

The Oracle Speaks

Labor Performance Management Programs



My name is Isaac Edwards (IE) and it has been three months since my last project and now Mr. Bosswick (The BOSS) has requested that I evaluate labor management and performance programs for our distribution center. If you remember in my last project I suggested that we evaluate individual and team standards for our dock associates. We implemented our team recommendations, but did not establish performance standards for our associates. The BOSS has been pretty adamant about containing costs and improving our productivity. We recently implemented a Warehouse Management System (WMS) in a multi-channel distribution center, but we are not getting the efficiencies that were committed to our executive management team. Hence, The BOSS is feeling the heat!

I had some limited experience in my previous position with standards, but I needed some coaching on where to start. I called the Oracle and explained the situation. I told him that our methods needed to be improved and standardized, and that I thought we were measuring the wrong things. In addition, there were rumblings in our work force about bringing in a union and a collective bargaining unit. The Oracle said, "Isaac, metrics drive behavior, illogical metrics produce illogical behavior." He then said that if you want to change behavior in both the management team and individual associates then you must put in the appropriate metrics to change the behavior. For example, if you are measuring units per hour versus performance you

are going to create an environment where associates want to "cherry pick" their work. Performance is defined as the total number of Standard Allowed Minutes (SAM) earned divided by the total number of minutes on standard.

Now what is a standard? I was taught in industrial engineering school that a standard is an objective benchmark created through time-to-measure performance. A standard can also be created discretely through the use of a labor management system or through time and motion studies.

The Oracle gave me a great example of how UPH is a bad metric that can drive bad behavior in our work force.

Eric is a picker in case flow. He works on standard for 60 minutes and produces the following pay variables: 200 Case Flow Locations, 400 Case Flow Units, 40 Shipping Cartons. Eric's performance is 60 SAMs earned, divided by 60 minutes on standard which equals 100 percent performance with 400 UPH. Jim is a picker in pallet flow. He works on standard for 60 minutes and produces the following pay variables: 150 Pallet Flow Locations, 200 Pallet Flow Units and processes 40 Shipping Cartons. Jim's performance is 66 SAMs earned divided by 60 minutes on standard which equals 111 percent performance with 200 UPH.

The example The Oracle gave me showed that if you were being measured by UPH you would want to work in the case flow area instead of the pallet flow area. In fact, Jim out performed Eric because he accumulated more standard allowed minutes in less time.

I just had an epiphany. If you are measuring SAMs instead of UPH to calculate performance then each day is a new beginning. Our associates are earning time against each work element (task) that they perform. Therefore there is not a bias towards which jobs our associates perform. Wow! The SAM calculation is built with fatigue and an unavoidable delay factor. I also thought if people are measured based upon performance (on standard versus off standard) this will definitely change our associates' mind set regarding the work they perform. Our supervisors will be able to coach instead of order. They will help ensure that the associates are on standard and are following good methods. This may require some transition and coaching training for our supervisors. Our supervisors will be held to higher standard as well (on standard percent versus off standard percent).

I am starting to realize that labor management and performance programs are not just for non-exempt associates, but this will be a company wide initiative that will affect human resources, operations and finance. I have to let the BOSS

know this may take internal selling to our executive management team. My research tells me it is not uncommon to save \$115,000 for each one million of payroll dollars.

The Oracle conveyed that labor management programs consist of three phases: (1) methods improvement (2) metrics and productivity tracking and (3) motivation. He explained that before creating a standard your operations and processes must be mature and stable. It is not wise to develop a standard for a broken process. You must have a means for tracking productivity and measuring individual or team performance.

You also must develop a way to keep your associates motivated. Motivation could be monetary or nonmonetary. However, The Oracle recommends tying rewards to performance. He stated that "the motivation phase of labor performance programs can generate an additional ten percent in increased labor efficiency." If you think about it, it does make sense. This is no different than the profit sharing that our management receives for positive earnings. The Oracle did warn if you are going to implement incentives then you need to ensure that your standards (discrete or variable) are at least 98.5 percent accurate over a weekly period.

Sample Performance Worksheet

Pay Variables	SAM Values	Qty	Earned Time
Case Flow Locations	0.10	x 200	= 20
Case Flow Units	0.05	x 400	= 20
Pallet Flow Locations	0.15	x 0	= 0
Pallet Flow Locations	0.12	x 0	= 0
Shipping Cartons	0.50	x 40	= 20
Total SAMs			60

My only stumbling block before going back to the BOSS is that we do not have a labor management system (LMS). The ORACLE stated that a LMS is not necessary, but it does have advantages. We already have a WMS and I know that we can track individual productivity by each task, but I am not sure how we can apply a standard to the work elements performed.

I asked the ORACLE for his thoughts. The ORACLE stated that I had two options:

(1) Maintain the standards within a separate database and calculate individual performance outside our WMS. There are applications that are made specifically for tracking productivity and calculating performance or

(2) Integrate a LMS with our current WMS. A LMS solution has a number of features that can be used to manage the work force effectively. A LMS can be used for daily labor planning, ABC costing, reporting and incentive calculations tied back to payroll. I believe our WMS vendor has a LMS solution that is probably integrated, but we have not explored.

ID	Percent of Engineered Standards	Performance Management System
1	75%	No reporting and None Measured
2	85%	Area Productivity Reporting and Historical Standards
3	100%	Workload Forecasting/Manpower Planning and Individual Productivity Reporting with Historical Standards
4	115%	Individual Productivity Reporting with Engineered Standards Computerized Productivity Reporting
5	125%	Incentive Compensation

Typically LMS solutions use discrete standards (X, Y, Z coordinates) within the warehouse which are calculated by distance traveled, equipment type and product characteristics. Discrete standards can be developed faster than time and motion, but do not have the level of accuracy for a process that has multiple work elements. The ORACLE stated, "there is a place for both depending upon your operation."

I can imagine that for some of our processes like direct putaway, replenishment, and pallet picking a discrete standard would suffice. However we also have some processes that have a lot of variability, especially in

receiving and value added processing (sensor tags, price stickers, etc.) We may have to use a combination of discrete and variable standards to get the necessary accuracy required to calculate each pay variable.

I think I have enough information to go back to the BOSS and educate him on labor performance programs. I will bring along the following chart to show him how I think we can benefit from such a program. The ORACLE said it best, "things that get measured are things that get improved." I guess this goes without saying, but it is easy to forget this simple rule of management.

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