



Quality-Based Incentive Programs

Benchmarking Incentive Programs

- Telephone survey of 9 modular manufacturers



Benchmarking Incentive Programs

- Telephone survey of 3 HUD Code manufacturers



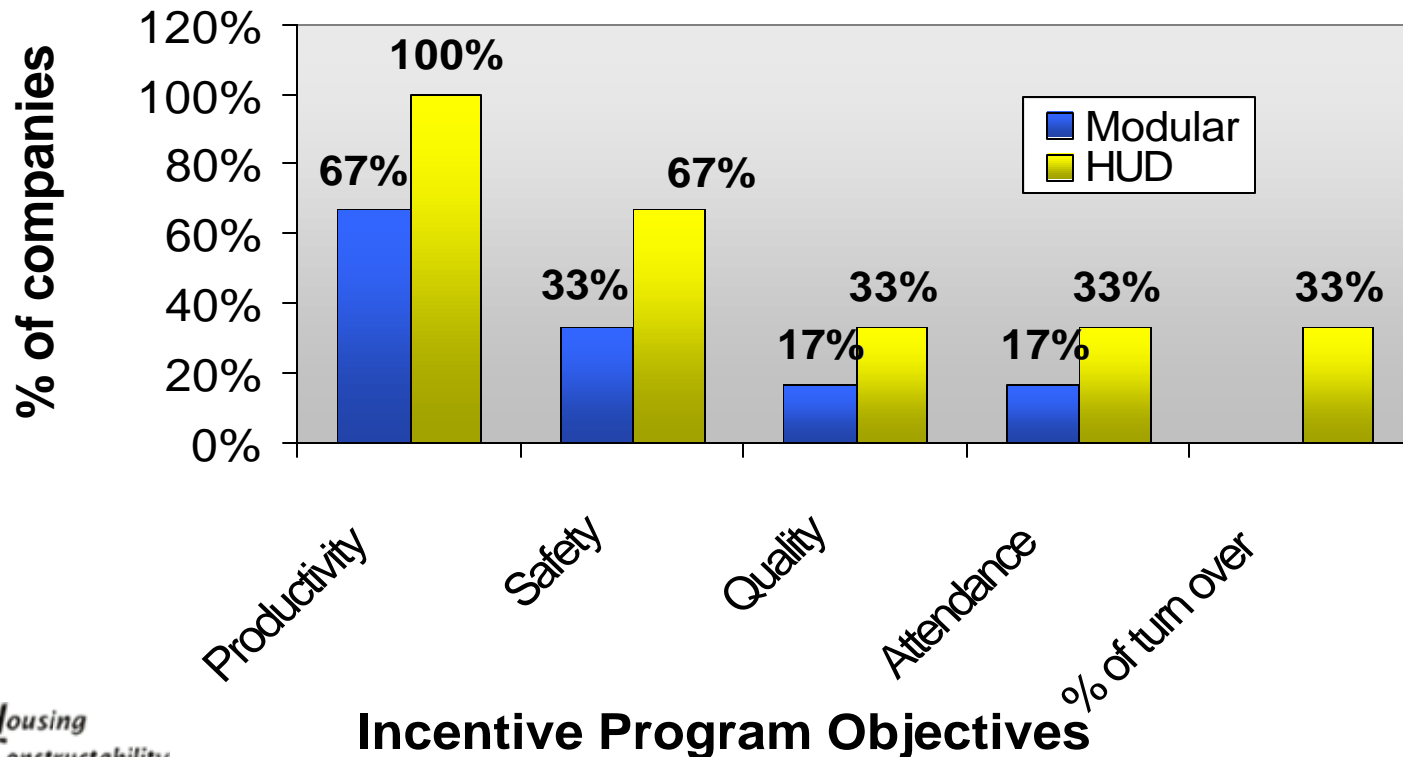
Clayton Homes



Benchmarking Results

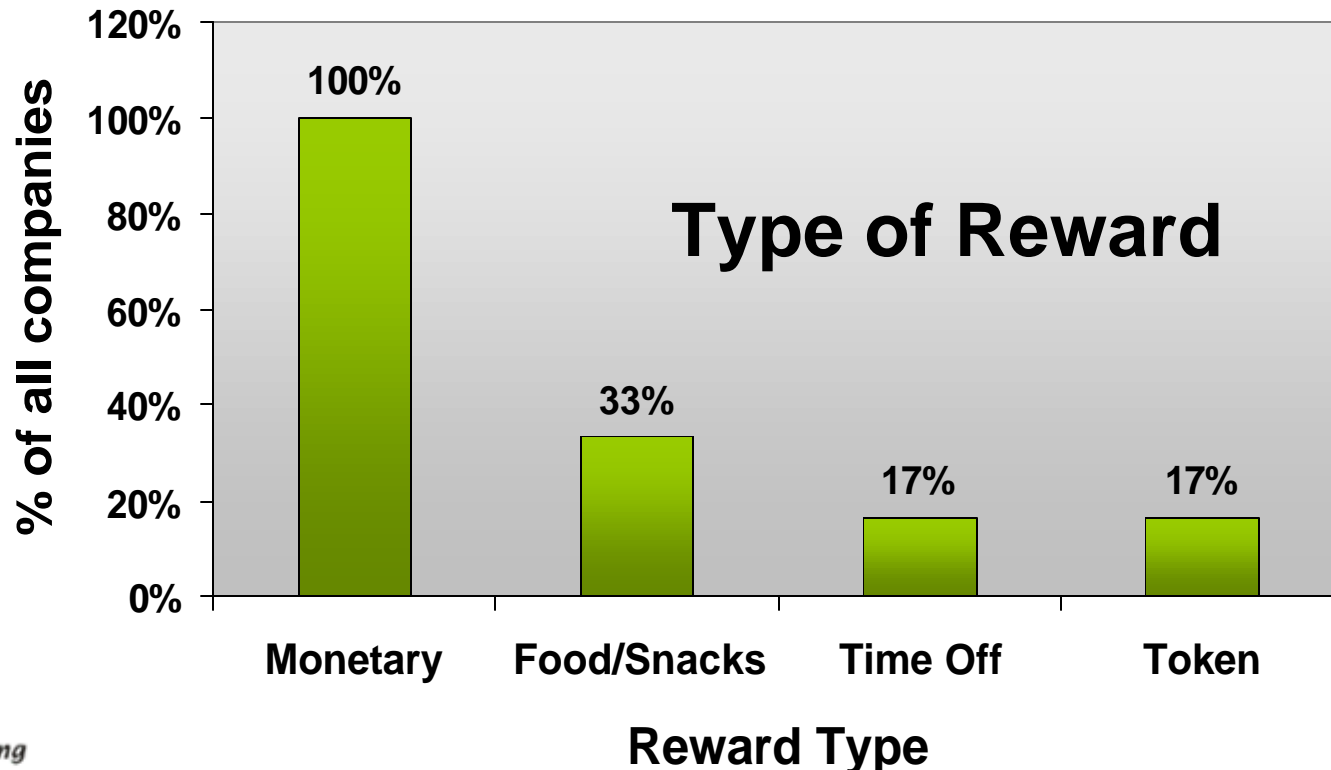
Do you have an incentive program?

Modular Manufacturers



Benchmarking Results: Modulars

- Level of evaluation
 - Plant – Productivity, Quality & Safety
 - Dept./Team - Productivity
 - Individual – Attendance



Benchmarking: Key Findings

- Management likes concept of rewarding performance
- *But no-one is satisfied with current program:*
 - Some employees do not link performance to reward
 - Employees view some targets as unattainable
 - Program success depends on stability of workforce
 - Employee satisfaction with the program not measured

Incentives Can Be Effective

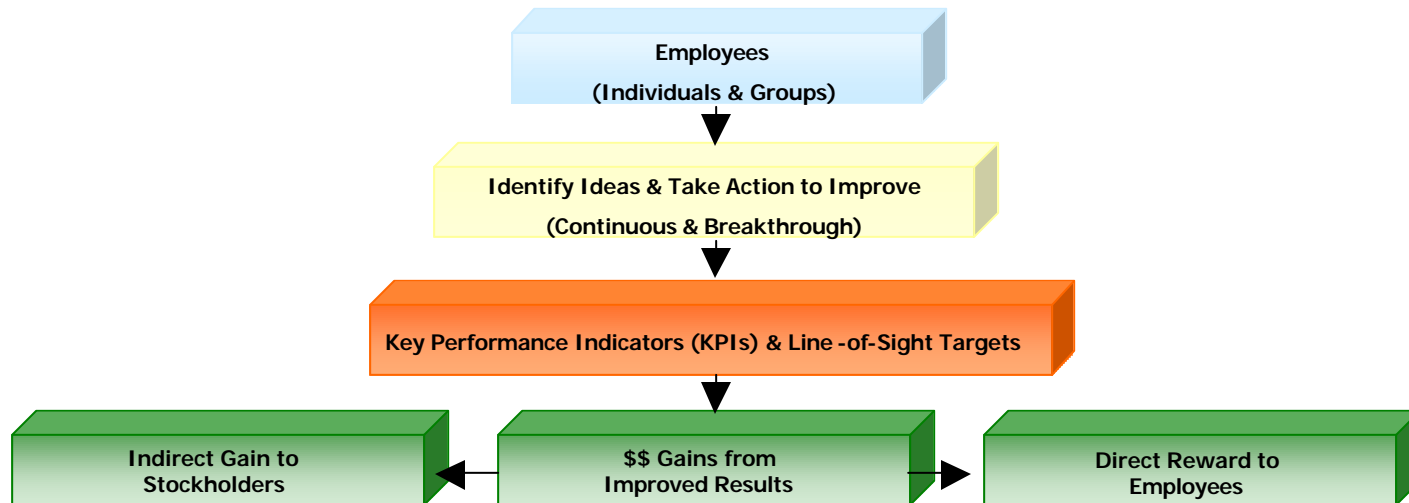
- 2000 Malcolm Baldrige National Quality Award



- All winners use incentives
 - 2 use monetary rewards (bonus, stocks, profit sharing)
 - All use non-monetary (lunches, time-off, tuition reimbursement)
- Results
 - Reduce lost time accidents
 - Reduce operating cost
 - Reduce turnover

Gainsharing

- Organization-wide rewards system
- Gainsharing driving forces:
 - Capture employee ideas
 - Improve operating performance
 - Establish stronger link between business performance and pay
- Gainsharing Basic Concept (Bovino)



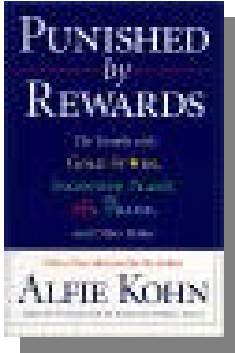


Gainsharing

- Bovino's 90-10 Implementation Rule
 - 90% focus on leadership's resources - communication, training, systems improvements
 - 10% focus on design - plan features and pay models
- Bovino clients typically share 30% to 40% of gains with employees

Opposing View

- Alfie Kohn “Pay well, fairly & take their minds from money”



- Incentives work as punishments
- Employees focus on rewards and not on jobs
- Intrinsic motivation better than extrinsic motivation
- Financial incentives effective when tasks are mindlessly simple

- Robert Rodin



- Don't manage by objective
- Create a system that will reward
 - Employee's initiatives (individual and teamwork)
 - Share knowledge
- Global Sharing

Fundamental Principles: Philosophy & Motivation

- Underlying Philosophy

**Share fruits
of success**

**~~Pay for
Results~~**

- Nurture intrinsic motivation

- Equip individuals – training & encouragement
- Establish & equip improvement teams
 - Within & between departments
 - Focus on continuous improvement
 - Training in team problem solving

Fundamental Principles: Program Structure

Metric

- Metrics
 - Aligned with company goals – linked to quality
 - Within employee line of sight

Award

- Awards
 - Broad to accommodate unique employee values (monetary & non-monetary)
 - Monetary awards more effective for simple, less creative activities

Level

- Level of evaluation
 - Encourage teamwork

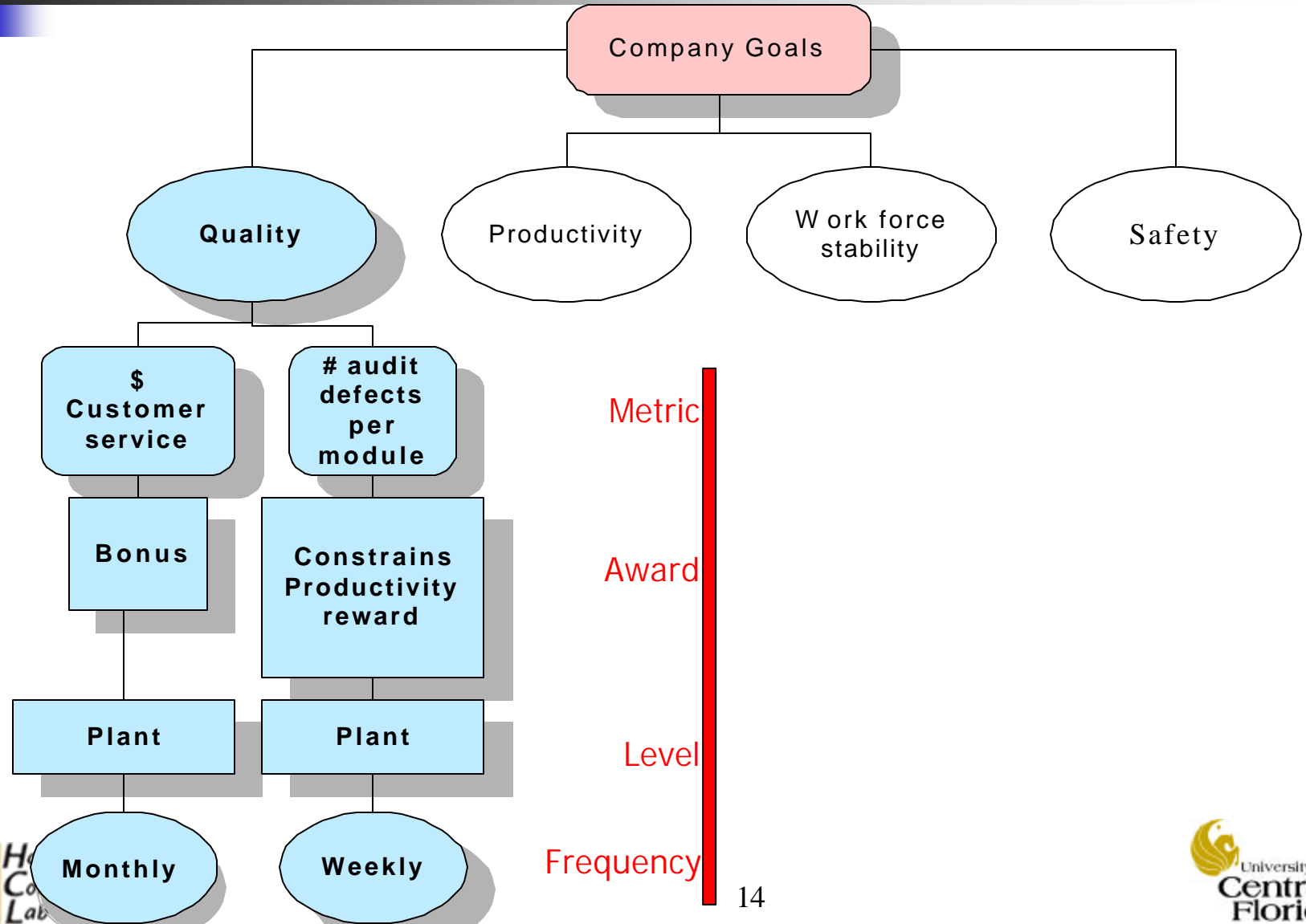
Frequency

- Frequency of award
 - Combination of short, medium and long term

Applying Principles: Objectives



Applying Principles: Program Structure





Award Method: Customer Service

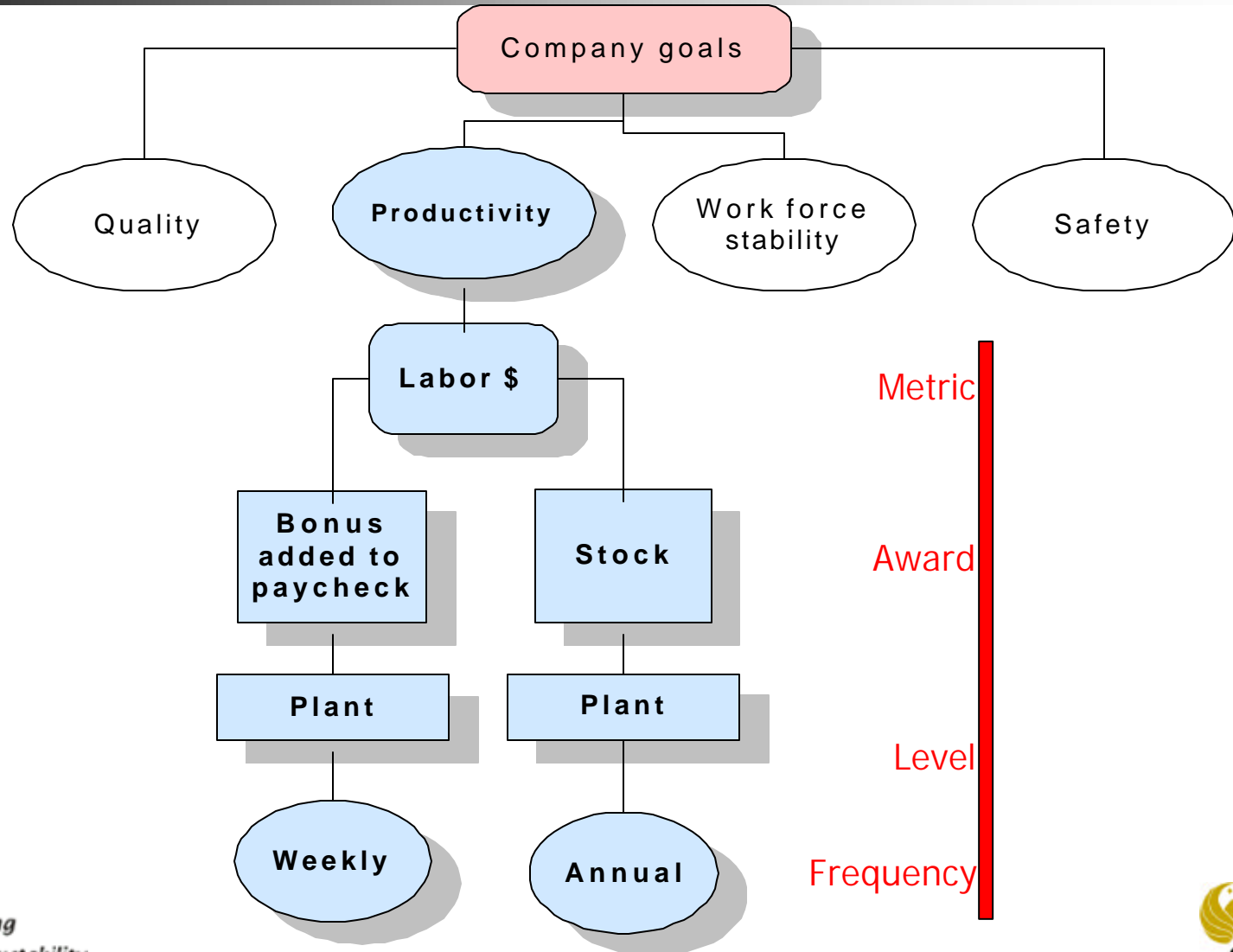
- Total cost savings (\$)
 - $\text{Threshold service \$} - \text{Actual service \$}$
- GroupShare share (%)
- GroupShare pool
 - $\text{Total cost savings} \times \text{GroupShare share}$
- Individual GroupShare award
 - $\text{GroupShare pool} / \# \text{ eligible employees}$



Award Method: Quality Audit

- Audit
 - Audit quality of finished modules – randomly sampled
 - Use check list of key quality characteristics
 - Rotate among all employees – including mgmt.
 - Maintain results on quality database & use to drive continuous improvement
- Make GroupShare productivity award only when quality (average defects per module) exceeds threshold

Applying Principles: Program Structure



Award Method: Weekly Productivity

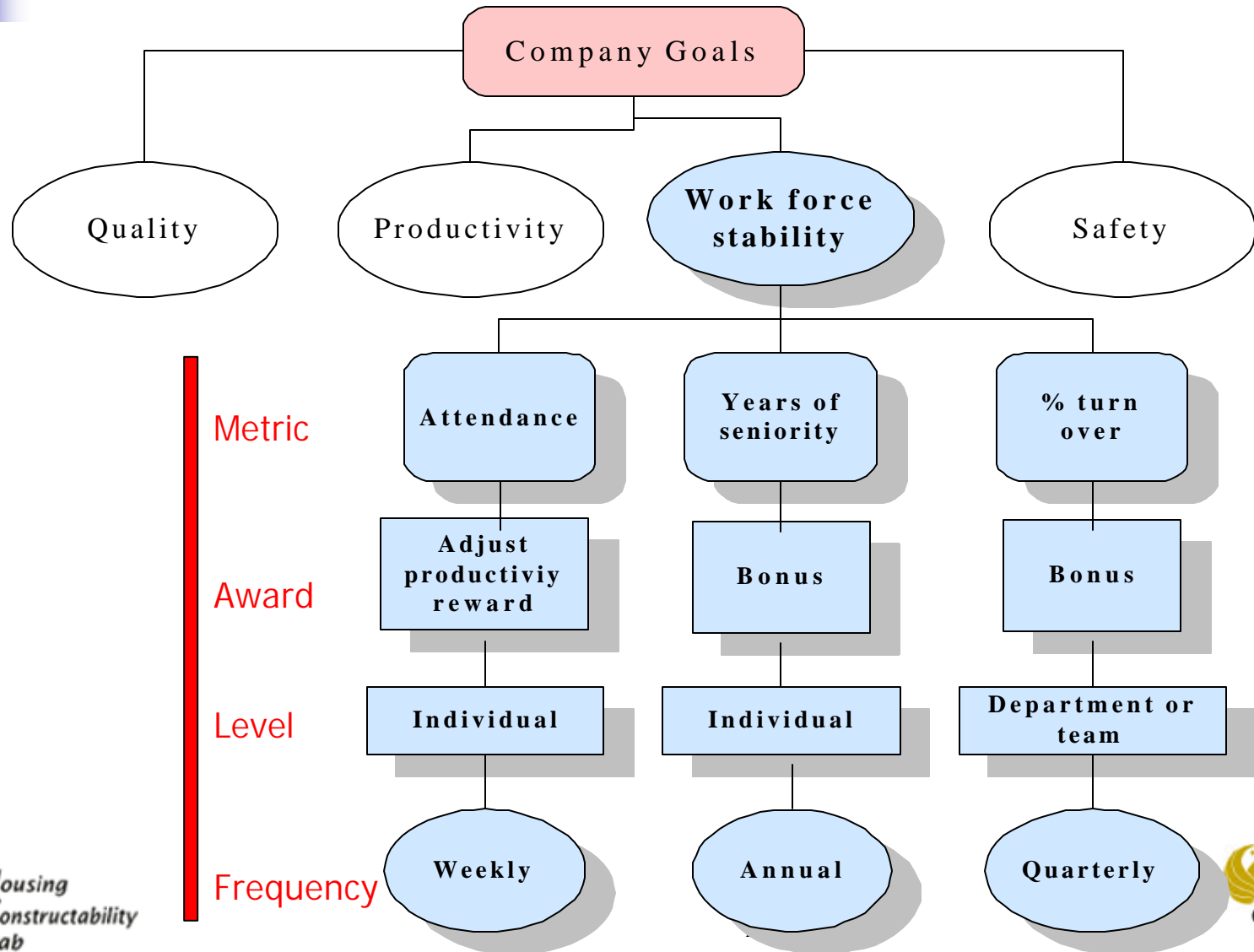
- Set weekly production target - \$, ft², modules
- Estimate labor cost for week
 - Using labor modeling software based on specific orders, or
 - Using historical data w/ sales \$ adjustment
- Total labor savings (\$)
 - Threshold labor \$ - Actual labor \$
- GroupShare share (%)
- GroupShare pool
 - Total labor savings X GroupShare share
- Individual GroupShare Award
 - GroupShare pool / # eligible employees
- Calculated & paid weekly – only when quality threshold is exceeded



Award Method: Annual Productivity

- Same methodology as weekly productivity, except annual basis
- Award in company stock or retirement account

Applying Principles: Program Structure





Award Method: Attendance

Attendance will constrain productivity award

Attendance	Productivity
100%	100%
80%	80%
60%	60%
<59%	0



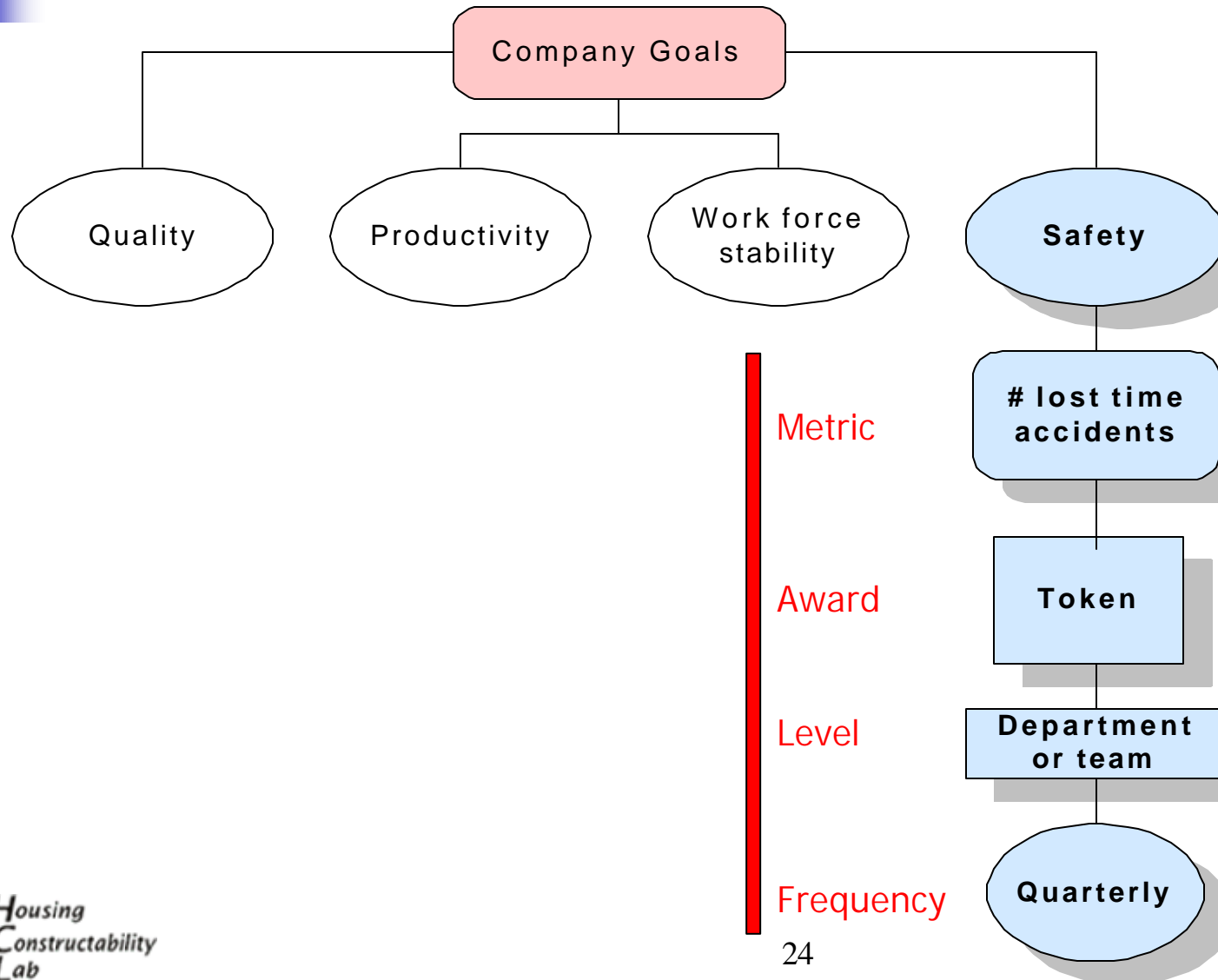
Award Method: Seniority

- Seniority savings (\$)
 - Threshold turnover X replacement cost per employee
- GroupShare share (%)
- Individual GroupShare Award
 - Seniority savings X GroupShare share

Award Method: Employee Turnover

- Total turnover savings (\$)
 - $(\text{Threshold turnover} - \text{actual turnover}) \times$
employees in department \times replacement cost per
employee
- GroupShare share (%)
- GroupShare pool
 - Total turnover savings \times GroupShare share
- Individual GroupShare Award
 - $\text{GroupShare pool} / \# \text{ eligible employees}$

Applying Principles: Program Structure





Award Method: Safety

- Threshold – 0 lost time accidents
- Awarded quarterly
- Token – gift certificate



Logistics

- Appoint program champion
- Create awareness & understanding
- Develop initial thresholds & simulate financial impacts
- Establish GroupShare team to craft awards
- Establish continuous improvement teams
- Hold periodic meetings to review progress & celebrate successes
- Revise thresholds periodically to reflect ongoing continuous improvement



Remaining Research Issues

- Develop labor models
- Develop pay system simulation to test award strategies
- Implementation testing of GroupShare