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"The Role of the Chief Executive  
in Improving Productivity"

Presented by

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Without the strong leadership of the CEO and his active involvement in changing the working climate within the company we cannot hope to regain an upward slope on the productivity curve. This is obviously not going to be your ordinary Chamber of Commerce pitch. I believe that we top managers bear the major responsibility for poor productivity. We do not even look for the reasons for low productivity. Business people tend to list these factors:

- . taxes, inflation and other disincentives to investment
- . government regulation
- . lack of innovation
- . high energy costs
- . employee indifference or even hostility

These are factors which do affect productivity but the list says nothing about what caused the factors to come into play.

High energy costs are something we may have to learn to cope with, but the others, I hope to show, are largely our responsibility.

The item listed last is the one that we can do something about directly and it holds the key to solving the others. I won't say anything about investment in capital equipment because there are plenty of opportunities if we have the nerve to take them.

Where does employee alienation come from? It comes <sup>largely</sup> from the way people are managed ~~and the negative image that business has acquired,~~ We fractionate jobs, supervise them, have quality and safety inspectors and so on and wonder why people are irresponsible. "Management's prerogative" has been to issue the orders because we know best. When this is asserted long enough and loudly enough people finally come to accept it. They accept but don't necessarily like it. They find in it no invitation to be responsible or innovative. It may also encourage

the more imaginative to exercise their frustrated ingenuity in ways quite contrary to company purposes. The sad part of all this is that study after study going way back to the Twenties have pointed to ways to change our management methods to improve productivity. The Hawthorne Studies which began in 1927 were intended to find the best physical conditions for light assembly work. ~~They could get no correlation between any set of conditions and higher productivity. Almost anything improved the output until finally they realized that the improvement came from "the development of an organized social group in a peculiar and effective relation with its supervisors."~~ *They found instead that regardless of conditions output improved when* In other words the workers saw that the company was interested in them as producers.

In the meantime we have more conclusive work from a host of researchers such as Douglas McGregor, Rensis Likert, Blake and Mouton and Louis Davis. *This work shows that peoples attitude towards work is good or bad depending on manager behavior* Their work has been used but most companies leave those matters to the personnel department but the problem is at the top of the company. We set the pattern that filters down to the shop floor and wreaks havoc all the way. Studies show <sup>that even</sup> middle managers <sup>are</sup> operating at about <sup>a mere</sup> 50% of capability.

If this responsibility isn't enough for us to bear wait until we look at government regulations. What turned Democrats from their traditional policy of States Rights and a weak Federal Government to being the exponents of a strong Federal Government and detailed control of business? *I believe cause goes back to predepression days.* The wild speculation of the Twenties, the chicanery that accompanied it, the search for profits without rendering any worthwhile service ended up in the crash of '29 and the Depression which ensued. By the time Roosevelt was elected the people were demanding recovery first

and then laws to prevent a repetition. When recovery was underway business, unrepentant, fought against corrective actions. To gain strength to insure that the reforms <sup>Roosevelt first gave</sup> would be adopted <sup>in return</sup> business ~~got~~ the Wagner Act and Roosevelt got the support of the unions. We have been at war ever since. In wars both sides do stupid and damaging things and each side imagines that the other does even worse things than the bad that they do. This is where we are today. The sins of business brought on big government. Instead of admitting our faults we have made a bad situation worse. As a result we enjoy bad public relations. People do not trust us and will accept almost any act that punishes business. <sup>It has become a way of life to suspect business.</sup> In this climate we have not felt at all like looking for a constructive solution to these problems of productivity.

But finally this turmoil coming from our war with government and unions and from mismanaging our employees is catching up with our P and L statements. We are having a hard time competing. Our investments don't pay off well because <sup>our</sup> people resist innovation. We build more sophisticated factories to eliminate troublesome people but these are terribly costly and inflexible. Too much management time is spent quarreling and putting out fires. But don't despair--help is at hand.

A number of programs have been developed and are in use which do make a difference in a company. They are consistent with the findings of research on how to make organizations more effective. I would like to stress that none of them is a plug-in type of program. It is the process of installing a program that starts the change in the mode of operation that gives people the desire to work in a more cooperative way. Some of the programs

are the Managerial Grid, Quality of Working Life, Type Z Organizations and the Scanlon Plan. The latter is the oldest of the lot, has the most research on it (~~and has the most research on it~~) and has the most comprehensive framework for understanding what needs doing. <sup>Our</sup> ~~my~~ company's experience has been with the Scanlon Plan which we installed in 1952.

The steps required to install a Scanlon Plan are really what must be done with any plan if we hope to get the maximum benefits in productivity. So I will speak primarily from our experience with the Scanlon Plan. The research of two people will make the process more logical. First there is the work of Douglas McGregor.

By observing effective and less effective managers at work in several large companies, he found that the effective managers had different assumptions regarding the attitudes toward work of their subordinates than did the less effective managers. The assumptions of the less effective managers he called Theory X; those of the more effective, Theory Y. ~~Theories X and Y are, by now, part of the folklore of management, although Theory X is still alive and busy, in spite of the fact that managers generally like to think that they are using Theory Y.~~

Let me refresh your memory with an abbreviated list of assumptions for Theory X and Theory Y.

#### Theory X

Dislike work

Shun responsibility

Must be coerced

#### Theory Y

Work is natural

People learn to accept responsibility

People have creativity which is seldom used

McGregor <sup>suggests</sup> ~~uses~~ the Scanlon Plan as a prime way of implementing Theory Y in a company.

The second piece of work deals with motivation. It also is well known, and is the work of Abraham Maslow. He suggests that when people act purposefully, including work, they do so to meet needs that are currently felt. This does not sound earth-shattering, but he follows this with the proposition that people tend to have a schedule of needs which must be met in a specified order. The first are the basic physical needs of food, shelter, and clothing. When these are regularly satisfied, people seek security against the hazards of unemployment, sickness, old age, etc. Then they desire to be part of a worthwhile group, church, company, union, club, and so on. When ~~this is~~ <sup>these are</sup> reasonably met, recognition for achievement is sought. The highest goal that Maslow identified was self-actualization, becoming the fullest person one is capable of being. Business is supposed to be great with incentives but tends to think only of money which helps only at the first two levels.

All this sounds, at first, a bit ethereal, but Maslow was down to earth. He ~~insisted~~ <sup>insisted on</sup> that a higher need is largely unfelt until the earlier one is reasonably met. If, for some reason, a person is blocked from meeting a newly felt need in one way, he can try alternate ways or seek an excess of an already met need. An example from business is the blue collar worker, who generally could feel no sense of belonging to his company, so he satisfied this need by joining a union. He also demanded an excess fulfillment of the physical and security needs by demanding more pay.

So far as the issue of productivity is concerned, this

failure to recognize higher level needs as a motivating factor has ended up with business losing the affiliation of their employees and then paying extra wages without asking anything in return. ~~The appropriate procedure, assuming Maslow makes sense, would be to survey people's needs and strike a bargain with them. "We will help you meet 'a,' but we need 'b' in return."~~ The non-recognition of this fact of life has led to business paying more and more and asking nothing in return -- a prime prescription for low productivity.

The steps which are needed in installing a thoroughgoing plan for improving the work climate in a company were developed by Carl Frost of Michigan State University out of long experience with companies in the use of the Scanlon Plan. He finds that we need to clarify what the company is all about, how it wants to serve its customers, and how shareholders and employees will benefit from this activity. This is summed up in an Identity Statement.

When this is communicated throughout the company all employees are invited to cooperate in carrying out this statement in a plan for participation. There is finally needed a plan for sharing the improvements or an equity plan. The three steps then are Identity, Participation and Equity.

We can now look at the three considerations in more detail and, at the same time, see how the proper installation of a program of participation, or specifically the Scanlon Plan, improves the work climate, and so productivity. Identity--what is the company there for? Everyone knows it is to make a profit, but this is an oversimplification. It puts results before causes.

We are interested in what the company intends to do to earn the profit. Overemphasis on profits is something like overemphasis on winning. When winning is overstressed in sports, all sorts of mischief replaces the original intent. The degree to which winning approaches "everything" is a measure of how many referees are needed to prevent mayhem and trickery. What begins as fun, as a game, or as healthful exercise, ends up as a deadly serious business. Winning is important, just as profit is. When disproportionate emphasis is placed on either, we tend to skimp on the basic objectives. In football, the game often becomes, "How to incapacitate the opposing quarterback." In business, it can be, "We cannot afford to dispose of these poisons in a safe manner."

If the head of a company can, on the other hand, state clearly what the company is about, several good things happen. He, himself, will probably better understand what he is trying to do. People all through a company can exercise intelligent discretion more easily when an occasion arises. Assuming that the identity is respectable, people see a goal that they can work toward. ~~The work of Likert points out that this is one of the chief responsibilities of leadership.~~ People respond well to high goals set by their leaders. This overall identity statement has to be interpreted and amplified as it is carried through the organization, because each department and level must see how its work contributes to the goals of the identity statement.

To make identity operational we will want to be serious about encouraging participation which is our second point.

Merely decreeing that participation is wanted will not auto-



matically do away with the lethargy that is bothering our companies, our economy, and life in general. Old habits are hard to overcome. There are many verbal and nonverbal signals in the organization that have to be eliminated. The very first step is to make a decision. We must decide, "Is there a need to change?" This is perhaps the hardest single step to take correctly, because it is easy to do without conviction. It is always others who need changing, not I.

~~By this time, you can realize that guiding this process is not everybody's job. It requires understanding, tact, persistence, and the ability to see through pretense. A competent consultant from outside the organization is the preferred choice to provide guidance. However, the work must be done by the organization, including top management.~~

We need to prepare managers for their new roles. They need to know, "How does one encourage suggestions and responsible behavior? How do you turn a complaint into a suggestion? How do you encourage trust, or, in words that are more to the point, how do you yourself become trustworthy?" These questions must be answered at every level of management, because each level has its own set of biases and problems. Sensitivity training or the managerial grid are examples of the kind of training that can help. Formal training in listening can be a big help. ~~In our organization, we had all managers attend managerial grid rather early in our efforts.~~

We usually think of participation being needed on the shop floor, but there is adequate evidence that people in middle management can be just as alienated as the blue collar worker.

As our payrolls pass the 50 percent ratio of white collars in the company, the need for white collar involvement and effectiveness becomes even more evident. Upper management needs the training, as well as first line supervision. In fact, training consultants generally insist that this training for middle and first line managers is wasted, if top managers do not take the training first.

~~This discussion has had little to say about how to deal with a situation in which one or more unions are present and the relationship is adversarial, or even hostile. It is essential that the union be involved before the organization, as a whole, is involved and it must be demonstrated very early that there is no intention to displace the union, or to divide its members from it. There are models for dealing with this problem which a good Industrial Relations Department should know of. The key to change is the Identity statement, which should clarify the powerful marketplace demands which the company can only meet if it can draw fully upon the abilities of its people, not only to perform their allotted tasks, but also to think, to innovate, to cooperate, and to be responsible. The competition is not just from companies making the same products locally, but from the whole world. The grounds for the company and union making common cause are real. It remains for the CEO to make the needs explicit and to clear away past differences enabling the company and union to get on with the joint task at hand. One thing that can pave the way for more openness with the union is a clear acknowledgement that unions have become a part of industrial life because past managers have not sufficiently regarded the needs of their people. They continue to exist because of more recent failures of managers.~~

I am sure that there must be a feeling that I am demanding a lot of work from the organization. I can only counter with the reminder that this problem has been a long time coming. When we look back over the century and a half to two centuries, during which this problem has been building, we can be a bit more patient if the cure takes some doing. Furthermore, the magnitude of the present problem and the benefits available from developing a responsible and cooperative workforce, are great enough to justify the managerial effort required.

The big difference in this effort from more conventional approaches, is that we are looking for an organizational change more than a patching up, a clarification of company goals and the marshalling of everyone's efforts and talents toward reaching those goals. This involves a fundamental shift in emphasis, from a focus on rewards and punishments, to a focus on the job to be done. Today, most of our needs, like food, shelter, medicine, and education do not come directly from the work itself, but through the medium of money earned. It is easier for us to focus on the money rather than the work, especially when we are told that the prime or sole purpose of the enterprise is money. It takes some attention to focus first on the work, but if we are to work responsibly we have to pay attention. To pay attention we have to focus on the work to see it as the source of the other goods we want.

This is where equity comes in. I believe that people can be led to dedicate themselves to company goals for a long time without special reward, when survival is the only benefit. But, in those happy times when these dedicated efforts result in prosperity for the company, it is not unreasonable for people to

ask about some share in that prosperity. Indeed, one of Joseph Scanlon's brightest moves was to develop ways of determining, ahead of time, how that sharing was to take place.

By doing this ahead of time, several beneficial results occur. First of all, it is usually easier to establish a formula for sharing before there is something to divide. If we wait with the decision about sharing the results of improvements until the improvements have been made and the results are in, each person's mind will have been busy totalling up what his or her contribution is worth in his or her eyes. The sum of these evaluations tends to exceed the actual improvements made. Scanlon recognized that, regardless of what each individual did, the improvements had to be a group effort, and the group included everyone in the company. His formulas shared the savings between the company and the employees. The employees' bonus was shared on the basis of their base pay, so everyone received the same percent bonus. ~~I won't distract you with the details of how this is calculated. The important consideration is whether or not people accept the formula~~ as fair, before they are asked to go about their work in a more responsible-fashion.

Equity means more than a fair share of monetary rewards, since there is more to life than money. If we look at Maslow's hierarchy of needs, the typical job is seen to provide satisfactions for physical needs through pay and for security needs through insurance and pensions. <sup>but</sup> The need to belong, the need for recognition, and the need for self-fulfillment are seldom considered when jobs are designed and rewards are provided. A little thought will reveal many possibilities for bettering this

situation when a company decides to go through the steps of identity, participation, and equity in establishing a Scanlon Plan or any other plan of participation.

The whole experience of serving the genuine needs of people through participation, of meeting company goals and serving one another by this cooperative effort, brings with it a new sense of worth and self-fulfillment. All these opportunities for belonging, for recognition and for self-fulfillment are an added output of the company and are powerful motivators. ~~They are sometimes called the psychic profit or psychic increment of the company.~~ People in the company then have an enlarged equity by receiving a share of <sup>these psychological benefits from their work.</sup> ~~this psychic increment of the company.~~

~~Incidentally, John Ruskin said this well in his dictum, "The highest reward for man's work is not what he gets for it but what he becomes by it." Our company has been in the process of adopting the Scanlon Plan for 27 years. We are not finished, because each year's experience and the research of social science gives us new insight into what the process means. Have we eliminated alienation and all the attendant problems? Not entirely. We have certainly reduced the problems to manageable levels. There is less alienation and more responsible involvement. Work does have some meaning for most people. There is less politics and more cooperation.~~

Early in this talk, I elected to put the people problem at the head of our list and suggested that its solution might help on all the others. I would like to suggest briefly how this can be. The solution of the industrial relations problem would take a great deal of friction out of society. Business would be seen

in a more wholesome light. Business leaders would be more relaxed and could approach the political arena with more confidence. Because of their regained public respect, business leaders could hope for a more sympathetic hearing on changes in regulations. In addition, I would say that one of the strongest disincentives to investment is the fear that people in the company will not allow the investment to produce well. With participation effectively working, this fear should be lessened. At the same time, participation encourages widespread small innovations, and makes the acceptance of the occasional major innovation more likely. Participative management won't bring Heaven to earth, but it can make the business world much less like the Hell we hear so much about. The top executive can bring this about if he is willing to lead rather than command.

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