

# **RAISING PRODUCTIVITY & SHARING THE GAINS**

## **UNION – MANAGEMENT COOPERATION THROUGH SCANLON PLAN**

### **PERSONAL ADMINISTRATION**

A sharp contrast to the mixed experience with profit sharing and suggestion systems is found in plans of union-management cooperation that stimulate employee interest in production problems and share the gains with all employees. Of course, efforts by managements and unions to emphasize their mutual interest in increasing the efficiency of the enterprise are not new. There were a few experiments with “producers’ cooperation” but most of these have died out. After World War I, firms in the railroad, clothing and steel fabricating industries adopted union-management cooperation plans to increase efficiency and sometimes to avoid financial liquidation. One of the earliest was started in the shops of the Baltimore and Ohio Railroad, where in 1923 a joint committee of machinist and shop-craft unions and management representatives discussed ways of reducing waste and improving productive efficiency so that work would not have to be contracted out, as it had been in the past because of high costs in the shop. The plan spread to other shops, and in 18 years of operation the joint committees on the Baltimore and Ohio considered 32,000 suggestions, of which 86 per cent were adopted. There were no individual awards, but the men gained through greater job security and better working conditions made possible by the lower cost and greater output. Furthermore, the experience of these joint committees resulted in greater understanding by the men of the problems of the railroad and in an improvement of morale and union-management relations generally.

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**SOURCE : PERSONNEL ADMINISTRATION - PAUL PIGORS & CHARLES A.  
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In this experiment with union-management cooperation, it was the unions that took the initiative. The same was true in the steel industry; technologically backward firms faced with bankruptcy agreed to try union-management cooperation when it was proposed by the union as a means of saving the company and the jobs of the union members. Research and planning committees, composed of four representatives of management and four of the union, were established, with joint subcommittees in each department to solicit from the employees in their departments suggestions designed to increase efficiency, reduce production costs, and eliminate wastes, [and] to adopt those that are considered practical and feasible. Management and labor were to share the benefits through regularized employment, better working conditions, increased earnings, lower costs, and presumably higher profits. In practice, the effect of cooperation in most cases was to enable marginal firms to continue to provide jobs and pay the union scale of wages. Workers became cost-conscious, however, as management brought cost information to the committee meetings. Furthermore, they derived both personal and group satisfaction from making suggestions on production problems in these meetings and from seeing their ideas adopted. As in these railroad experience and in some of the joint labor management production committees during the Second World War, labor and management began to understand and solve their mutual problems in a new spirit.

The experiments in the steel-fabricating industry were sparked by Joseph N. Scanlon, who first proposed this approach when he was president of the local steelworkers' union at the Empire Sheet and Tin Plate Company in Mansfield, Ohio. Scanlon later joined the central staff of the national union as its Director of Research and Engineering, and experiments in union-management cooperation continued under his stimulus. Later, as lecturer in industrial relations at the Massachusetts Institute of Technology, he and his associates helped other companies and unions to introduce these cooperation plans which came to be known throughout this country and abroad as the "Scanlon Plan". During 1959, the Scanlon Plan was working successfully in nearly 30 firms in nearly as many different industries, ranging in size from over 8,000 employees to about 100. The experience with these plans in a variety of firms has clarified the conditions for successful union management cooperation in increasing productivity and sharing its gains.

## **ELEMENTS OF A SUCCESSFUL COOPERATION PLAN**

The mechanics of a union-management cooperation plan are important. But too much emphasis can be put on seeking a "formula." Both the management and the union that embark upon a plan of this sort must be prepared to change their traditional attitudes toward each other. This comes slowly, for at first management may be interested only in a procedure for getting more suggestions from the work force, while the union may see "cooperation" as a way of preserving jobs or getting a voice in matters from which they are usually excluded.

But as experience under a plan continues, a new spirit develops. This has been described as genuine participation, since union representatives on the joint committees now feel free to make suggestions, to criticize, and to ask questions about problems that formerly were considered to be "none of their business". These problems are seen as joint problems for the workers, the union, and the management, affecting the welfare of all of them. Workers see a clearer relation between their job and the total product. Management, reluctant at first to reveal "confidential" information and sensitive to criticism, gradually comes to see the value in sharing all types of information with union representatives on joint committee and the benefit from suggestions that reveal managerial weaknesses.

Nevertheless, the fact that attitudes are all important does not mean that a methodical procedure is unimportant. Experience with successful cooperation plans seems to indicate that the following steps are usually necessary.

1. Find a ratio of labor cost to total production value, or some other measure, which can be used as the basis for computing the savings over normal labor costs under the plan. When the firm manufactures such a variety of products that a labor cost to total value of production ratio cannot easily be computed, a profit sharing formula has sometimes been developed.
2. Provide for sharing the savings (the productivity bonus) each month with all the employees in the firm, according to their base rate and earnings. In at least one plan, even the president and owner are included; in others only top-management personnel and salesmen on commission are excluded. Sharing by employees ranges from 100 per cent in some plans 60-40 in cases where the financial position of the firm has been shaky and the agreed upon ratio favors the workers. A 75-25 sharing is most frequent.
3. Include in the memorandum of agreement a provision for changing the ratio or formula for sharing the gains when a change occurs as a result of an increase or decrease in prices or the wage level, or when a major technological change is introduced by management. The gains to be shared are those resulting from lower costs and higher output under the plan itself.
4. Hold back some portion of each month's productivity bonus, to build a reserve for paying out some bonus in the months when none is earned because of unforeseen conditions, such as a sales slump.
5. Establish departmental production committees of management and union representatives to gather and act upon suggestions for reducing costs and increasing output in the respective departments. Suggestions of wider scope go to a 'screening committee' with top management and local union representatives. Grievances and other matters involving the collective bargaining relationship are kept out of these committee meetings by agreement, the regular collective bargaining machinery being used for these problems.

6. Discuss all problems facing the business at these joint committee meetings—costs, bids, orders, sales prospects, production bottlenecks or difficulties, customer rejections, quality problems, and materials shortages. In one case it was even discussed whether too many new management officials were being added to the payroll! These problems are important because they are recognized as joint problems, and nothing is held back.
7. Distribute minutes of the meeting to everyone in the plant, and discuss key points in the meetings with workers and management people not on the committees. Information is shared as widely as possible, to avoid misunderstanding and charges that union committee members have “sold out”.
8. Arrange for transfers to equally good jobs if action under the plan results in displacement of workers.

These steps perhaps suggest a formality that actually does not exist in most cooperation plans. Informality, with more emphasis on changed attitudes rather than on procedures, is characteristic of successful union management cooperation plans.

## RESULTS OF UNION-MANAGEMENT COOPERATION

When a plan is developed in good faith, the gains to workers, the local union, and management are striking. For example, in a machine-tool firm, during the past 12 years, the monthly productivity bonus payment has averaged 16 per cent. Included in this period were some months when business was so poor that no bonus was earned. Membership in the local union is now 100 per cent of the work force, including office workers and engineers; local union officers, with the encouragement of regional union representatives, have developed an unusual knowledge and understanding of plant problems. Both union officers and workers get satisfaction out of tackling real production problems, “getting their teeth into them,” and in seeing their ideas accepted and put into effect. The motives which ordinarily exist in informal groups for restricting output are removed when information and gains are shared.

The productivity gains recently reported for 10 firms that initiated the Scanlon Plan impressively illustrate the vast untapped potential that exists for improving efficiency. The firms are fairly representative in that they operated in various environments and under widely divergent circumstances. The un-weighted 2-year average annual increased efficiency (above the base period) for the 10 firms was 23.1 per cent, with a minimum improvement of 10.3 per cent and a maximum improvement of 39.2 per cent.

Finally, management and owners have benefited from lower costs, better quality, and less need for supervision. Management’s job under a plan of this sort is not an easier one. But it is a different one. Management officials must “keep on their toes” to plan work ahead and arrange for an adequate flow of orders and materials to the workplace. The planning function of management is increased.

Directing the work force and giving orders are less important, since real teamwork and self-discipline have developed.

These achievements of union management cooperation on production problems can be clearly illustrated in a few examples taken from experience with recent plans. In a machine-tool firm, pieceworkers "took the lid off." Their previous piecework earnings, averaging in one case as much as \$3.57 an hour, were guaranteed in a new hourly rate. They also knew that they would share in the plant-wide bonus. One man then turned out \$184 worth of work in 4 days, and another – a skilled grinder – took on two helpers to increase his output about 300 per cent. This happened throughout the plant, and after 3 months under the plan, the company's backlog of orders was completed. Management was caught by surprise, and executives had to go out to find new business. Meanwhile the bonus dropped, and with the summer vacation period coming the outlook was bleak. Some workers were furloughed. New orders had to be processed through engineering department, and this took time. But the engineers and designers gave up their vacations voluntarily, to provide the plant with drawings so that production could be resumed and a bonus earned more promptly. Teamwork between the shop and the engineers, a sore point in most plants, had developed to a high degree.

Success in these plants, however, is usually not due to harder work from any group of employees. More savings result from suggestions to eliminate waste, to reduce the number of operations required, or to coordinate the work of groups of employees. For example, in a book would process waste ink and return it in usable form at cost of 10 to 15 cents a pound, as compared with 50 to 95 cents for new ink. His suggestion in a committee meeting resulted in a considerable saving. A bindery worker who was member of a production committee suggested stacking work in a different manner in order to save floor space in an outside warehouse. This space was worth 50 cents a square foot. The pressroom and composing room production committees met and agreed to print certain jobs from type, thus eliminating the need to make costly printing plates. In another firm that did machine shop and sheet metal operations on a job-shop basis, each mechanic agreed to pool his own jigs and fixtures, heretofore jealously guarded, in order to share his ideas with fellow mechanics and to reduce the time necessary to complete orders.

Some other more specific cost savings suggestions submitted to the labor-management committees under Scanlon Plan are:

1. A suggestion to modify a slitting machine to use slitting wheels past normal usage. This resulted in getting 60 per cent more production from a wheel, with a saving in the number of new wheels purchased. (Pen and pencil industry.)
2. A proposal to take large cutouts from tanks and heads on the scientific design order and straighten them so that they can be put in stock as salvage material. This saved approximately 1,185 pounds of metal which had previously been scrapped. (Metal fabricating industry)

3. Combine second draw, trim, pierce, wipe, and bulge operations on the plumber operation and run all four of these operations on press No. 2-440. Labor savings amounted to 200 per cent, and three other presses were released for other production jobs. (Metal fabricating industry)
4. When an operator finishes a job, the blueprint and operation sheet should be returned to the tool crib and the operator credited with its return. The operator who performs the next operation should be charged with the print and operation sheet. In this way, prints will not be lost or sent out with parts to be heat-treated, and operators will not lose time searching for prints and sheets. (Electronic industry)

The critic may say that an efficient management would have made these changes without the benefit of employee suggestions through a joint labor-management committee. But the fact is that the actual level of efficiency in many firms is below the optimum level; this is partly because employees are neither motivated to produce as a part of a work group nor are convinced that higher output will be to their benefit as well as the company's. The essential contribution of union management cooperation through the Scanlon Plan is to change both employee and management perceptions of the contributions each can make in their mutual interest.

## **SOME PROBLEMS IN UNION MANAGEMENT COOPERATION**

We do not wish to suggest that these plans are a panacea for all the ills of personnel and labor relations. No plan can be an answer to such problems. Success or failure in personnel administration depends much more on the attitudes and approaches used than in the techniques adopted. Even under union management cooperation, problems continue to arise. Managements and unions should know what these are -

For example:

1. The initial effect of production committees that release the ideas of workers is to bypass the foremen, except those who are committee members. But since in most plans foremen share in the bonus, cooperation on production ideas between workers and foremen may be expected to develop gradually.
2. Joint committees are theoretically advisory. But in practice they often make decisions on production problems. This may seem to threaten management's "right to manage" although the issue has not actually arisen in any of the existing plans. Management is often criticized in committee meetings, and management officials have to be able to "stand the gaff. If they survive the initial ordeal, they may find the experience stimulating.
3. Changes in the "ratio", resulting from changes in prices, wage levels, or the purchase of new machinery, may result in misunderstandings. So far,

few serious problems have arisen, however, because the committee system with information sharing seems to develop an understanding of the need for changes of all sorts.

4. The attitudes of local union officials are likely to change. Grievances seem to have declined under cooperation plans. Local union officers and members become much more interested in ways of increasing their productivity bonus and solving plant problems. There is a greater (though not complete) identity of interest between management and labor. Those who think that unions should remain militant, and even class-conscious, are disturbed at this development. The mature relationships that result from the recognition by both management and the union of their mutual dependence do not, however, necessarily weaken the ties of the local union with the national. The local union continues to identify its interests with fellow unionists in other plants organized by the national, especially when it comes to collective bargaining matters. Since the Scanlon Plan is separate from the collective bargaining agreement, the national union still must formulate policies and provide services which are essential even for a stronger local union. Managements which look to the Scanlon Plan as a means to weaken the hold of the national union in order to gain an advantage in collective bargaining may well have this attempt backfire.

## **WHO GAINS BY UNION MANAGEMENT COOPERATION?**

The experience of Scanlon Plan companies points out the vast under-utilization of human resources that exists in most firms. The productivity achievements of these firms has allowed increased earnings to be shared by the company and its employees. In addition, the employees and management have created an entirely new atmosphere, the benefits of which are difficult to evaluate in terms of greater job satisfaction, healthier attitudes, and more mature relationships. The ability of free collective bargaining to continue as it exists today may very well depend upon the ability of labor and management to recognize their mutuality of interests and responsibility to society in general. To the extent that union management cooperation furthers efficiency, sensibly shares the gains of productivity, and reduces the chance of economic warfare, it benefits everyone.

Management has ordinarily been reluctant to enter into union management cooperation, and the initiative has more often come from the union side. More plans have been started in firms facing bankruptcy or severe competition than in companies that were making a good profit. Have the latter firms nothing to gain from sharing production and cost information with their employees? Do they benefit by encouraging employee and union participation in the discussion and solution of these problems? Is the suggestion-box system an adequate alternative to production committees and cost savings sharing? These are questions that every manager and personnel administrator needs to ask himself, in the light of his own experience and the experience of other firms in developing and utilizing the latent ideas and energies of employees on production problems.

Union management cooperation will survive, as will any other type of union management relationship, only if it helps management, workers, and their union to achieve their respective, though not always identical, goals. But under our private enterprise system, many of these goals are mutual. Union management cooperation on production problems in a spirit of teamwork is a realistic recognition of this fact.

## **SUMMARY**

A continuing challenge for management is how to share the gains from higher productivity in ways that will stimulate the interest of employees in improving the performance of the organization as a whole. To measure productivity is a difficult task. Many problems are involved in trying to relate wage and salary changes to a meaningful productivity index. Nevertheless, a number of notable efforts have been made, by managements and unions, to reach agreements that would share in various ways the gains resulting from improvements due to technological changes and automation. Even more widespread, as efforts in the same direction, are profit sharing, suggestion systems, and union management cooperation on production problems. The common purpose underlying these efforts is to develop still further the team spirit that is necessary for peak efficiency in any organization.

All such plans reflect management's recognition of three points –

- 1) that most employees have ideas on how to do their jobs better and for reducing waste,
- 2) that most employees get increased satisfaction from their work if they are given an opportunity to make positive contributions and see them accepted, and
- 3) that maximum efficiency in production is impossible without such cooperation from employees.

When there is a union in the picture, the challenge to management and to personnel administration is even more evident than in a non-unionized concern. Is it possible to integrate –

- 1) union aims of stability and security,
- 2) the need of employees for direct satisfactions on the job? and
- 3) the technical efficiency that is a prerequisite for success by the company as a whole?

Part of the answer lies in union management cooperation on production problems. This can strengthen a local union, bring direct rewards to employees, and increase the total net income of the enterprise by increasing efficiency, reducing waste, and improving quality.

In the past, unions have usually been more willing to share this responsibility for productive efficiency with management than management has been to admit unions into this kind of partnership. But managements want responsible unions that understand the problems of the enterprise and that will help firms to prosper as workers enjoy increased gains. Therefore, executives should be willing to share information with union representatives and to take the initiative in inviting unions to set up machinery for genuine cooperation in solving production problems.