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## Executive Summary

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### Question

What are the current best approaches that companies are using for performance management for wage (non-exempt, entry-level manufacturing) employees in manufacturing facilities with regard to objective-setting and performance appraisals, and how those systems tie to calibration and individual development planning?

### Introduction

Academic journals mainly focus on performance management for white-collar employees and lack resources on best practices for wage employees. In response, we have consulted with two renowned professors<sup>1</sup> at the ILR School for advice and also interviewed an HR manager at GE Aviation to find out how leading firms manage performance of hourly-wage workers in practice by probing into three major components of how they 1) approach goal-setting, 2) manage the performance evaluation process, and 3) align performance results with other HR programs.

### 1. Goal-Setting

The purpose of establishing objectives is to identify a limited number of highly important results that will have a dramatic impact on the overall success of the organization when achieved. Objectives are statements of important and measurable outcomes, which help employees guide their efforts.<sup>1</sup> How GE Aviation approaches objective setting can be summarized as follows:

[Objective Cascading and Communication]

- Shop leaders create their goals and objectives, submit them to the plant managers and then they are passed on to the department managers. Managers roll out the objectives and meet with employees one on one. They review the performance result at the end of the year based on the objectives they agreed on. For instance, GE Aviation's 2011 Goals and Objectives include three categories (Table 1 in Appendix) and involve an assessment of both quantitative and qualitative factors.
- The process of formulating and communicating objectives for wage employees does not differ significantly from the normative white-collar practice. It includes two important facets of performance: task and contextual. Task performance refers to the specific activities required by one's job, whereas contextual performance refers to the activities required to be a good "organizational citizen."<sup>2</sup> Both task and contextual performance are needed for organizational success, as measuring only task results is typically not welcomed by employees even in types of jobs for which the expected result is very clear.<sup>3</sup>

### 2. Evaluation Process

[Grading System]

Throughout the performance evaluation process, GE uses the electronic Employee Management System<sup>4</sup> (EMS) to define the individual objectives, to grade performance and to give feedback. At the end of the year, managers use a 5-point scale grading system to evaluate the employees (Table 2 in Appendix). However, the GE HR manager states that her shop does not differentiate the individual evaluation result to a great degree because the final grade is directly tied to the annual wage increase. Furthermore, her organization does not pursue aggressive pay-for-performance philosophy for the line workers.

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<sup>1</sup> Professor Sarosh Kuruvilla and Professor Lisa Dragoni

[Calibration<sup>5</sup>]

To ensure accuracy and objectivity of the feedback on every employee in the process, companies conduct calibration sessions so that the team managers can share a common view of what is a 'Top Talent' grade and what is 'Lowest Level' throughout the organization. However, for unionized shops where every employee gets the same annual increase there is no need to implement the calibration process. Once the hourly-waged employees receive their annual performance grade along with the manager's comments via EMS, if they choose to accept the result, then the annual review process is finalized.

### **3. Alignment with Other HR Programs**

The way that companies apply performance evaluation for other HR policies varies depending on their business objectives and the circumstances of the shops. For instance, for a certain critical job category of employees, individual performance can matter significantly to the overall performance of a shop. Nevertheless, focusing too much on the individual can detract from teamwork and cooperation among employees. When teamwork is the backbone of a business, reviews must first be done at the team level and then at the individual level.<sup>6</sup> Also other factors such as the contract agreement with the shop union and the cost of managing the performance management system should be taken into consideration when designing a program.<sup>7</sup>

[Promotion]

The performance evaluation result is used when considering the promotion of an employee. Pepsi annually evaluates and certifies the skill level of employees and links it to promotion and pay increase (skill-based pay system). For example, an employee who can use screwdrivers and hammers can get a pay increase by being certified to use air tools. Not only by mastering specific skills to handle different tools, but also by acquiring more advanced skills, they can be promoted up to a safety leader or a process lean leader by achieving a 6-sigma green belt. On the other hand, GE Aviation employees can be promoted only by assuming a new responsibility at a higher job level, e.g., promotion from Level 2 (base-level) to Level 1 assembly work.

[Compensation]

Unlike the performance evaluation for white-collar employees, most of the shop organizations in GE, Pepsi and GM did not pursue an aggressive pay-for-performance system. Rather, they choose not to differentiate the individual line-workers' performance evaluation result from one another due to several reasons, such as collective bargaining agreements or cost-efficiency in payroll management. However, some shops have an additional team-based or shop-based incentive system on top of the individual hourly wage. One of the shops in GE Aviation has the same annual increase for every employee regardless of their individual performance; however, they are paid a team-based quarterly bonus of up to \$250, when the team performance meets their quarterly goal (such as quality, safety and cost, with metrics defined every quarter). In General Motor's case<sup>8</sup>, where wage is negotiated with UAW, they use the same increase rate across the board. But when shops meet their performance goal - whole site level, not a team or an individual level - they receive the shop eligible bonus.

### **Conclusion**

According to our findings from ILR professors and the GE HR manager, there should not be in theory a great difference between blue-collar and white-collar workers in performance management systems, especially when it comes to linking performance results to individual compensation and development. It is, by and large, the business circumstances and strategies of a company that drive a company to extend its efforts in ensuring performance management to the shop level. Companies will need to consider ways to concretely connect overall business strategy and other factors, e.g., company culture, in determining how to measure performance.<sup>9</sup>

## Appendix

**Table 1. GE Aviation 2011 Goals and Objectives**

Deliver First Time Yield	Establish Teaming	Drive Culture
Support New Product Introduction, Rate increase, and New airliner schedule	Launch two pilot teams; one in the WB Assembly Cell and one in the Bonding Cell	Develop Site Inclusion Council to equally support Affinity Networks and build Co Sponsoring
Deliver V\$ Goal Established	Develop and train all affected hourly and salary members in teaming skills	Further develop Morgan State and University of Maryland Baltimore City partnerships
Achieve Cost and Inventory metrics	Develop and maintain infrastructure to support teams in site systems, data, & decision making	Support Community Engagement activities to focus on areas of poverty, education and health
Support and drive successful achievement of Environmental, Health, Safety goals.	Leverage pilot teamed areas into two other product lines by end of year	Engage local and state government to support GE initiatives; Support activities in DC when needed

**Table 2. GE Aviation 5-point Rating Scale**

Scale	Merit Increase Rate
Lowest Level	0 %
Next Level Up	0 – 2 %
Average	2 – 4 %
Above Average	3 – 5 %
Top Talent	3.5 – 6 %

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