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LEADERSHIP IN MANUFACTURING

Making Incentive$ Pay

Regular reviews of reward programs ensure their worth.

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By *Joanne Sammer* For seven years, the gain-sharing plan at Ameristeel Corp.'s five steel mills has had impressive results, at one point spurring annual productivity improvements of an estimated 8% by focusing employees on keeping the mills running at full capacity to maximize production.

But things change and, thanks to worldwide overcapacity in steel production and declining prices, "some things have become more important to the company's success than just producing tons of steel," says Tim Malkiewicz, the company's director of compensation, based at corporate headquarters in Tampa, Fla. As a result, the gain-sharing plan, which pays out based largely on productivity gains, is outdated. Ameri-steel's future success will depend not on maxed-out production but on its ability to increase operating efficiency by, for example, cutting costs and waste, optimizing power usage, and reducing imperfections that require steel to be re-rolled.

To focus employees on the new levers of success, the company has begun to track and measure those aspects of the business accordingly. The next step will be to create a new incentive plan based on them.

By developing a new incentive plan, Ameristeel is avoiding one of the most common mistakes in incentive design-the never-ending plan. "A major pitfall is that companies implement an incentive plan then leave it," says Chris Ellis, a senior consultant with Sibson Consulting, a division of the Segal Co., in Raleigh, N.C. "Companies need to create a continuous improvement infrastructure by changing the plan as the business changes."

As it creates its new plan, Ameristeel should pay attention to the best practices employed to develop the successful programs at Waterloo Industries of Waterloo, Iowa, and Pharmacia Corp. of Peapack, N.J.

Employee Buy-In

Perhaps the most important element to the success of Waterloo Industries' plan is the extent to which it involved employees in the plan's design, communication and rollout. "Incentive plan design can be a point from which everyone can rally around performance and a way to align employee and management interests," says Glenn Dalton, a principal with compensation consulting firm The RKD Group in St. Louis.

When tool storage manufacturer Waterloo Industries developed its first incentive plan in 1998, it started by establishing plant-level design teams with hourly, salaried and management employees

within each manufacturing division. Once the incentive plan was up and running, the company formed continuous-improvement teams in each manufacturing facility to identify the measures for the plan each year. This helped ensure two things: Line managers and employees would support the plan because it is designed and administered by their peers; and because measures are set at the facility level, they are closely tied to the actual work and how it is being done in that specific facility. At the same time, facility-level measures are established using guidelines developed at company headquarters, so the local measures also are closely linked to overall company performance goals. This close linkage at the division and facility level is particularly important because the company has to achieve certain company-wide profit and working capital efficiency goals before the incentives kick in.

So far, this approach has worked well. Since the incentive plan's implementation, the company has saved more than $4 million in production efficiencies and process improvements, while also reducing failure costs by more than 15%. "Associates expect to be involved in the business regardless of their position," says Dave Floyd, human resources manager for the company's Sedalia division in Missouri. "Waterloo recognized that to sustain and improve long-term growth, a connection must be made so that associates are more than ceremoniously a part of our company."

Line Of Sight

Ensuring that employees can see a direct correlation among their work, achieving their goals and their flexible compensation is critical also. This isn't as easy as it may sound.

Four years ago, Pharmacia Corp. ranked last among pharmaceutical companies in total shareholder return. As part of its plan to improve that ranking, the company wanted to tie pay to overall corporate performance, specifically earnings per share (EPS) and sales, two measures that usually are not thought to be within the control of production employees.

Not surprisingly, the company has spent considerable effort and time finding ways to facilitate the translation of these high-level measures into annual individual and team objectives that are relevant to all employees. As such, an employee's incentives are based on metrics that track reliability, safety, quality improvement and regulatory compliance. In the pharmaceutical industry, compliance deviations, even at the operator level, can result in penalty assessments in the millions of dollars. "When our production operators achieve their individual and team objectives, they are directly contributing to our company's ability to achieve its broader EPS and sales objectives," says Roosevelt Clark, a Pharmacia senior director. So far, this approach has worked. The company has continually improved shareholder returns and the incentive plan has paid out rewards of more than 100% of target over the past two years.

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