

Deploying Performance Differentiation to the Shop Floor – Potentials and Pitfalls

Introduction

While organisations adopt different performance management systems, most seek to create better alignment between their business strategy, performance outcomes and how they reward employees for achieving individual, team and organisation-wide results. Some organisations are simultaneously trying to achieve better reward differentiation based on decisions arising from performance differentiation. However, to do this effectively senior leadership must have a clearly defined performance and reward philosophy which includes clarity on how different levels in the organisation will be treated.

Performance Differentiation

Performance differentiation is where we set out in a structured manner to separate high performers from mid-level and lower performers, where we challenge under performance and celebrate high performance.

Employers may also seek to apply decisions from performance differentiation into compensation differentiation. These systems have become a normal feature of the working life of Senior Executives, Managers, Technical and Professional staff.

However, deploying these systems to the shop floor where, historically, workers have enjoyed a 'rate for the job' poses additional challenges and employers can encounter high levels of suspicion and resistance to their introduction.

This doesn't mean that we don't carry out performance differentiation or that we don't seek to apply some level of compensation differentiation. Shop floor workers get it, they understand that there is something inherently unfair in rewarding everyone equally regardless of their individual contribution. If we don't challenge underperformance we will face an inexorable decline into mediocrity or worse, but the key question when it comes to the shop floor is what is the enough point ?

Pay Decisions and Internal Equity

In recent years there has been a drive towards positioning base pay at the market median level and then applying increases, from a set budget based, on performance differentiation. Corporate compensation initiatives are pushing market based pay and performance differentiation to all levels in the organisation. In our experience this is happening without a full consideration of the implications of such initiatives on the shop floor.

There is a greater tendency for shop floor employees to discuss pay and benefits, openly and frequently, and this leads to a higher level of interrogation of internal equity. Furthermore decisions on merit awards can change from year to year and this year's poor performer can be on a higher rate of pay than this year's excellent performer.

After a number of years of application the organisation ends up with multiple individual base rates, that lack any coherence other than that each employee's personal rate has a story based around multiple performance differentiation decisions.

Anyone who has managed employees on the shop floor will understand the divisive power of two people working side by side doing the same job but on different rates of pay (unless it can be explained by a service-related entitlement or other objective criteria). It causes friction and becomes the focus of employee dissatisfaction. A 'rate for the job' becomes a 'rate for the person and their performance over time' and those compensation conversations amongst shop floor colleagues occur within an echo chamber of internal inequity.

The Way Forward?

The challenge for each organisation is to determine how far they should travel on the spectrum of performance and remuneration differentiation. If they shy away from this agenda they risk mediocrity and if they go too far they risk high levels of employee turnover, employee dissatisfaction and a corrosive low trust culture.

The challenge is to achieve the correct balance and therefore a solid foundation of performance differentiation must be established. We can then map the appropriate level of remuneration differentiation onto this.

Each component of remuneration must be considered:

- Differentiation can be applied to base pay where progression within a framework can be linked to 'fully meets' individual performance and behavioural expectations, or is linked to acquiring and demonstrating specific behaviours, skills or competencies.
- Bonus allocation can be readily differentiated by individual, and or team performance, and represents a more easily understood mechanism to align with individual performance.
- Pay increases can be limited to those who fully meet expectations and can be withheld for poor performers.
- There is little difficulty in managing those on probation, or introducing Performance Improvement Plan (PIP's) for those who are clearly in an underperforming category.
- Recognition for excellent individual performance can be tricky on the shop floor and must be carefully thought out.
- The initial performance decision must be fair and robust. It should be open to review by a more senior manager with a final appeal to either the site manager or preferably to an

external independent expert. This process will add a considerable level of procedural fairness and oversight to decisions by front line managers.

Whatever decisions are taken on the system that is deployed a key requirement is to ensure that the front line managers are highly competent to make decisions on performance differentiation. Their ratings will form the basis of remuneration decisions and the perceived fairness of how this is applied is critical.

A Way Forward - Review Spans of Contact & Invest in Front Line Manager Capabilities

Much of the fairness and integrity of performance management processes rests on the ability of front line managers to become effective coaches and provide ongoing feedback. The number of direct reports a line manager has will determine their ability to fully engage with colleagues. If a front-line manager has more than 10-12 direct reports it becomes very difficult for them to maintain their routines of daily check-ins, weekly roundups and monthly individual team member reviews.

The soft skills needed to conduct quality performance conversations don't come naturally to many front line managers, and building their confidence and ability to evaluate performance fairly and to encourage employees to higher levels of performance is critical.

A number of action points arise in building the capability of front line managers:

- Hold workshops on mastering difficult conversations, setting goals that build on their strengths, and giving ongoing feedback to employees
- Provide 1-1 coaching and support for front -line managers to carry out quality performance conversations.
- Establishing the 'Fully Meets' standard. Clearly define what is expected of a person who fully meets performance expectations.
- Hold front-line managers accountable for the quality of the performance enablement of direct reports in their own performance plans.
- Before goal-setting and development conversations take place with employees, front line managers should test each other's approach and refine their messages.
- Establish a 'Front Line Manager Forum' to ensure consistency of approach and a sharing of experiences.

Conclusion

Organisations need to carefully consider the consequences of fully deploying performance differentiation and compensation differentiation to the shop floor. The performance and

remuneration philosophy must be carefully crafted to ensure it is fit for purpose for each level in the organisation. Focus on getting the initial performance decision right and decide what level of remuneration differentiation is appropriate. Investing in front line manager capabilities is crucial and HR should ensure that they play a lead role in facilitating this.

If any business has questions, or need further guidance or support on the issues discussed in this article, please do get in touch with me at liam.doherty@stratis.ie.

Liam Doherty PhD
Senior Partner

Stratis Consulting
'Leading People Strategies'

E: liam.doherty@stratis.ie

T: +353 (0) 1 2936748

M: +353 87 223 6476

W: www.stratis.ie

Twitter: @Stratisconsult

LinkedIn: [Follow us here](#)

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