

Rethinking Rewards for Lean Systems

WorldatWork 2009 Total Rewards
Conference & Exposition

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Outline

- 1. Introductions**
- 2. Rewards for Lean Systems -- An Overview of the Topic**
- 3. Summary of Rewards for Lean in Our Company**
- 4. Panel Discussion / Audience Interaction**

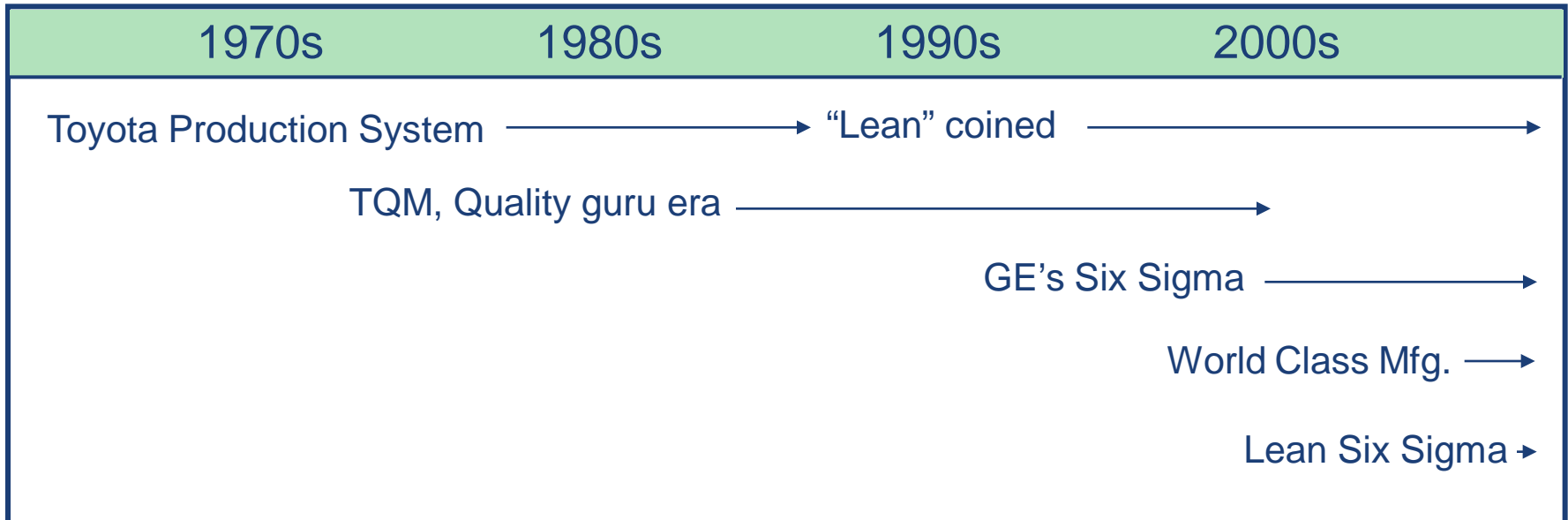
Overview: What is “Lean”?

■ Prevalence

- Manufacturing: Almost ubiquitous
- Service sector: Spreading fast (for example, health care)

■ History

- There is a babble of overlapping terms and concepts in this field



Key Characteristics of Lean

Key Principles

- Central principle is reducing waste
 - Continuous improvement
- Systems approach – problems are not the result of poor individual motivation
- Customer-centric
 - Customer feedback
 - Value is as customers perceive it
 - Value stream mapping
- Top-down change approach model
- Pull rather than push system
 - Throughput optimized, not maximized

Well-Developed Tool Kit

- Process mapping and improvement
- Heavy emphasis on metrics
 - Quality (e.g. DPMO), on-time delivery, customer satisfaction
 - Visual feedback systems
- Flow, e.g.:
 - Just-in-time
 - Cycle time analysis
 - Cell manufacturing with cross-skilling
 - Standardized work
- Heavy use of employee skills and quality training

Overview: What Do Lean Proponents Say About Rewards?

- **Most lean experts ignore the topic of rewards**
- **Those that don't . . . well, they're engineers**
 - “Pay people fairly” – Deming, Womack and Jones
 - They are suspicious about pay for performance, especially the individual variety
 - Almost all discussions in the lean literature are cursory – it's not a primary topic
- **There is almost no attention to this topic from compensation experts**
 - There are only two articles concerning lean in the WorldatWork database
 - One of these has nothing to do with lean, despite its title
- **Because lean has the attention of business leaders, this is an important area of opportunity for compensation and HR professionals**

Rewards That Align With Lean Are Familiar to HR Professionals

■ Base pay system

- Lean pay architecture: A huge, unrealized opportunity in most companies
 - Simplified grading, progression, and administrative systems
- Pay for skills
 - Rewards cross-skilling that lean systems needs
 - Integrate quality thoroughly into skill blocks – not as stand-alone skills
 - Lean pay for skills systems are rare – most are very complex

■ Incentives

- De-emphasis on individual performance rewards – high performance is generated by the system, not the heroic individual
- Recognition: Greatly simplified, just-in-time, good feedback
- Profit sharing: Used heavily in Japan; limited motivational impact
- Gainsharing: Stronger motivational impact, but should be goal-based, simple, timely, integrated with quality metrics, used with heavy feedback

Case: B. Braun Medical

■ Our company

- \$1.25 Billion Revenue / 5,000 Employees US & Dominican Republic
 - German Family Owned Parent Company: €4.0 Billion Rev / 30,000 Employees
- Infusion Systems – Pharmaceutical Solutions, Medical Devices, Pumps
- US Headquarters: Bethlehem, PA
- Manufacturing: Pennsylvania, California, Texas, and the Dominican Republic

■ Our Lean Initiatives

- Business Units – 2003
- Key Performance Indicators (KPI) – 2004
- Self Directed Work Teams (SDWT) – 2006
- B Braun Performance System (BPS) - 2008
- Work Force Development / Transformation - 2008

Case: B. Braun Medical (Cont'd)

■ Our pay innovations

- Base pay: Progression Based Pay (PBP) launched in Pennsylvania 2008
 - 38 levels of pay based on seniority to 16 levels based on competencies
 - 50 “specialist” job descriptions to 15 “generalist” job descriptions
 - » Lean built into every JD
 - Emphasis on Work Force Development / Training
 - » Move from simple batch assembly to complex automation – “survival” of US manufacturing
- Incentives: Performance Reward Incentives to Drive Excellence (PRIDE) launched all US facilities in 2007
 - Replaced discretionary “Christmas Bonus” of between 1% to 2% of base wages
 - Quarterly Payout based on facility’s KPI achievement, with metrics very relevant to lean
 - Annual Payout based on facility’s favorable manufacturing variance
 - Total Potential Payout of 5% of all wages
 - » 2007 / 2008 average of 3% payout
 - » Before: 50% KPI Achievement / After: 70% KPI Achievement

Case: Raytheon

■ Our company

- Raytheon Space and Airborne Systems (SAS) is a leading provider of sensor systems giving military forces the most accurate and timely actionable information available for the network-centric battlefield.
- This SBU had 2007 revenues of \$4.3 billion and 12,000 employees
- SAS is headquartered in El Segundo, Calif. Additional facilities are in California, Mississippi, Texas, and several international locations.

■ Our lean initiatives

- Lean Manufacturing/Enterprise are the terms usually referenced
- Lean is led primarily out of individual business units but is championed through “Raytheon” Six Sigma which has a company wide focus and tremendous support. Businesses with large manufacturing areas usually use lean concepts in their manufacturing areas.
- Lean enterprise thinking is very established at Raytheon

Case: Raytheon (Cont'd)

■ Our pay innovations

● Base pay

- Most large manufacturing organizations that embrace lean manufacturing are “organized” and negotiate wages and benefits
- A few areas will negotiate “pay for skills” on a case-by-case basis; these are not directly related to lean architecture or concepts.

● Incentives

- Corporation-wide Performance Sharing program for Raytheon employees who were not participants on an executive bonus program or represented by a union. It provides an annual payout based on very high level overall business and corporate performance metrics. It is difficult for employees to see how they could directly influence the results on these metrics.
- In 2005, we replaced the corporate Performance Sharing plan with a gainsharing program at our non-organized Mississippi manufacturing site; it is called the SAGA (Strategic Alignment and Goal Attainment) Program.
 - » Very successful track record
 - » Clear line of sight metrics which are tracked and posted in the manufacturing facility which uses lean manufacturing principles; semi-annual payout
 - » These metrics, and the program, are understood by all the employees and are reviewed once a year to insure they align with current business goals

Case: PPG

■ Our company

- 40,000 employees worldwide; 2008 net sales over \$15 billion
- More than 140 manufacturing sites and equity affiliates in more than 60 countries
 - 6 major business segments: Performance Coatings*, Industrial Coatings, Architectural Coatings, Optical & Specialty Materials, Commodity Chemicals and Glass

■ Our lean initiatives

- A system based on multiple principles – quality systems, production methods, cultural initiatives, based on a foundation of operational stability
- General training from corporate office; specific initiatives are SBU-driven; implementation may vary by location
- Well established culture of lean at PPG. Implementing lean at various acquired facilities.

Case: PPG (Cont'd)

■ Our pay innovations

- Base pay: pay for skills

- In process of implementing at Sylmar, CA plant.
- Currently have a hybrid of a pay for skill/traditional base pay system plan in Mojave, CA. This pay system has been in place for 7 years now.
- Mojave workforce skill level has increased dramatically and employees are empowered to be in charge of their career growth. However, hybrid system is expensive to maintain.
- Lean requirements are built into both Mojave and Sylmar systems (i.e. requirements at various levels to be able to run kaizen events, etc.)

- Incentives: gainsharing (in process)

- This will replace a performance sharing bonus system that rewards hourly employees for SBU performance

Case: Boeing

■ Our company

- **Size:** 160,000 employees in 49 states and 70 countries who generate \$66.4 billion in revenue
- **Key lines of business:** Connect and protect people globally:
 - Design, assemble & support Commercial Aviation and Defense Systems
 - Design & assemble Satellites and Launch Vehicles
 - Integrate Large-Scale Systems

■ Our lean philosophy – A way of pursuing value in our business by systematically eliminating waste – resulting in; lower operating costs, reduced cycle time, reduced defects and improved customer satisfaction.

- **Embed in the Business:** Identify opportunities and set aggressive targets
- **Communicate:** Communicate plan, single source of information, engage everyone
- **Learn / Train:** Don't add Lean people – add Lean to people, common language & system
- **Replicate:** Facilitate sharing of best practices, ideas and successes, recognize replication

Case: Boeing (Cont'd)

■ Compensation Success Story:

● Recognition Program:

- Standardized program, timely acknowledgment, Self Service Model
- Used enterprise wide with on-line access for every employee
- Metrics:
 - » 99.6% Cycle time reduction – 28.5 days to 30 minute average
 - » 90.6% Resource reduction – 375 focals/admin to 8 (32 FTE to 3)
 - » 91.7% Systems reduction – 12 systems/programs to 1 enterprise system

● Base Pay Management

- Developed enterprise wide tools to provide guidance to managers and improve base pay decisions
- Streamlined oversight, eliminated record retention, standardized processes
- Metrics:
 - » Eliminated redundant tools (eliminated multiple systems)
 - » Increased customer satisfaction (One tool, consistent methodology)
 - » Reduced Cost (Training, storage space, IT support, communications)

Summary Table

	B. Braun	Raytheon	PPG	Boeing
Lean Initiatives				
Led at corporate, SBU or locally?	All	All	All	All
How well established?	Very	Very	Very	Very
Reward Innovations				
Origin	Corporate	SBU	SBU	Corporate
Linkage to lean initiatives	Strong	Moderate	Strong	Strong
Practices:				
1. Lean pay administration	✓		✓	✓
2. Pay for skills	✓	✓	✓	
3. Corporate profit sharing				
4. Gainsharing incentives	✓	✓	✓	
5. Lean recognition system				✓

Topics for Panel Discussion / Audience Interaction

- **How important are rewards to the success of lean initiatives?**
- **What has been your experience with pay base innovations (simple grades, skill-based pay, etc.) that support lean?**
- **What has been your experience with incentives (recognition, team bonuses, gainsharing, profit sharing, etc.) that support lean?**
- **In what ways are your reward systems themselves “lean”?**

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Panelist Biographies

Gerald E. Ledford, Jr., President, Ledford Consulting Network LLC (Moderator):

Gerry Ledford is a nationally recognized authority on human capital topics, including reward systems. He currently is President of the Ledford Consulting Network. From 1998 to 2003, he was a leader at Sibson Consulting. From 1982 to 1998, he was a key contributor at the Center for Effective Organizations, University of Southern California. He received his Ph.D. and M.A. in Psychology from the University of Michigan. Gerry is the author of over 90 articles and ten books. He is a frequent speaker at professional events, and the national media have often cited his research and opinions.

Morten Rasmussen, Associate Director, Corporate Compensation, B. Braun Medical Inc.:

B. Braun Medical Inc is a privately held, \$1.3 billion medical device and pharmaceutical manufacturing company. During his tenure with B. Braun, Mr. Rasmussen has led the change from an entitlement and seniority-based compensation structure to a pay-for-performance and competency-based system, supporting the company's lean manufacturing and self-directed work team initiatives. Morten has a B.S. in Education from Kutztown University. Originally from Copenhagen, Denmark, Mr. Rasmussen currently resides in Allentown, PA.

Panelist Biographies (cont'd)

Lee Sode, Director, Human Resources,

Raytheon: Lee Sode has 30 years of HR experience at Hughes Aircraft and Raytheon Space and Airborne Systems in Southern California. His positions have included chief labor negotiator for Raytheon SAS.

Currently, he manages all aspects of HR in SAS Operations, covering 3000 employees in California, Texas, and Mississippi. His duties include integrating HR with lean initiatives. He led creation of a successful gainsharing plan at a Mississippi plant that also received the Governor's Quality Award. Lee received a BA in Personnel & Industrial Relations, University of Hawaii and an AA from the Legal Assistant Program, Kapiolani Community College.

Vani Menon, PHR, Manager, Human

Resources, PPG: PPG Aerospace is an \$800MM strategic business unit of \$15BB PPG Industries. PPG Aerospace is recognized as a global leader in the development, design, production and distribution of innovative high-technology aerospace transparencies, sealants, coatings and application systems. PPG Aerospace is a preferred supplier in the commercial, military regional jet and general aviation market sectors, worldwide. A member of the Sylmar plant's Leadership Team, Menon leads organization and people performance strategies for the transparencies business. She earned a BS in Psychology from Indiana University in Bloomington and an MBA from the University of Southern California.

Panelist Biographies (cont'd)

James E. McCurdy, CCP, GRP, Senior Compensation Analyst, Boeing: Jim is a member of the Employee Compensation Group at Boeing World Headquarters. He has enterprise responsibility for compensation practices and supports base pay management, variable compensation and job analysis. Previously, he worked for Allied Stores and the U.S. Government in compensation and personnel management. He has more than 35 years of compensation and HR experience. Jim holds an MBA (City Univ.), MS in Management (Univ. of Northern Colorado), and a BA in Business Administration (Seattle Univ.). He and his wife, Sally, have raised 8 children and enjoy 9 grandchildren.