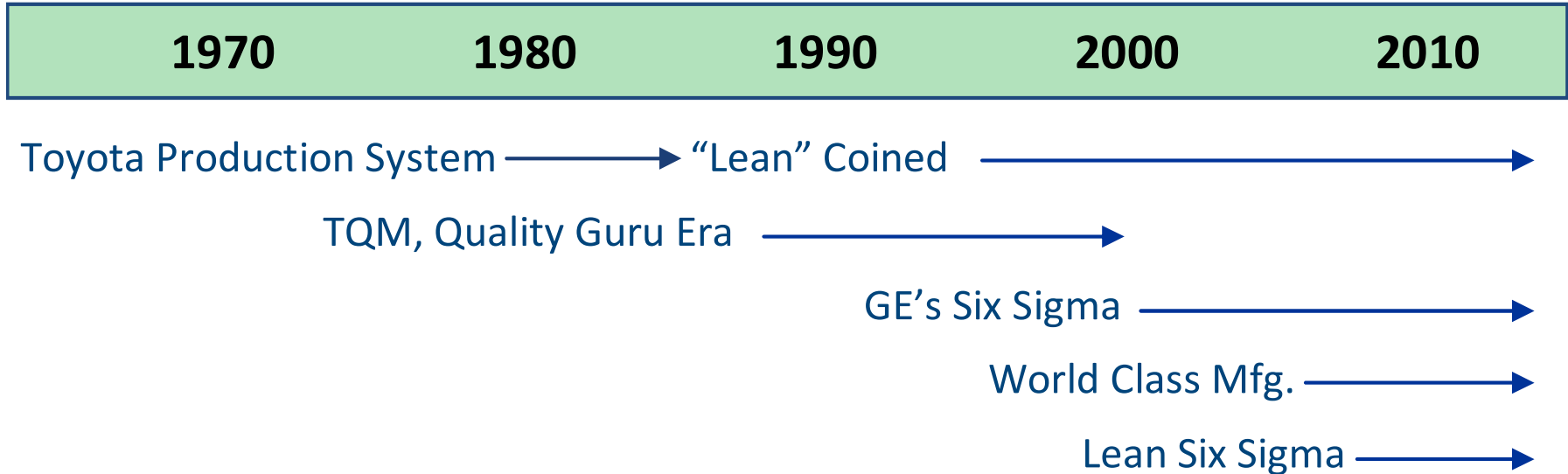
Quaker Chemical Corporation

Overview: What is “Lean”?

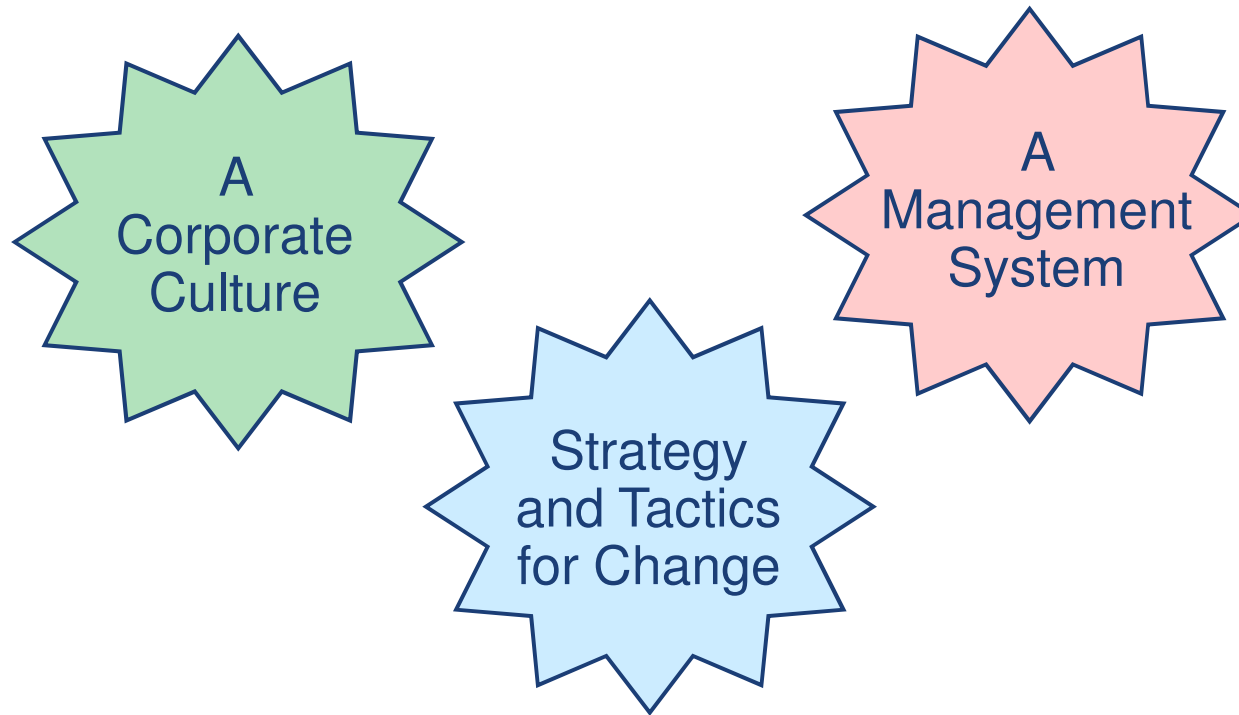
■ Prevalence

- Manufacturing: Started in assembly technologies, now almost ubiquitous
- Service sector: Spreading fast (for example, health care)

■ History: A wide variety of overlapping terms and concepts



Lean Is Many Things To Many People



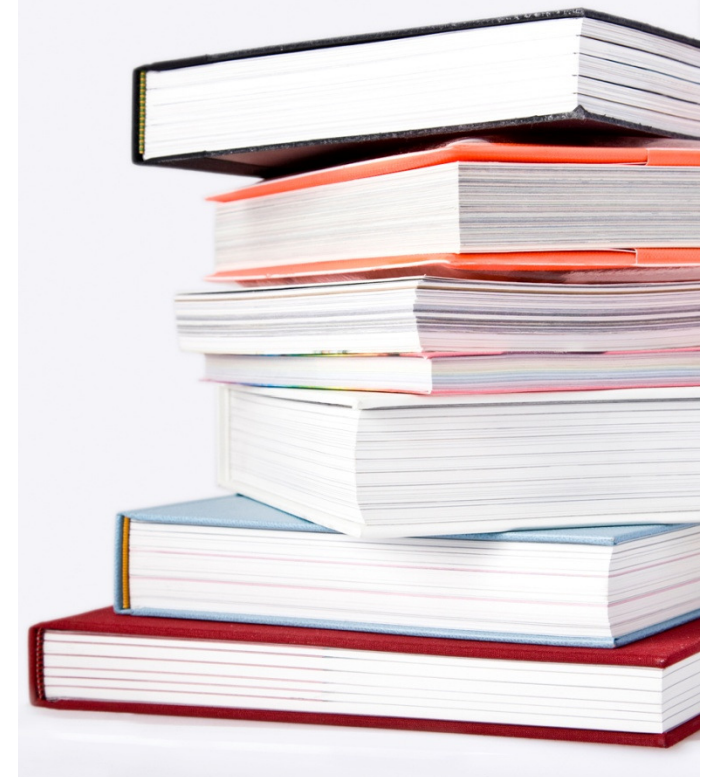
**Our focus is on lean as a system
for managing front-line employees**

AUDIENCE POLL

- **Where Is Your Organization In Its Lean Journey?**

Five Core Lean Principles

- 1. Central principle is reducing waste**
 - Continuous improvement
- 2. Customer-centric**
 - Customer feedback
 - Value is as customers perceive it
 - Value stream mapping
- 3. Top-down change approach model**
- 4. Pull system, not push system**
 - Throughput optimized, not maximized
- 5. Most problems are system problems, not the result of poor individual motivation**



Quaker Chemical Corp. (QCC) Initiatives Relevant to Lean

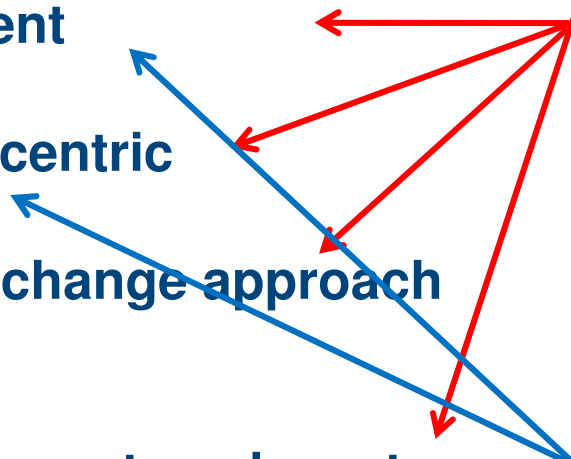


Lean Principles

1. Reducing waste, continuous improvement
2. Customer-centric
3. Top-down change approach model
4. Pull system, not push system
5. Most problems are system problems, not the result of poor individual motivation

Key QCC Initiatives

- Goal setting from the top down, including goals on:
 - Customer satisfaction (using surveys)
 - Internal improvements
 - Strategic positioning and execution
- Reinforce QCC core competencies that support lean
 - Entrepreneurial
 - Customer orientation



Lean Tools: A Sampling

- **Process mapping and process improvement**
- **Heavy emphasis on metrics**
 - Quality, on-time delivery, customer satisfaction
 - Visual feedback systems
- **Enhancing process flow**
 - Standardized, simplified work
 - Cycle time analysis
 - Cell manufacturing with cross-skilling
 - “Pull system”
 - Just-in-time
- **Employee participation groups (quality circles, kaizen events, etc.)**
- **Extensive training in quality methods and jobs skills**
- **Problem solving tools: graphical, statistical, decision making**

Lean Tools Used By QCC



- **Metrics**
 - Intensive measurement
 - Metrics reviewed monthly at NA Management Meeting
 - Incorporated into goals for Director of Operations, Manufacturing Managers, and Supervisors
- **Computer-based virtual process training to enhance process flow**
- **Standardized work through SOPs**
- **Quality Councils at each plant**
- **All employees receive training in quality skills**
- **Cross training for all operators on all processes, as well as training in set-up, inspection, and maintenance**

What Employee Knowledge, Skills, and Behaviors Does Lean Require?

Knowledge and Skills

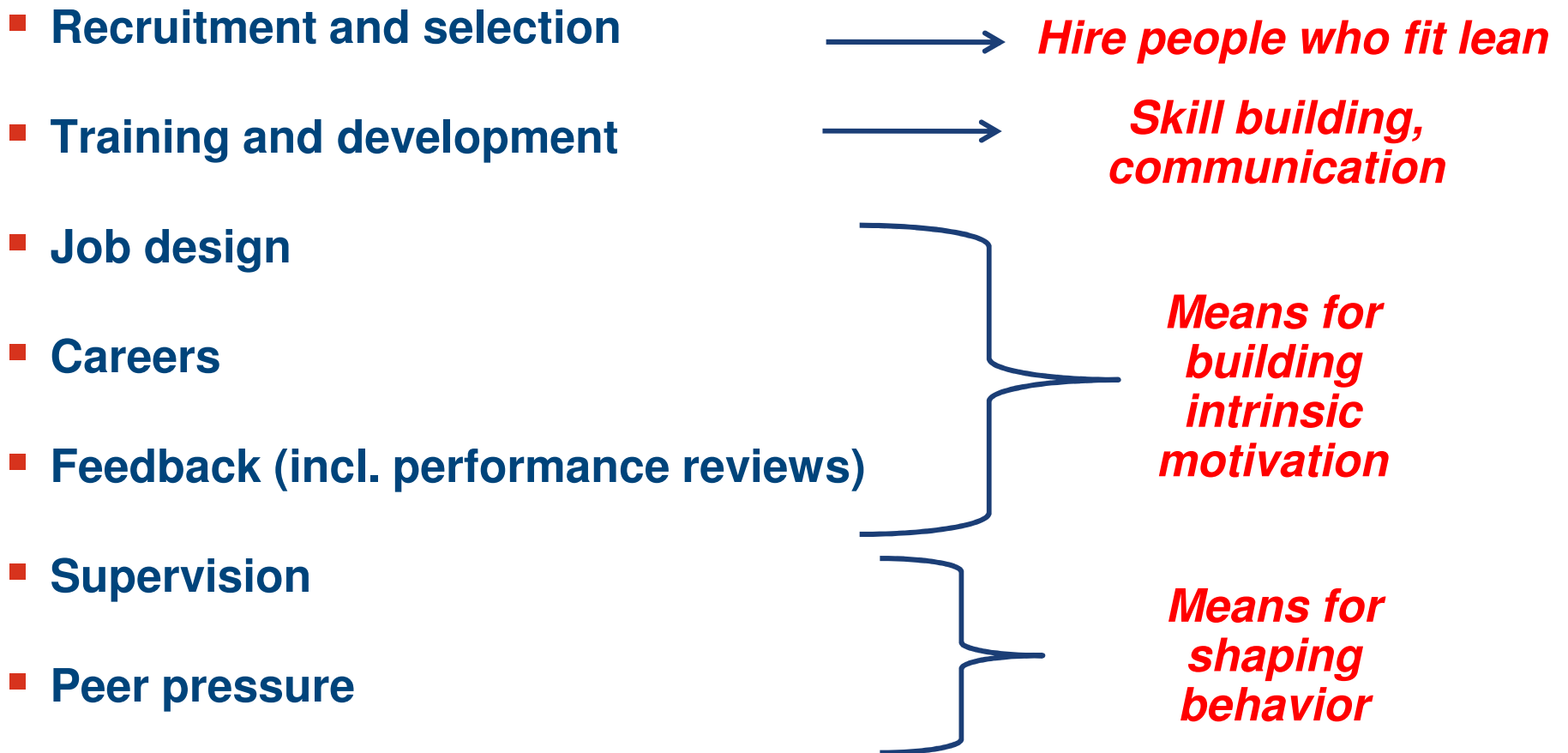
- Quality principles and tools
- Standardized work requirements
- Skill for multiple jobs, job rotation
- Set-up, inspection, maintenance as well as operations
- Team skills
- Problem solving techniques
- Sometimes, many Japanese words!

Behaviors

- Customer orientation
- Follow / create standardized work
- Focus on continuous improvement, suggestion making
- Monitor performance
- Proactively find, solve problems
- Cooperate within and across teams
- Training, including cross-training

Clearly, lean demands a great deal from employees

How Do Organizations Change Employee Skill, Knowledge, and Behavior?



All of these are important – but what about rewards???

Do Rewards Shape Skills, Knowledge, and Behaviors?

- **Every ten years or so, a new best-selling author says “no”**
 - They claim that rewards don't work and/or rewards are counterproductive because they incent the wrong things
 - They tend to cite a lot of studies – but the reviews are always selective and one-sided
 - Dan Pink (*Drive*, 2009), a former political speechwriter, is the current person to make a ton of money saying that money isn't important to people
- **The motivational power of monetary rewards is not a serious topic of debate in the academic literature**
 - Reviews of the literature consistently show that money motivates increased employee performance and other behaviors
 - There is no illusion about whether poorly designed rewards are effective

What The Research Really Says About Money And Motivation

- ***Both* extrinsic rewards and intrinsic rewards are important to employees and both can motivate them**
- **Extrinsic rewards do not undermine intrinsic rewards except in special laboratory conditions**
- **People vary much more in their preference for intrinsic rewards than extrinsic rewards**
- **Extrinsic rewards put the firm's money where it's mouth is**
- **Expectations lead to motivation**
- **Satisfaction leads to membership, not performance**



Quaker Lessons: Paying for Performance



- **Practically, it is difficult to motivate associates strictly with pay**
- **Most associates are as motivated by the self satisfaction and pride of doing a good job**
- **Even if there is a big pay differentiation between your good and great performers, pay is a short term motivator**
- **There has to be more to drive associates' performance, i.e., culture of hard work, being called on as an expert, recognition, etc.**
- **Employees are more concerned about consistency than actual pay**

What Do Lean Experts Say About Extrinsic Rewards?



- **Most lean experts ignore rewards**
 - Almost all discussions in the lean literature are cursory
- **Those that don't ignore the topic are mostly negative about rewards**
 - “Pay people fairly” – Deming, Womack and Jones
 - Suspicious about pay for performance
- **There is almost no attention to this topic from compensation experts**
 - There are only two articles concerning lean in the WorldatWork database, and one is irrelevant to lean

In Practice, Lean Users Tend To Be Heavy Users of Extrinsic Rewards

- **In the U.S., users of lean practices are heavier users of rewards innovations than are other companies**
- **Japan, the home of lean, makes more use of monetary rewards than the U.S. (and more than Japanese transplants in the U.S.)**
 - Performance reviews / merit pay are common
 - The salary system typically includes a pay for skills component
 - Profit sharing: 80% of Japanese employees receive profit sharing (2010)
 - The profit sharing bonus component typically represents 20-30% of wages for front-line employees, much higher than variable pay in the U.S.

AUDIENCE POLL

- **Which Of The Following Reward Systems Do You Use With Core Workers?**

AUDIENCE POLL

- **Do Your Reward Systems Reinforce Your Lean Efforts?**

Primary Reward System Options: Value for Lean Systems

	Build Skill / Knowledge	Motivate Behaviors
■ Base pay system		
• Merit pay / other compensation linked to performance reviews	✓	✓
• Pay for skills	✓✓	
■ Performance Incentives		
• Individual incentives (usually deemphasized)		✗
• Recognition	✓	✓
• Profit sharing		✓
• Gainsharing		✓✓

The Quaker Reward System



- **Goal setting from the top down**
- **Annual and mid-year performance reviews**
- **Merit pay: high performers get higher merit increases; low or average performers get little or no merit increase**
- **Competency pay: demonstrating competencies is a key component of individual performance**
- **Recognition: Special Impact Awards (\$200 - \$1500 plus a glass memento; for individuals or groups); service awards, 25 year club, retention awards, special stock grants**
- **Bonus: Global Annual Incentive Plan covering almost all U.S. employees; based mostly on global financial performance, partly on regional / individual performance**
- **Long-term Incentive (LTI): for top key leaders; offers options, stock, and cash based on Total Shareholder Return**

Adapting Merit Pay to Lean Systems

- **Keep the summary rating scale simple**
 - Three levels is usually best (example: Failing, Succeeding, Excelling)
 - No cheating with plusses and minuses
- **Keep the process as simple as possible**
 - Keep the number of metrics down
 - Keep the formula (if any) for combining metrics as simple as possible
 - This is hard to do and takes a lot of work
- **Focus the process on the performance conversation, not the appraisal form**
 - The final rating should not be a surprise
- **Focal point systems are easier to manage than others**

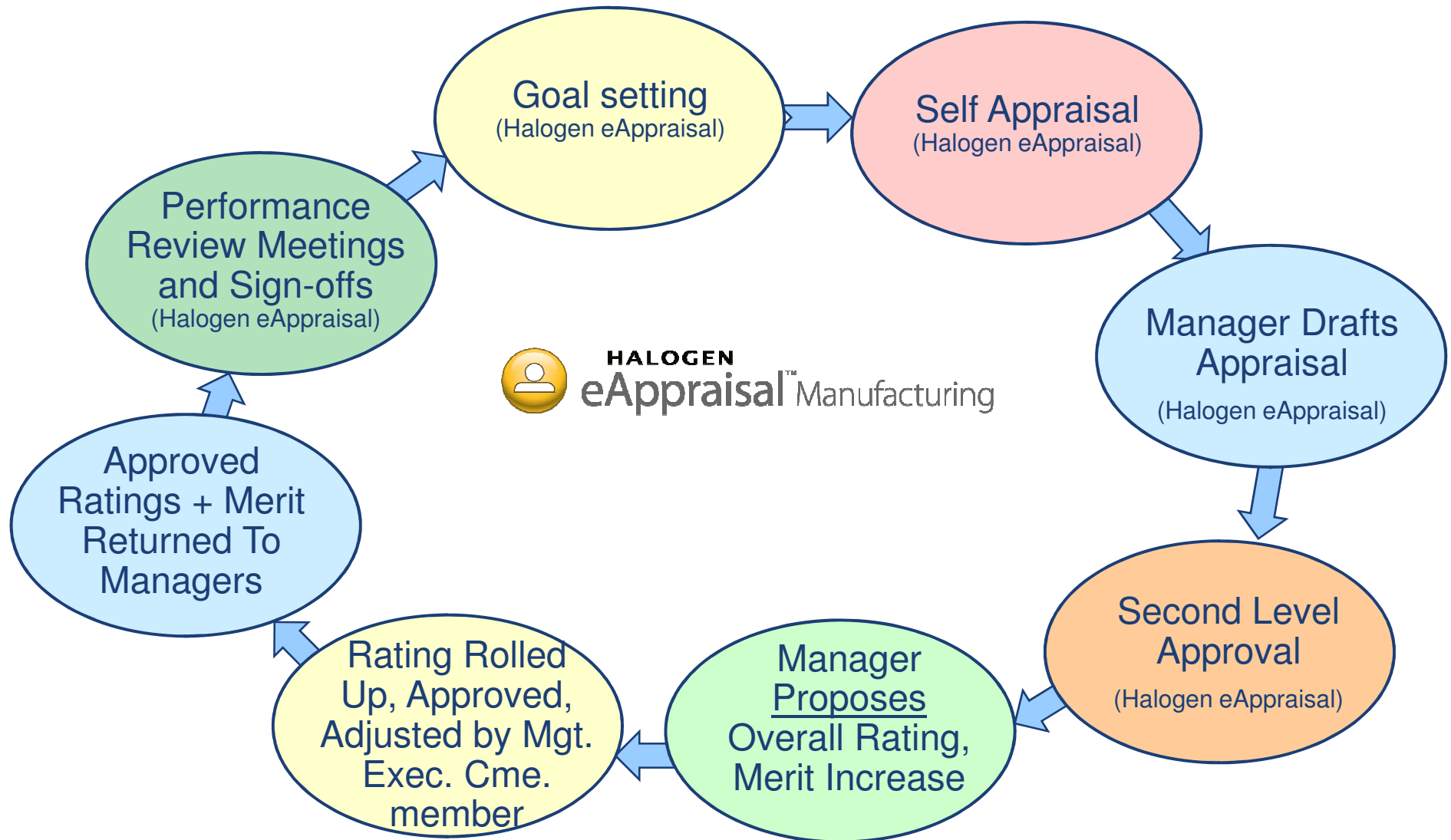


Quaker Merit Pay System



- **Three point rating scale**
 - 1 – Does Not meet Expectations (not doing it)
 - 2 – Meets Expectations (doing it OK – solid citizen)
 - 3 – Exceeds Expectations (doing a bang-up job)
- **Must chose a 1, 2, or 3 rating for each goal and the overall rating**
- **Managers are trained to focus on performance . . . not effort**
- **Mid-year reviews and on-going performance journal notes limit surprises for final annual rating**
- **Overall performance is focused on goal/objective achievement and demonstrable competency behaviors**

Quaker Pay for Performance Communication Process



Adapting Pay for Skills to Lean Systems



■ What to reward

- Job skills, including cross-skilling
- Complete blocks of skill, including operations, self-inspection, set-up, minor maintenance, and team skills
- Use the black belt model: high levels of pay require a kaizen “thesis”

■ Simplify, simplify, simplify

- Many pay for skills systems are overly complex: consolidate levels and blocks
- Because of their simplicity, bonus pay for skills plans should be more widely used

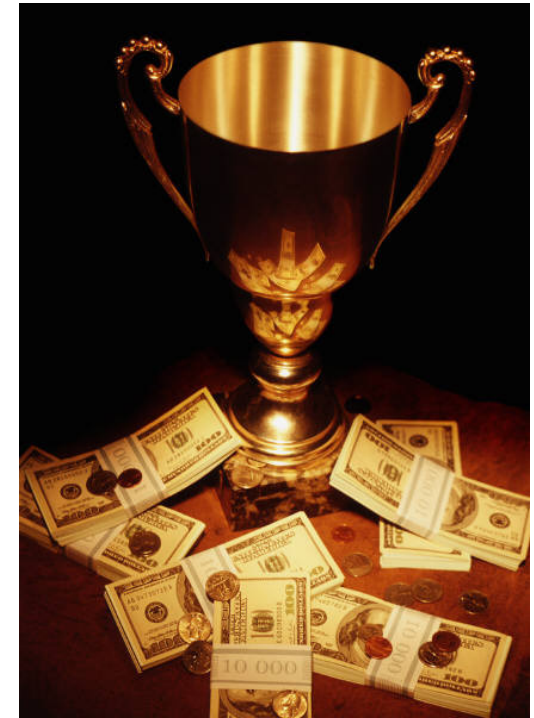
Quaker Pay for Skills and Knowledge

- **While Quaker does not specifically pay for skills attainment, we use skills for promotional opportunities and other rewards**
 - Operations are trained and cross trained on various skills; once skills are attained, verified by testing and observation, and documented, the employee is eligible for promotion
 - Educational subsidy: Applications are submitted and reviewed in light of employees' Quaker-related career aspirations as well as overall potential and performance

- **The performance management system rewards competency development**
 - Exempt: 13 core competencies broadly applicable to exempt work
 - Nonexempt: job knowledge, quality of work, quantity of work, organization of assignments, communications, initiative, attendance, dependability, adaptability, interpersonal skills, and safety.

Adapting Recognition to Lean Systems

- **Recognition cannot replace monetary rewards**
 - Employees will resent any implication to the contrary
 - Some employees dislike recognition awards
- **The key: It's really all about communication**
 - Recognition is a way to communicate what's important
 - Therefore: make it open, public, fun, and creative
- **Design tips**
 - Frequent, small, timely awards work best
 - Reinforce behaviors you want to see a lot (e.g., suggestion making)
 - Red flag: If awarders support the plan more than recipients, it's not motivating anyone



The Quaker Take on Recognition



- Recognition can have a greater impact on performance than monetary rewards
- Everyone likes recognition, but not everyone likes public recognition

Adapting Incentives to Lean Systems

■ Get the organization level right

- Individual incentives and small group incentives usually work against lean
- Profit sharing increases the bond with the firm but has limited motivational value
- Gainsharing at the plant or equivalent level usually is the sweet spot – high enough to reward improvement in a system, low enough have line of sight

■ Lean is the way to improve performance on gainsharing metrics

- Typical plan metrics are 3-4 measures of productivity, cost, quality, on-time delivery, and customer satisfaction
- Lean is the most direct way to improve all of these; employees buy into lean when they see that it puts money in their pockets

■ Keep the plan lean

- Overly complex plans are not motivating
- Use visual feedback tools to show status of payouts

Lean Applied To Rewards Design And Administration

- **This is a huge, unrealized opportunity in most companies**
- **Most compensation and benefits systems are far from lean**
 - Excessive job titles and grades, complex progression paths, incentives and benefits so complex most employees don't understand them
 - There are many large but hidden costs to all this complexity
- **A modest proposal: let's apply lean processes to the Compensation and Benefits Department**
 - This should lead to simplified, clearer, more user-friendly reward systems
 - Cost savings could be impressive
- **Leaner systems are also easier to automate, bringing more savings**



Q&A

- **Additional questions regarding the content of this webinar?**

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- **To request a free trial or demonstration of the Halogen Talent Management Suite for Manufacturing, contact:**

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About Gerald E. Ledford, Jr., Ph.D.

Gerry Ledford is a President of the Ledford Consulting Network, LLC. He is a nationally recognized authority on human capital issues, including compensation and total rewards, talent management, organization design, and change management. He has devoted over 30 years to consulting and research on these topics. Gerry has consulted to dozens of Fortune 500 companies and has worked in many industries.

Previously, Gerry was a leader at Sibson Consulting from 1998 - 2003. He served as Senior Vice President and Practice Leader for Employee Effectiveness, the largest Sibson practice. He was Research Professor at the Center for Effective Organizations, Marshall School of Business, University of Southern California, where he was a key contributor from 1982 - 1998.

Dr. Ledford received his Ph.D. and M.A. in Psychology from the University of Michigan. He received a B.A. in Psychology (with Distinction) from the George Washington University.

Gerry is active in several professional societies, including the HR People and Strategy (HRPS), WorldatWork, the Society for Industrial and Organizational Psychology, and the Academy of Management. His awards include the Society for Human Resource Management's Yoder-Heneman Personnel Research Award.

Gerry is the author of over 100 articles and chapters and ten books, and he is a frequent speaker for major professional groups. His research and opinions have been cited in many media outlets, including the Wall Street Journal, Business Week, Fortune, the Los Angeles Times, the Washington Post, and PBS.

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About W. Timothy Haines



W. Timothy Haines is currently the Director, Human Resources at Quaker Chemical Corporation, which is a \$550MM leading global provider of process chemicals, chemical specialties, services, and technical expertise to a wide range of industries around the globe. Quaker has nearly 1,400 associates and a presence in every major industrialized country in the world. Tim has been at Quaker since 1999 when he started as a Human Resources Manager – U.S. Tim currently has responsibility for a team of HR professionals supporting the North American region with all HR-related activities, global Compensation & Benefits, global HR processes (HRIS and Performance Management), and Executive Compensation.

Previously, Tim was at AMP Inc. (Tyco International) where he was the HR Manger for the \$1B Global Interconnection Systems Business. He supported the President and the team of five Vice Presidents as the global HR business partner, connecting business needs to local HR services.

Tim received a BS in Human Resources Management from Messiah College, and an MS in Human Resources & Industrial Relations from Rutgers University.

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Thank you!

