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BODY:
HOUR after hour, scarcely pausing between tasks, Mike Darrah sweeps up shards of broken glass from the repair-shop floor in Olympia, Wash., hoists heavy replacement windshields onto car frames and wrestles them into position, then painstakingly seals the rims. Mr. Darrah, a 24-year-old employee of Safelite Glass, a windshield manufacturing and repair company, cannot afford to stop, because he is working on the piece-rate system.

A grim reminder that sweatshop capitalism is alive, if not well, in America? A Dickensian vision of where the work force, cowed by corporate downsizing, is heading?

Hardly. Mr. Darrah is a willing -- make that enthusiastic -- participant in Safelite's "performance pay plan," an experiment in linking wages to productivity. When he started as a glass installer in 1994, he earned $7.50 an hour and could expect to peak at about $12 once he mastered the craft. This year, under the incentive system, he is averaging $800 for a 40-hour week, or $20 an hour. "I'd rather skip the coffee and get paid," he said.

What is good for Mr. Darrah has Safelite managers dancing in the aisles. According to Edward Lazear, a Stanford Business School economist who received free rein to track Safelite's transition to piecework from traditional wage-and-benefits compensation, the hourly output of glass installers rose 41 percent over the 18-month phase-in, with the company adding more than half the gain to its bottom line. Absenteeism, the bane of a business that lives or dies on its ability to deliver timely, high-quality service, has been cut sharply.

Safelite, privately held and based in Columbus, Ohio, is not the first American company to rediscover the virtue of paying according to output. Lincoln Electric, a Cleveland-based publicly traded producer of welding equipment, has long been committed to that principle, and with spectacular success. And Nucor, a publicly traded company in Charlotte, N.C., that revolutionized the way the steel industry does business, can also boast of awesome productivity -- and profitability -- linked to pay-for-performance incentives.

With such shining examples to recommend the practice, the $64 billion question is why the pressure of competition and management's inclination to tinker have not led more employers to try it. Roughly 15 percent of the labor force now has a portion of its pay connected to individual productivity, but most piecework is concentrated in a handful of low-paying industries -- notably apparel -- or is confined to sales personnel, individual contractors and other workers who, one way or another, see themselves as separate from shop floor workers.

ONE reason is probably fear of the unknown, although the experience of Safelite and others could become a road map for some companies thinking about making the switch -- and a warning to others against even trying. "The performance pay plan won't work for every company," cautioned Garen K. Staglin, Safelite's chief executive.

For one thing, Mr. Staglin said, work incentives are not enough; businesses must also have a capacity to track individual performance, and that typically comes only with highly computerized operations. For many tradition-bound companies, he added, altering course "requires a fundamental change in the business culture."

Besides, argued Charles Brown, a labor economist at the University of Michigan, employers can just as easily use hourly pay to reward performance by giving raises or promotions to the go-getters and demoting or dismissing the lazy and incompetent. The task for managers, he said, is to structure pay to maximize productivity without lowering product quality.

Payment by the piece remains a rarity in part because it is associated in the popular mind with turn-of-the-century sweatshops, where workers toiled at repetitive tasks for 12 hours or more a day without health insurance or other benefits.

"In 1890," said Claudia Goldin, an economist at Harvard University, "40 percent of the female labor force was in piecework" in mostly unskilled jobs, with little hope of getting training for better ones.

But negative historical connotations aside, both management and labor often resist the pay-for-performance concept. George P. Baker of the Harvard Business School said supervisors disliked policing their subordinates because it forced them to play the heavy and required extra work. And unions generally oppose piecework, he said, "because it is easier to maintain solidarity among workers who think they are all in the same boat."

Workers who are unable or unwilling to excel on the job have an obvious interest in keeping a pay system that does not differentiate between the coasters and the Stakhanovites. "The great puzzle," Mr. Brown said, is why the ablest and most diligent workers rarely press for an incentive system that rewards their efforts.

Daniel Hamermesh, an economist at the University of Texas, thinks he knows the answer. "The fear is that employers will ratchet up their demands," he said, "once they find out how much the best workers can produce."

According to Mr. Baker, that is not without reason. "Most managers have a lot of difficulty sharing the fruits of higher productivity," he said.

LINCOLN ELECTRIC is perhaps the best-known example of a company that has succeeded in bringing piecework into a modern industrial setting. Since 1914, the base pay for its production workers -- now 2,000 of them at four American plants) has been proportional to output. Since 1933, moreover, all Lincoln employees have received year-end bonuses linked to a combination of individual merit ratings and the company's profitability.

The success of this incentive structure has been staggering: both productivity and average pay at the company are two to three times the industry norm.

Several policies have helped Lincoln achieve these results, Mr. Baker said. The company goes to great lengths to measure output accurately and to tie piecework rates to objective standards of effort and difficulty. Workers etch their names on the equipment they make and must fix defects without pay. And perhaps most important, Lincoln has never yielded to the temptation to ratchet down pay as workers increase productivity. Piecework rates are rarely changed; they are reduced only when the company introduces new technology that makes the work inherently easier.

And yet, the Lincoln experience does not necessarily prove that the piecework approach is superior. Indeed, said Robert Gibbons, an economist at Cornell University's Johnson School of Management, the company has developed a kind of hybrid system of new-style financial incentives and old-style rewards for doing the boss's bidding.

Piece-rate pay alone is "too blunt an instrument" to meet all the company's needs, and management knows it, Mr. Gibbons said. Hence, while Lincoln is famous for piecework, almost half of a worker's pay typically comes from the year-end bonus, largely determined by supervisors' subjective rating of performance. That way, Mr. Gibbons noted, "when the boss wants you to help train a worker rather than work on your own machine, he has some leverage."

NUCOR shares Lincoln's aversion to ratcheting down workers' compensation and hogging the benefits for itself. And, like Lincoln, both its productivity and pay are the envy of the industry. But Nucor has introduced some twists of its own.

Productivity is measured by the performance of teams, typically handfuls of workers who operate a machine or oversee a step in production. The workers receive an hourly base wage that is just half the pay for comparable work in unionized steel mills. Incentive pay, often twice the base wage, is tied to how much a team exceeds average industry productivity. But individual workers forfeit their bonuses if they are late for work or miss more than a minimal number of days for any reason. And everyone bears a share of the cost of lost production when machines break down or are temporarily idled after accidents.

Nucor's managers operate in as Darwinian an environment as the workers, leaving no room for grumbling about a double standard. And the steelmaker's mills are all in smaller cities of the South and West, where unions are weak and the company sees the work ethic as strong.

Both Lincoln and Nucor developed their pay-incentive programs with much forethought. By contrast, said Mr. Lazear of the Stanford Business School, Safelite's adoption of the system "was almost an accident, the byproduct of the company's efforts to reposition itself within the auto glass replacement market."

Safelite was part of the Lear Siegler Corporation, an industrial conglomerate that Forstmann Little, the New York investment firm, bought in 1987 in a $2.1 billion leveraged buyout. The other pieces of Lear Siegler were sold off to reduce debt, but Forstmann Little kept Safelite and installed new managers to transform the company into what Nick Forstmann, a general partner, called "a solution to the insurance companies' problem."

Broken glass is the bane of auto insurers because the cost of processing claims can add 30 percent to a $300 repair bill -- and often generates ill will among policyholders caught in a bureaucratic maze. Mr. Staglin, the chief executive hired by Forstmann Little to run Safelite, offered to provide insurers with "seamless service" for straightforward claims by handling everything from answering the phone to scheduling and making repairs at the policyholder's convenience.

Safelite built an elaborate information system that allowed it to tap into insurance-company data; handle the logistics of its glass factories, warehouses and 550-plus repair shops, and follow the progress of the tens of thousands of jobs in the pipeline.

Once the system was in place and virtually all routine accounting tasks were centralized, it was easy to track the work of the company's 1,500 installers. And John F. Barlow, Safelite's president and chief operating officer, saw the potential for solving some of the company's labor-efficiency problems.

The company's turnover was exceptionally high by the standards of American business -- if not the $2 billion glass installation industry -- forcing big expenditures on training and supervision. Most significantly, the company culture apparently did not discourage slackers. "Safelite had its own kind of glass ceiling," Mr. Barlow joked. "No more than three glass repairs per installer a day." His proposed solution: piecework with a safety net.

Under the plan, installers receive $19 to $23 for replacement jobs in the shop or at owners' homes, and about half that for multiple jobs in the lots of rental car companies. They can also make commissions for selling auto parts to customers -- from $1 for windshield wipers to 10 percent of the invoice for an alarm system.

Workers' pay never falls below a guaranteed floor. But in a typical month, said Bill Rapp, the Safelite treasurer, two-thirds of the workers earn more than the minimum, and in the long run, almost all do.

Indeed, if an installer clings to the safety net for long, "it is treated as a management problem," Mr. Rapp said.

Jim Rush, an installer for six years, is just the kind of employee Safelite hopes to recruit and keep with the performance pay plan. Before the transition, he was paid $27,500 a year to manage a small Safelite store in Columbus and help with installations. He still manages the shop, but Safelite's centralized computer operations have eliminated much of the burden. He is now paid a flat $10,000 for management and is free to take on as many installations as he can handle at the regular piece rate.

"I've got my own way of doing things, and it works," Mr. Rush said. He estimated that he would clear nearly $50,000 this year without working much overtime.

Mr. Rush's productivity rate is hardly unique at the company. Its highest-paid installer made $58,000 last year, and 216 of the 928 installers without management responsibilities earned more than $30,000. On average, installers made about 15 percent more than their guaranteed minimum. And at least in Mr. Rush's experience, the system has not undermined morale. "It's bred a healthy sense of competition," he said.

In an as-yet-unpublished study of Safelite's transition, Mr. Lazear found that the 41 percent increase in daily installment work could be divided into two parts. A bit more than half the gain was attributable to increased productivity from existing workers, and the remainder to the departure of less-motivated workers and their replacement by eager beavers.

SICK days decreased by 61 percent, mostly because the workers who chose to stay with Safelite were in better health. Piece rates initially raised worker turnover, potentially a serious problem in an industry in which the rate can be 50 percent to 60 percent annually. But Mr. Lazear found that the least-productive workers were most likely to leave and the most-productive workers were most likely to stay.

Mr. Lazear also calculated that about 60 percent of the company's gain from increased productivity had gone toward lowering its per-unit cost of production, thus increasing the profit margin. But Safelite has pledged not to squeeze the workers -- and Mr. Lazear said that was a crucial concession. "Trust is critical in making the plan work," he said.

So is quality control. Safelite has created an elaborate system for policing the installers and rewarding careful work. When an installation is flawed and requires follow-up service, the installer must cover the cost from his own pocket. After jobs are completed, the company surveys 1 of every 10 customers by phone, and each installer gets a monthly report on his performance. Those with high ratings are eligible for cash bonuses.

According to Jim Clark, director of physical-damage claims at Safeco Insurance, one of Safelite's biggest customers, this combination of carrot and stick is working well. Before the performance pay system, he noted, the percentage of Safeco claimants who pronounced themselves "very satisfied" with Safelite's service was in the mid-80's. Today it is in the mid-90's.

TODAY Safelite, tomorrow the world? Mr. Staglin, the company's chief executive, does not see his formula as necessarily applying to other corporations. If the change accomplishes what their managers hope, he said, it could lead to job cuts -- and, quite likely, lower morale -- unless the business is growing rapidly. He also said a good piecework system made more demands on managers and worked best in a lean, flexible organization that emphasized open communication up and down the chain of command. "I don't want more than four layers of management between me and the customer," he said.

Still, the Safelite story is intriguing for the possibilities. The company has found that piecework is compatible with the needs of a service business that can ill afford to offend customers. Moreover, Safelite has overcome daunting problems of quality control by using modern information technology. "Computers made it possible," agreed Mr. Staglin -- and they may just make it possible in other businesses that could never track worker productivity in the age of time clocks and ledger books.

Firing Up The Workers

A compensation system that rewards individual employees for higher productivity may not succeed at all companies. Here are some possible conditions for making the system work:

The production method should consist of distinct, repetitive tasks whose performance can be credited to individuals or teams.

The employer must make a commitment to share the rewards of any increased productivity with workers.

The workers must be not only competent but, even more important, eager to link their pay to productivity.

The company should have a realistic hope expanding sales, so that higher productivity does not lead to morale-destroying layoffs.

Managers must be accessible and hands-on, prepared to intervene to maintain high morale on the shop floor and willing to accept advice from workders on how to make them more efficient.

GRAPHIC: Photos: In a modern variation on the old idea of piecework, the pay of Mike Darrah is linked to his productivity at Safelite Glass, the windshield manufacturing and repair company. (Larry Davis for The New York Times) (pg. 1); Sewing clothing in 1920: To bring piecework into the 1990's, companies use computers to track productivity. (pg. 12)

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