VARIABLE PAY IN A HIGH PERFORMANCE WORK SYSTEM

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Introduction

Variable pay (with a substantial underpinning of competitive base pay) has its greatest meaning and value when linked to the development of an "active" workplace culture. However, variable pay in itself is insufficient to support such a culture. The potential benefits of variable pay are most likely to be realized when it is an integral part of a total work system of inter-connected "design elements".

To illustrate this synergistic effect of variable pay in *reinforcing* and *being reinforced* by other elements of an integrated "work system", extensive reference will be made in this paper to the experience of L-S Electro-Galvanizing Company (L-SE) and the United Steelworkers of America Local 9126 in Cleveland, Ohio. For over ten years, this company and union have achieved extraordinary levels of performance supported by a work system that includes multiple forms of variable pay.[1]

The Goal - An Active Work Culture

In the midst of the old and mammoth LTV Steel Works in Cleveland, Ohio, the parent company, LTV Steel created in 1986 a new dimension of the steel-making business. Inside a converted steel-mill building, there is now a $135 million, 885 ft.-long galvanizing line that electro-plates zinc coating onto cold-rolled steel to make it corrosion-resistant.

The new L-S Electro-Galvanizing Co. (L-SE) was created as the result of a reaction by the steel industry to the automotive industry's announced intention to expand the use of coated steel in the manufacture of auto body parts (doors, hoods, fenders, etc.) There did exist a "hot-dip" technology for coating steel, but this did not provide a sufficiently smooth surface for painting, nor adequate protection from corrosion. The American steel industry faced the prospect that, if the right coated steel was not available from a domestic supplier, it would be acquired from wherever it could be found.

The management principals in the early stages of creating L-SE had a vision of sorts as to how to maximize the chances for a success story in a industry that was sadly lacking such stories, especially in the 1980's.

The concept centered around the notion that putting zinc on steel would eventually be perfected at all new North American plants as they refined and debugged their technology. The challenge for any new venture would be that of continuing to please customers with other ingredients of a successful business - quality and service. In order to maximize all the essential elements, the performance of people would be paramount.

"For us to have successful quality implementation, we needed a significantly high level involvement of the total workforce. The new work system in L-SE is designed specifically to provide worker involvement and worker input."

-Frank Altimore,Vice-President - Joint Ventures, LTV Steel

"Technology alone does not make excellence and a quality product. It is people."

-Don Vernon, General Manager, L-SE

In their 1983 labour contract, LTV Steel and the United Steelworkers of America had established in other LTV operations a new practice called "Labor Management Participation Teams" (LMPT's). In 1984, the headquarters of the Steelworkers viewed the development of L-SE as an opportunity to extend these new labour-management practices.

"A lot of us were thinking of total change--not just empowering workers to make decisions on continuous improvement projects--but to make total decisions on everything that happens on the plant floor, without supervision."

-Sam Camens, Former. Exec.Assistant to President, United Steelworkers of America

Labour and management, (for different reasons) had the same end in mind, a workplace where behaviour and beliefs were to be significantly different than the norm. Certainly, both parties did not want to create the all-too-common culture of alienation. Furthermore, their ambitions far exceeded what many regard as the ideal, a workplace with minimal strife, reliable production, and where people "get along".

LTV and the Steelworkers wanted a workplace where people have significant "input" and "involvement", "make total decisions", and contribute to "excellence" and "quality" production. This is a culture where people are expected to be ACTIVE participants.[2]

How to achieve such a culture was a central question for the parties as they negotiated their first Labour Agreement that has maintained variable pay as a significant part of compensation through 5 contract negotiations.

FIGURE 1: **WORK CULTURE** - Typology of Predominant Behaviour

ALIENATED	**PASSIVE**	**ACTIVE**
AVOID RESPONSIBILITY	RELIABLE BUT DEPENDENT	***TAKE INITIATIVE***
SUSPICIOUS OF CHANGE	COMPLIANT	***INNOVATIVE***
ADVERSARIAL WIN-LOSE RELATIONS	NEUTRAL COMPROMISING	***CREATIVE PROBLEM SOLVING***

In their negotiations and the subsequent approach to the start-up of L-SE, LTV and the Steelworkers applied implicitly the simple formulation of the social scientist, Kurt Lewin, that behaviour is a function of individuals interacting with their environment, **B = f (I, E)**.[3]

"I" represents the individual and the qualities of individual make-up that influence the behavioural equation. These qualities are an individual's attitudes, beliefs, skills, knowledge, and last but not least, personality.

The initial L-SE recruitment process placed emphasis on selection of management personnel with an ability to influence and an openness to *be influenced*. Similarly, initial screening of bargaining unit employees via aptitude testing conducted by the Ohio Bureau of Employment Services emphasized a worker's ability and desire to *learn*.

"E" represents the environment (i.e. work organization), the procedures, technology, structure, information, control, and reward mechanisms. Ideally, it is developed as a "work system", with all the elements aligned.

Work organization is usually the dimension offering the greatest range of choice. This is where LTV and the Steelworkers have consistently been innovative. Part of the start-up organization was spelled out or implied in the Labour Agreement. Other parts of the organizational design were done by the entire start-up workforce. The remaining "work system" design has been a continuous work-in-progress by L-SE's many labour-management committees to achieve a "high performance" organization.[4]

Core of the "Work System" - Job Structures

"In the very beginning, with our management force on board, we went through an exercise to determine what people wanted from their jobs....We called those Individual Needs / Goals....We put that sheet of paper developed by the management folks in the drawer.

"When the workforce came on board, we did the same thing with that group of people. Then we pulled the management sheet out of the drawer. The two lists of Individual Needs / Goals were almost identical. From that common realization of what we wanted from our job, we started to develop the concept of how our company would function."

-Don Vernon, General Manager, L-SE

"What we set up as a group early on, maybe you want to consider utopia. We may never get there, but we're always going to be working to try and achieve that...

"We wanted people to have the 'say-so' in what they were going to do on a daily basis...We wanted to make it a safer, cleaner environment than what we had--one that was more family-oriented..."

-Tom Zidek, President, USWA Local 9126

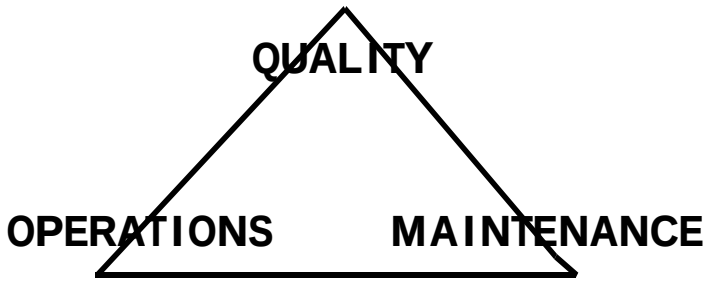
Guided by the framework of Individual Needs and Organizational Givens, the original employees and managers designed the most critical part of the "work system", namely, the job structure of responsibilities and manning to operate and maintain the galvanizing line. This organizational design work occurred during the period from hiring in August 1985 until April 1986 when L-SE started-up. Start-up was extremely successful and exceeded comparable Japanese performance with such technology.

There are now 70 workers on five crews. Each crew of 14 workers determines their own Rotation among 9 work stations. The rotation includes a mix of complex operating functions along with more routine warehouse / packaging tasks, plus various ongoing maintenance functions.

"That understanding of the entire process is very important. I've trained on all the operating jobs. The fact that we know about the process when we run into a problem, we can all help trouble-shoot it from our own experiences. Where if I was only trained in one area, something that goes on the other end of the line, I couldn't be help to anyone. I think it's important that we all know the process."

-Diane Scott, Process Technician, USWA / L-SE

FIGURE 2: JOB STRUCTURE - PROCESS TECHNICIAN



A key work function that is rotated and shared among workers is the Inspection Function. (There is no “Inspector” as such, at L-SE). This is a major departure from the traditional steel industry, where there is a strict managerial authority over quality control. At L-SE, everyone is responsible for quality control.

Perhaps, the most dramatic change in work roles is the way the Maintenance responsibilities are integrated with Operating functions. Each member of a shift crew has received training to do general preventive maintenance.

As well, there are 2 assignments on each crew, which are rotated and shared by all persons having received advanced electrical or mechanical training. The benefits of this work structure are evident in the immediate response to maintenance problems, and the increasing ability of the L-SE workforce to do complicated re-build maintenance during planned maintenance outages.

Consistent with the expectations for the job structure of hourly-paid Steelworkers is the unique, front-line management role of the (out-of-scope/exempt) Process Coordinator (PC) assigned to each shift. This job is still part of the core, front-line work, but it is fundamentally different from that of a traditional "supervisor". The PC has no "personnel" tasks. He does no disciplining, nor any hiring. Workers keep track of their own work-hours and overtime, do their own scheduling, and plan their training.

The particular contribution made by the PC is to ensure (at each pre-shift Face Meeting) that all the crew's resources (operating-maintenance-inspection) are fully deployed. The PC is available, on call, to support trouble-shooting during the shift. However, most of the time, as "the 15th member of the crew", Process Coordinators lead work process improvement activities, and ensure effective coordination between production, engineering, sales and marketing.

"The PC provides support. Rather than be the boss, he's there to help you out if you have a problem."

- D. J. Hudson, Process Technician, USWA / L-SE

Nevertheless, it is clear who carries accountability for the core work, and who reports in on behalf of the crew at the morning production meeting.

"Accountability for results lie with me. Ultimately, I answer for what my crew did."

- Rich Blasens, Process Coordinator, L-SE

However, at L-SE, the Process Coordinators are expected to exercise their accountability by developing the ability of workers to make decisions.

"If someone knows at least as much as I do, I don't jump in, trouble-shoot it, and do their job for them. If I know how to trouble-shoot it, and they don't, they can help me work on it, so that next time, they will know how to handle it themselves.

"Training is constant here. It is the overwhelming responsibility of this job.
I spend a lot of my time each day trying to show somebody something...
Other people show me things. It's really an atmosphere where we share training. We share knowledge."

- John Griffin, Process Coordinator, L-SE

In sum, L-SE's core work structure creates the *space* for each hourly-paid worker to be multi-functional, in operating-maintenance-quality functions. As a whole crew, workers are enabled to "run" the galvanizing line semi-autonomously, with maximum response capability.

Pay For Skills

What encourages people to develop their skills to fulfill this multi-functional job structure is L-SE's "Pay & Progression Plan".

"Pay-for-skills promotes people wanting to learn—continuously! And, it encompasses more than just equipment training. There are Integrated Process Control skills, statistical skills, and people skills."

-Don Vernon, General Manager, L-SE

"There's not a lot of competition between workers. We don't have to wait for seniority to move up on a job. It's a pay as you go system, pay for knowledge system. Once you check-off in an area, you make that rate. There's nobody competing for my job because I make a better rate. Also, on the other hand, people who know more are willing to give you that information because you're not going to take their pay rate away from them. That makes it a lot easier."

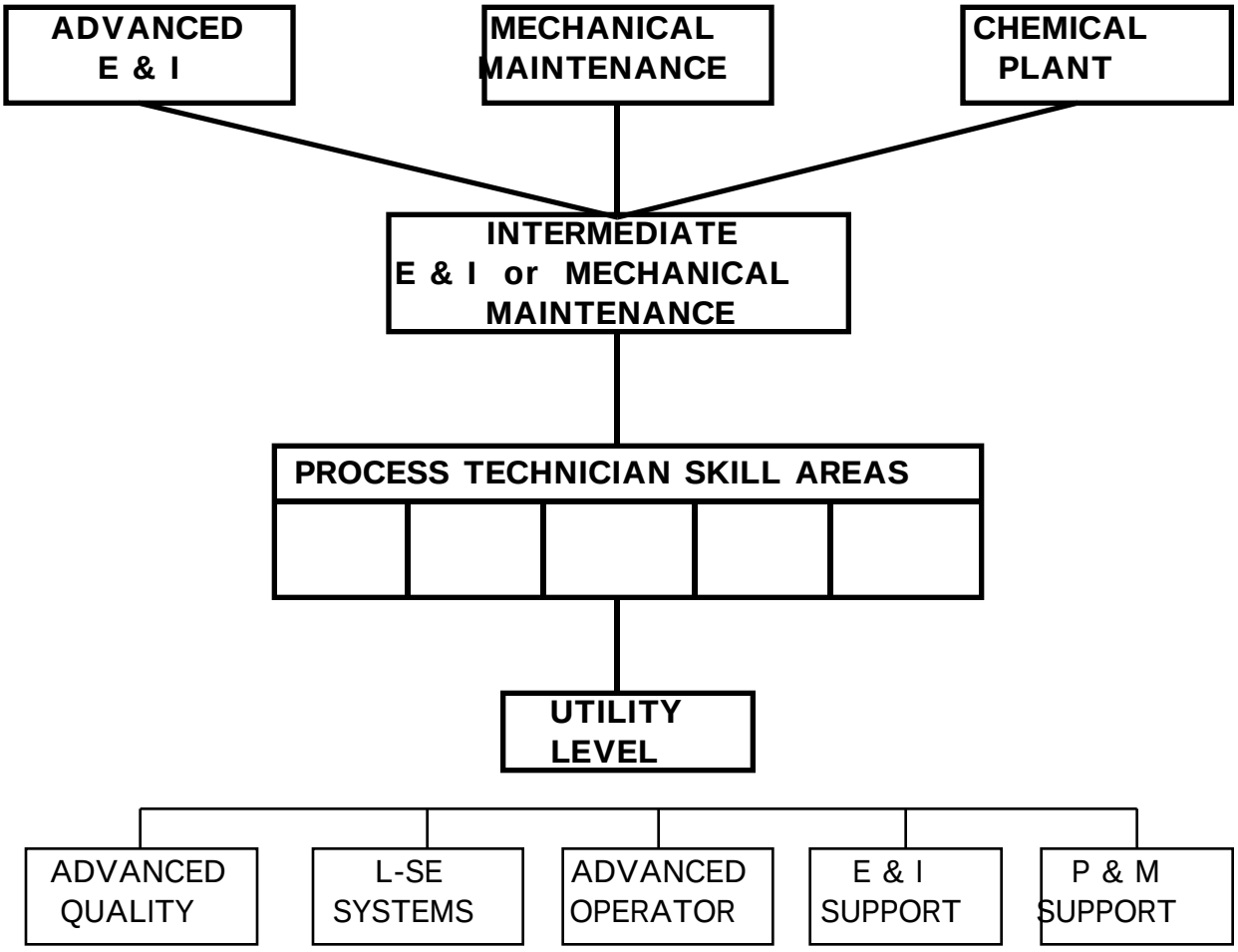
-Diane Scott, Process Technician, USWA / L-SE

"To get promoted here, you don't have to wait for someone to retire or get sick. You can progress yourself through the system pretty much at your own rate, which also increases your pay."

-Wes Humphreys, Process Technician,Vice-President, USWA Local 9126

People's learning and advancement is within the control of each individual. One's "Pay and Progression" build upon 4 major skill levels (Fig. 3).

FIGURE 3: PAY AND PROGRESSION CHART



I. Utility level skills

For a person that's first hired, (s)he has to go through a six month probationary period at the "Entry" level of pay. During this period, the employee does mostly the utility jobs--packaging the coils, operating a crane, loading the trucks, unloading the trucks. At the end of the probationary period, the new employee is expected to demonstrate the skills that are listed on a Utility position checklist.

II. Process Technician skills

The Process Technician level is divided into 5 operational skill areas: **Entry Section, Process Section, Inspection, Delivery and Chemical Plant.** Each of the 5 Process Technician areas has a corresponding checklist which must be passed prior to receiving a salary increase equal to 20% of the Fully Qualified Process Technician salary.

After completion of any 2 Technician skill areas, an employee is eligible to train and receive wage increases for Intermediate level skills.

III. Intermediate skills:

At this level, employees choose a particular Maintenance skill track—either **Process and Mechanical,** or **Electronic and Instrumentation.** Each track has a series of **minor, medium, and major** tasks to be mastered. The plant's mechanical or electric engineers check-off each candidate's progress. Each check-off yields a particular increase in pay.

Once an employee has been checked-off on 80% of the Intermediate skills they are eligible to pursue Advanced skills, up to 50% of the Advanced level monies available.

IV. Advanced skills:

Part (25%) of the advanced skills money is earned through participation in formal training within either one of the Maintenance task specialties, Mechanical or Electrical. Another portion (up to 40%) of the Advanced monies is earned through working 1200 hours in two of the Process Technician areas (Entry, Delivery, etc.).

During the early years of L-SE, the Advanced skill monies were tied almost exclusively to formal maintenance training. However, as more people became highly trained in maintenance tasks, it became clear that the organization needed to develop special operational expertise, as a balance to frequent job rotation. Hence, the recognition of extended experience in specific operational areas.

Pay for Advanced skills also supports L-SE's commitment to Continuous Improvement. Up to 20% of Advanced monies is available to employees for Systems Skills, where people have excelled in and continuously improved specific areas of the line (Leveler, Looping Tower, Welder, Bander, etc.).

Yet another interesting option at the Advanced level is recognition of Advanced Quality Skills, which involves assisting in and leading formal Inspection training classes. Each employee may choose among these options up to a maximum of 100% of Advanced level monies available.

Support Structure - Training, Information

The resources and methodologies to develop the skills of each individual to be an effective multi-functional worker at L-SE are built into the training program. L-SE workers are engaged in some form of training at least 2 days out of every month. This is the still the case, more than 10 years after start-up. Continuous training is established as a rewarding and necessary part of everyone's job.

What also facilitates training is a unique shift schedule. After having completed a weekend tour of 2 12-hour 'Nights', an L-SE worker goes on what is called a 'Flex' shift. During this 'Flex' shift, the remaining 16 hours of one's work week are devoted to coverage on day-shift for other workers doing training, or for one's own advanced training in some aspect of maintenance.
Among organizations that have introduced Pay-For-Skills programs, many have not provided the resources necessary for continuous and active training. This is a major reason why the credibility and effectiveness of variable pay in the form of Pay-For-Skills is often diminished.

Even in the case of L-SE which began with the promise of significantly increased training, the pressures of business almost jeopardized this concept. Workers accepted the fact that there would be little progression at start-up, but there was a lot of frustration when this situation extended for almost a year.

"This is when the union proved its worth."

-Sam Camens, Fmr. Exec.Assistant to President, USWA

The union forced the issue. Management relented and added a fifth crew to enable the volume of training required by the pay-for-skills program.

"We didn't recognize how much work would be involved and how much time would be involved in the training aspect of our company.

"Our investment in training is considered by many to be extremely high...Currently it's about 12% of our total wage costs.

"If I were to advise someone about the future, make sure you know what your training load is going to be and prepare yourself mentally and financially to do it. Once you commit to it, you certainly want to follow up and do it."

-Don Vernon, General Manager, L-SE

What fuels L-SE's whole approach to training and employee development is the openness of Information.

At the macro-level of the business, there are monthly Team Meetings of all workers and managers to review and respond to production and quality performance and plans. At the individual crew-level, 15 minutes before each shift change, the on-coming crew reviews a detailed plant status report. At the micro-level of the technology, the information system is designed to provide workers direct and immediate access to data about each element in the work process.

The micro-processor-based sensing devices which apply programmed instructions to equipment along the EG Line also convert action into data (that constitutes an electronic text of the EGL process). Workers use this information in all of their work activities. Computerized technology has thus been used at L-SE not only to automate operations--but also to "informate"!

An "informating" strategy implies a new form of worker participation, employing people's ability to think conceptually and apply scientific reasoning.

The elements of an "Informating Strategy" at the L-SE plant include:

- worker access to data (e.g. work station computer terminals);
- employee involvement in software development;
- theoretical and practical understanding of the total work process of manufacturing (e.g. education in electro-chemical processes)
- worker use of data for continuous improvement of work processes.

Within modern workplaces where automation increasingly replaces the physical labour of workers and also takes over many mental tasks, an informating strategy is key to maximizing the potential for people to make a difference.

"The people solving most of the problems are the people running the line."

- Dave Davis, Process Technician, USWA / L-SE

L-SE's "informating" strategy has developed a new generation of steelworker. (S)he has become a Knowledge-Worker.

Most workers appreciate the change. Gone is much (not all) of the dirty work. Gone is most (not all) of the physical fatigue. What does remain is the age-old curse of shift-work. What comes with the new role is more responsibility, albeit with more autonomy on-the-job.

"When somebody trusts you and trusts in your judgment to handle the job, that makes you feel a whole lot better about yourself."

-D.J. Hudson, Process Technician, USWA / L-SE

"We believe that the more the people know about what's going on, the more effective they can be in their decision-making towards meeting the goals of the organization."

-Cal Tinsley, Plant Manager, L-SE

Gain-Sharing

Information systems have been one key platform for L-SE's continuous development of organizational performance gain-sharing.

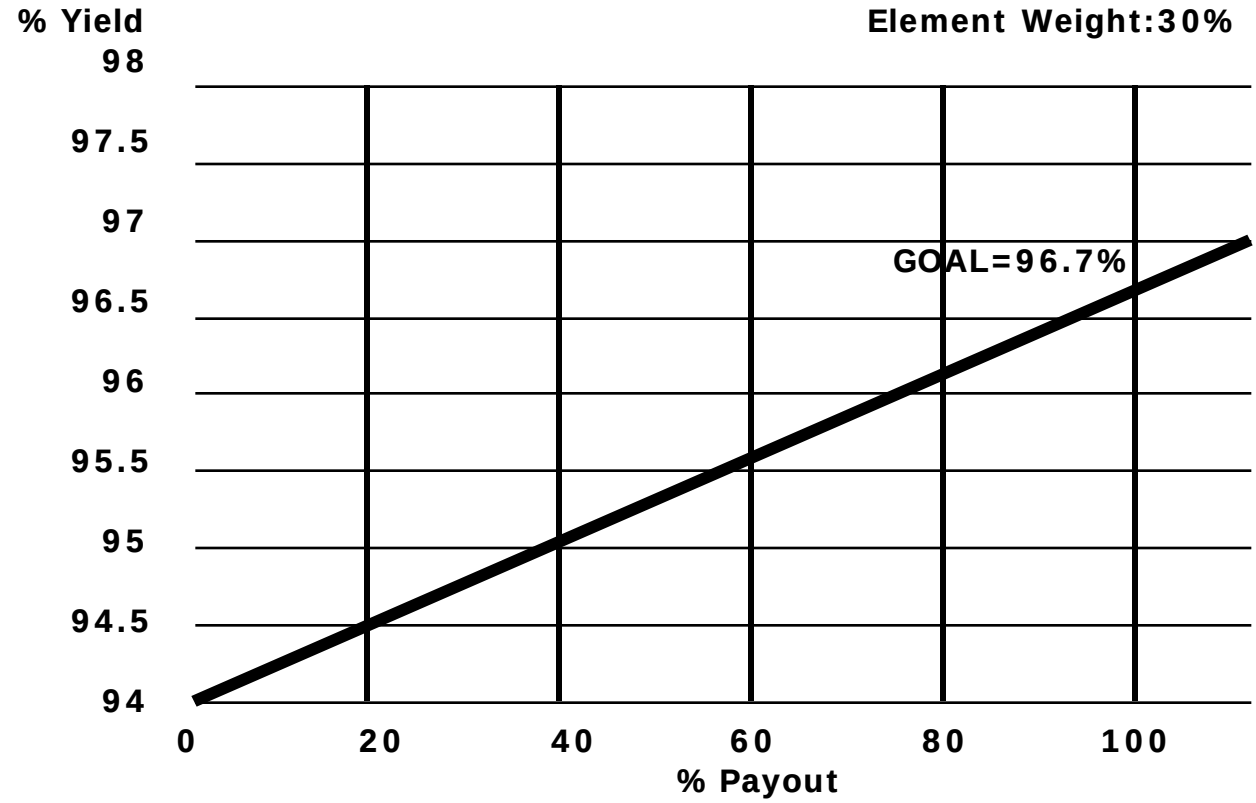
Employees qualify to earn a "bonus" up to a maximum payout that would be equivalent to 25% of their regular salary/wage. Payment is made semi-annually, and each May and November, a joint union-management committee determines the next period's targets/goals designed to reward employees as well as the company for achieving mutual gains.

For example, one of the agreed-upon targets in one 6-month period (1993) was to increase yield (i.e. percentage recovery of raw material in quality-accepted final product) from 94.5% to 96.7%. (This goal was established after a previous year's improvement from 93% to 94.5%.) The % payout would be determined by actual yield plotted on a Yield Curve (see Fig. 4). This element was also weighted, as a percentage of the total potential gain that included other performance goals like prime tons produced/hour.

(See Figure 4.)

FIGURE 4:

YIELD CURVE
for July through December 1993



The original L-SE/USWA collective agreement established the process for periodic "negotiation" of this particular form of variable pay. For over 10 years, this process has produced clear, challenging, and credible targets for genuine gain by both employees and the company. The plan has very evidently focused and energized employees' commitment.

"Gain-Sharing is important...Depending upon what percentage we meet on those goals, we get a percentage of extra pay.....It gives us something to shoot for.

"It's something we can control...That's why people invest so much in it."

- Ed Yonchak, Process Technician, USWA / L-SE

Part of the reason that the plan has validity and impact is the continuous employee and management involvement in the process--it is not formula-generated, but rather, people-generated. Part of the validity lies also in the relative simplicity and clarity of the financial "determinants". Another significant factor is the potential size of the payout which has regularly been 15% or more of each L-SE employee's total annual earnings. This is

considerably larger than the average annual payout of most North American gain-sharing plans, and certainly in the range that pay-for-performance advocates have recognized as "meaningful and stimulating" (while not being so large that income variations from one date of payment to another produce insecure income circumstances for employees).[5]

In 1994, employees received an additional, smaller element of variable pay, based upon a recent collective agreement that has since provided the potential for a Profit Sharing bonus, up to 5% of one's regular salary/wage (see Fig. 5).

FIGURE 5: **PROFIT ADDITIVE TABLE***

Profit of Company in $MM	Percentage of Wages Multiplier
12	5.0 (Max)
10	4.33
8	3.67
6	3.0
4	2.0
2	1.0
0	0

(Wages/Eligible Earnings include base salary of employee, plus overtime and gain sharing.)
* 1993 L-SE / USWA Labor Agreement, p.5

One example of how L-SE employees and management have strategically used gain-sharing to leverage key organizational outcomes is the extraordinarily successful development of a quality assurance program known within the company as "IPC" (Integrated Process Control).[6]

In the early days of IPC, one element of the gain-share was the percentage of employees who successfully completed their IPC training. In later years, gain-sharing targets became a function of employees' rate of compliance to IPC standards. Customarily, gain-sharing programs focus on output variables. At L-SE, in-process variables are often the focus. These are variables over which employees exercise the most control, especially in an environment like L-SE.

The IPC standards have essentially been developed by bargaining unit employees and the Process Coordinators, *supported* (not directed) by engineering staff and the Quality Control Manager. Much IPC development has occurred at workshops attended by each crew, on a voluntary basis, once every 5 weeks, before shift for approximately 3 hours.

What began as a vehicle for education and system design has become one of the primary avenues for employee participation in problem-solving quality issues. It has also remained an opportunity to share information about customer feedback or updates to process standards.

"The IPC workshops have helped us a lot. We talk about problems which customers are having....and it keeps you aware of what to look for on-the-job. It keeps everybody on the same path."

- Diane Scott, Process Technician, USWA / L-SE

The bigger phase of IPC is now customer satisfaction. The approach is proactive, rather than simply reactive.

"When we think we have a quality problem, we get it corrected right away. The old philosophy was if the company hasn't had a claim on its product, let it go,...kind of fester until the customer says, hey, we can't take this any more."

- Rich Harrell, Process Technician, USWA / L-SE

"We actively send employees to customers any time there's any problem whatsoever. We foster getting employees involved with our customers as well as with our suppliers in diagnostics. This is fed back into IPC to improve standards."

- Quentin Skrabec, Manager, Quality Control, L-SE

A wide array of employee teams and consultation processes have been formed to achieve excellence in the product:

-Supplier Continuous Improvement Teams have been set up with L-SE employees to address incoming quality and service.

-AD HOC Problem-Solving Teams handle customer concerns as they occur and actively address them with employee problem-solving teams. Teams are assembled on a volunteer basis and visits are made to the customer in need. The average life of a team may only be a few weeks, but problem resolution is the determinant.

-Customer Concern Team (CCT) is a set group of L-SE employees that has been formed to review and recommend corrective action based on monthly customer surveys. The CCT is usually organized in association with a specific L-SE customer, such as GM Lordstown.

"We help to identify cost savings, streamlining the process....
"One example is a time-saving step. If the customer gets a coil and he puts it into his machine the wrong way, it's a delay...so, he loses productivity. The simple change that we took care of here was just identifying which way the lap of the coil goes when we package it. We put an arrow on the coil showing them which way to load it. The time-saving factor paid off substantially."

- Mark Wirtz, Process Technician, USWA / L-SE

-Product Quality Coordinator (PQC) is an L-SE union employee assigned to visit each major customer monthly and review problems. The PQC's talk to both management and on-the-floor employees to maximize quality feedback. In many cases, the PQC serves on a joint Customer/L-SE continuous improvement team.

-Customer Surveys cover total satisfaction, service and packaging on a 0 to 10 scale. The Customer Concern Team summarizes and reviews this data monthly at a full team meeting. In addition, every employee gets a full package of each customer survey, to be reviewed at IPC workshops.

All of these efforts to understand and satisfy customers have increasingly been reinforced by gain-sharing. During recent years, a major element of the L-SE gain-share has been based upon improvements in customer satisfaction as measured by the regular customer surveys (see Fig. 6).

"You might look at that as paying for quality but it really isn't. Gain Sharing really pays in that employees own the system. They own the output. It fosters everybody....It's a team reward versus an individual reward. That's just reinforced in the paycheck."

- Quentin Skrabec, Manager, Quality Control, L-SE

At L-SE, quality assurance (IPC) is managed, designed, implemented and monitored by an employee committee, the IPC Committee, to which the Quality Control Manager, in an unconventional role is a valued resource rather than a decision-maker.

" So far, L-SE's employees-in-charge approach has worked. It has cut the costs from customer complaints - about everything from surface dimples to rust to packaging problems - from $8 per ton in 1989 to $1.09 a ton last year...[resulting] in savings of $2.2 million last year - equal to 27.5% of L-SE's net income."

- **USA Today, April 10, 1992**

FIGURE 6:

Transformation of Managerial Authority

Quality Assurance (IPC) like Gain-Sharing is employee-owned at L-SE, particularly because it is supported by a "management" process that is shared by union and company representatives.

For Managers at L-SE, this is common practice where recruitment, scheduling, training, and many other traditionally "management-only" decisions are the work of joint committees composed of some managers, often with a predominance of union members.

"In our system, the committees are the avenues by which we problem-solve, by which we move responsibility to the workforce. They are the place where specific details get hashed out."

- **Cal Tinsley, Plant Manager, L-SE**

The Health and Safety committee is one of the few joint committees that has a make-up similar to traditional forms. However, it has an uncommon degree of autonomy, whereby the committee can authorize on its own a budgeted number of manhours and supplies to correct safety matters.

The Scheduling committee consists of a representative from each crew, who consult with the Plant Manager, but function essentially autonomously to create people schedules consistent with the needs of the business, (within overtime and training parameters).

The Hiring committee, like all committees is a collection of volunteers, trained in interviewing techniques and employment law. Typically, this committee of 8 union and 2 management representatives decides who are the best candidates to hire and extends offers of employment to them.

There are numerous other joint committees, including those that manage all the variable pay programs mentioned above. From day one in the life of L-SE, the premise of the organization has required non-traditional behaviour by all ranks of Managers, most of whom have come from traditional workplaces and know the difference at L-SE.

"Sometimes, managers feel like they've lost control, and in a sense, they have. They have given up much to this group of people to make a success out of their lives and their company...

"Some managers can't live with that. But, I am certain that this type of organization has much more to offer in profitability and individual employee satisfaction, in reputation and commitment to quality--than does the autocratic, "I'm the boss, you do it my way" type of organization."

-Don Vernon, General Manager, L-SE

In Summary - The Lesson of L-SE

Variable pay is an approach to compensation designed to link remuneration with results. It relies upon employees' being able, not just willing, to make that link by their actions to cause direct improvement in results.

The total "work system" at L-SE provides employees with that ability. Diverse elements (e.g. job structure, training, progression, information, management committees) *combine* to provide workers with the opportunity to exercise a great degree of responsible control over work processes and the workplace, and indeed, control over their own careers.

"This company is not really management-driven. Its success is being driven and executed on the line by employees."

- John Evans, School of Business, University of North Carolina, (Quality Cup judge)

The effect of variable pay is thus substantially enhanced within L-SE's high performance "work system" (Fig. 7). Remove an element like training or information, and the effect of variable pay is significantly weakened. On the other hand, remove variable pay, and many of the system elements are weakened or become more difficult to develop, (e.g. integrated process control, customer relations, training).

FIGURE 7: L-SE's **HIGH PERFORMANCE WORK SYSTEM**

At L-SE, variable pay is truly an integral part of a "work system" that has a high involvement/high performance focus, and the benefits have been significant for both the employees and the company.

"After the years of the L-SE experience, I can say, yes indeed, the total system does work. It requires a lot more effort than traditional approaches. Yet, if you are truly desirous of moving into this kind of system, the pay-offs are fantastic."

- Frank Altimore, Vice-President, Joint Ventures, L-SE

"Working here is heads-and-shoulders above working in a traditional steel mill."

-Tom Zidek, Process Technician, President, Local 9126 USWA

"I've been visiting the workplaces of America, administering a simple test. I call it the "pronoun" test. I ask front-line workers a few questions about the company. If the answers I get back describe the company in terms like "they" or "them", I know it's one kind of company....

"The L-S Electro-Galvanizing Company in Cleveland--in the heart of the rust belt--passed the "pronoun" test with ease. Here, everyone answers in terms of "we", and people talk of "our" company, and what "we" are accomplishing.

"The company is winning awards for quality. Its customers are loyal, and its profits are mounting. Why the success?...L-SE's advantage lies in its workers, who are constantly discovering better ways to use the equipment and serve the customers....<u>This is a high performance workplace</u>!"

- An excerpt from an article written by Robert B. Reich, U.S. Secretary of Labor, published in the Washington Post on July 28, 1993, after his visit to L-SE.

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[1] The L-SE Story has been documented in a video trilogy produced by Bert Painter and Modern Times Productions, Bowen Island, British Columbia, Canada V0N1G0. Programs in this 3-part series are:
"<u>The Power of Participation</u>" (1994),
"<u>Pay For Skills</u>" (1994),
"<u>Quality Pays</u>" (1995).
Quotations cited throughout this paper were recorded in interviews conducted for this series. Many are from on-camera statements included in the video programs.

[2] This typology of work culture echoes Lawler's definition of 3 categories of approaches to employee participation:
- *human relations* approach, where the primary motive is to raise job satisfaction and reduce employee resistance to change,
- *human resources* approach, which recognizes people as a valuable resource that should be developed, and
- *high involvement* approach, which assumes that maximum organizational performance results when people exercise control over their work activities;

Lawler, Edward, <u>High Involvement Management,</u> Jossey-Bass, San Francisco, 1986.

[3] Lewin, Kurt, Dynamic Theory of Personality, McGraw-Hill, 1935; and, Field Theory in Social Science, Harper & Row, New York, 1951.

[4] A "high performance" organization is one that is *intentionally designed* to bring out *the best in people*, and thereby produce an organizational capability to deliver *sustained leadership business results*.

[5] Belcher, John, Productivity Plus, American Productivity Center & Gulf Publishing, Houston, 1987;
Lindestad, Hans, & Norstedt, Jan-Peder, Autonomous Groups and Payment by Result, Swedish Employers' Confederation, Stockholm, 1972;
Blinder, A. (ed.) Paying for Productivity: A Look at the Evidence, Brookings, 1990;
Work Organization, Swedish Trade Union Confederation, Stockholm, 1977.

[6] L-SE has been the recipient of many quality achievement awards, most notably the 1992 Quality Cup, awarded by USA Today and Rochester Institute of Technology.