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Strategic Insight



Labor Management

## the secret to going "lean"

*Your lean initiatives will go nowhere unless you can motivate your workforce to eliminate waste and improve speed and flow.*

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If ever a buzzword has caught on with the business world, it's "lean." In the past few years, executives and managers have been eager to apply the basic principles of lean—the elimination of waste and the increase in speed and flow—to all of their processes, including distribution and logistics.

What they sometimes overlook, however, is that it's *people* who execute all of those processes. And if they don't apply the same lean principles to managing their workforce, managers are missing a huge opportunity. Labor and benefit costs represent the single largest operating expense for any DC. By taking steps to create a lean workforce—one that uses the fewest possible associates to handle the required throughput—managers can generate significant savings for any operation.

But how do you apply lean principles to labor management? Contrary to what you might think, it's not necessarily a matter of engineering work processes to the nth degree. Rather, it's about motivating people to take charge of their own performance and use their ingenuity to find ways to eliminate wasted time and motion.

Unlike, say, factories, where machines control much of the production process, distribution centers rely heavily on what we term "blue-collar decision making." Workers are left to make tens of thousands of minor decisions on their own each day: They create

pick paths, for example, and choose how many pallets to haul per trip. And they have significant influence over their own work output, typically calibrating their speed to ensure that they precisely hit (as distinct from exceeding) productivity and efficiency standards. The idea, therefore, is to give them incentives to abandon their old habits and devise ways to kick performance up a notch.

Motivating your workforce to achieve higher performance may not be easy, but it can be done. The key is to rethink your whole rewards system and make workers part of an entrepreneurial culture.

For many executives, this effort will require a radical shift in how they think about labor management. Most systems for managing an hourly workforce, lean or otherwise, do not view workers as capable of achieving major, self-directed productivity gains. What we are proposing flies in the face of that assumption. In fact, the steps laid out in this article are aimed at encouraging hourly workers to produce significant improvements by tapping their innate creativity

It's important to note that what we're advocating here is not another application of manufacturing's Lean Six Sigma concepts. Instead, we're talking about applying lean strategies to the often overlooked but important arena of labor. And these strategies are not just for DCs that already have lean initiatives in place. We believe that any DC can benefit from these practices.

### ***It's about time***

The first thing that managers have to understand is that they and their subordinates are likely to have radically different perceptions of the length of the workday. For the executives who fly from one meeting to the next while fielding a steady stream of voice-mail and e-mail messages, the hours typically pass by in a blur of activity. For the hourly workers who punch a time clock, however, the workday tends to drag on in unrelenting tedium.

Why the disparity? It's largely a matter of motivation. Time speeds by for you because you understand that the more you accomplish, the more successful (and prosperous) you'll become. Your workers, on the other hand, probably have little—if any—incentive to exert themselves. Whether they push themselves to the limits of their capacity or do just enough to get by, the rewards are the same.

The result is oftentimes unmotivated—or even disengaged—workers. A survey published in the January 2002 issue of the Gallup Organization's *Gallup Management Journal* demonstrated the extent of the problem: 75 percent of the workers surveyed said they knew they could be significantly more effective at work, 50 percent admitted they were doing just enough to get by, and 19 percent reported that they were actively disengaged. That's costing their employers a lot of money. Estimates from the Gallup Organization put the losses incurred by U.S. businesses at somewhere around \$300 billion a year.

So how do we bring a sense of exhilaration and motivation to the hourly workforce? One way is to treat every member of our workforce as an entrepreneur. In other words, offer them the same kinds of incentives for outstanding performance that managers enjoy.

The idea of tying earnings to performance is hardly a new one. There are several established incentive programs based on that idea, including piece-rate, profit sharing, and gain-sharing plans. While all of these programs have had some degree of success, they do not appear to be "lean-inducing." The reason? Most incentive programs do not increase pay as performance increases. In other words, there's no incentive for continuous improvement; they all lack that crucial element that motivates employees to continue to seek out ways to eliminate waste and increase speed and flow.

In order to drive lean behavior, a pay-for-performance plan must be structured so that productivity increases always result in higher pay (see Exhibit 1). Incentive bonuses should not be paid out as an annual lump sum; instead, they should be structured as temporary hourly raises where performance in one week or month results in a commensurate hourly pay increase in the next week or month. By re-setting a worker's pay each period based on his or her performance in the last period, you encourage associates to sustain and further improve their performance.

There are a couple of other things to keep in mind as well. For example, when setting up a pay-for-performance program, design incentives for the individual worker, not for groups or teams. If that's not possible and you have to work with teams, at least make sure the teams are small.

By motivating associates to be more productive, you're also encouraging them to work "lean." When associates are as passionate about productivity improvements as their managers are, they'll come up with many ways to eliminate waste in their daily routines. Furthermore, the productivity gains will automatically result in faster distribution center throughput. As workers become more productive over time, it will take a significantly smaller workforce to handle the existing volume. The downsizing can be readily accomplished through normal attrition.

### ***The free-money police***

Working out the details of a pay-for-performance plan may not be the hard part, however. The toughest challenge often lies in getting everybody on board—particularly the company accountants. If there's one thing accountants live in fear of, it's the prospect of handing out free money. As the "free-money police" see it, everyone in the organization is constantly angling to get money for nothing, and it's their job to prevent it. As a result, they're predisposed to view pay-for-performance plans with suspicion and do their best to kill them.

To get the finance and accounting people on board, engage them in the plan from the outset. Enlist the help of your accountants, comptroller, and CFO in working out the details.

Although some may find it hard to believe, we have found that it is possible to devise a plan that will satisfy even the strictest of the free-money police. They usually buy into our favorite payout formula, which calls for a two-thirds/one-third split (where two-thirds of the money saved through increased productivity goes to the company and one-third goes to the associate). This formula usually appeases the accountants, while still providing enough of a carrot to motivate your workforce.

We also suggest having someone from accounting (or someone designated by accounting) tabulate all the results and approve the monthly payouts. The bottom line is to make sure you keep the financial people involved throughout the design and implementation process so that they will be comfortable with the plan.

For the same reasons, we recommend that you keep your human resources people involved. Incentive programs typically fall under the HR department's purview, and these specialists may be able to offer solid advice. But more importantly, their endorsement (which you'll secure by enlisting their help in designing the plan) will facilitate the corporation's acceptance of the new program.

### ***Anoint and appoint***

Although companies rarely have much trouble reaching a consensus on how to make their processes lean, it's often a different story when it comes to people management and incentive plans. In a typical organization, you're likely to find a wide assortment of disparate—and often strongly held—opinions on the subject. Each and every one of us believes we possess unmatched insight into what motivates other human beings. We simply ask ourselves "What would motivate me?" and then project the answer onto the entire group.

That can be dangerous for a couple of reasons. Not only might it prevent the group from reaching agreement on the plan, but it also tends to invite tinkering. As soon as they see the final product, people often start dissecting the plan and obsessing over the details: Would it motivate us? If not, it's in error and we'd better take care of the problem. This helps explain why many incentive plans die the death of a thousand cuts.

How can you keep that from happening? We recommend the "anoint and appoint" approach—that is, having the CEO anoint the plan and then appoint a high-ranking plan administrator to oversee it. The administrator's job is to ensure that all incentives are applied fairly and equitably, and to prevent unauthorized changes. He or she can do this by decreeing to all business units that any and all changes need to be approved by the plan administrator's office.

Also, to assure companywide adherence, the plan administrator should conduct semi-annual or annual audits. This typically means drawing up a checklist of audit points, then visiting each facility to conduct informal interviews with managers, supervisors, and hourly participants. Deviations can be corrected on site.

### ***A shift in thinking***

Clearly, none of this can be accomplished without a shift in managerial thinking. Rather than merely examining a facility's processes for ways to streamline performance, managers must ask themselves how they can motivate workers to abandon old habits, come up with process improvements, put those ideas into practice, and build upon their successes.

There are millions to be made from a company's existing assets, millions of dollars embedded within daily operations. The secret to unlocking those funds is to make your employees as passionate about profits as you are. When you do, they will transform themselves into a lean workforce. They will "lean" themselves by refining and improving upon the thousands of decisions they make each day. And this is our favorite lean process of all.

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