

AN OVERVIEW OF PLANS FOR SHARING THE GAINS FROM HIGHER PRODUCTIVITY

INTRODUCTION

As productivity increased, gains have been shared with employees through general wage and salary increases and through wage incentives, as we have seen in two preceding chapters. But how to share these gains in a way that will develop an enthusiastic and willing work force is a persistent problem for management. Should all the gains go to employees, or only some proportion? How can we measure the gains in productivity? What approaches and what methods of gain sharing will encourage employees toward still higher productivity? These are among the perplexing questions, which continue to face management and unions.

DEVELOPING EMPLOYEE INTEREST IN HIGHER PRODUCTIVITY

Employee interest in higher productivity does not develop without some stimulation by management, either directly or through the creation of an atmosphere in which employees feel free to contribute their best efforts to the job. Wage-incentive systems have also been devised to stimulate higher output. Industrial engineering techniques accomplish little without a management philosophy that rewards employee ideas and efforts toward higher productivity and is willing to share economic gains as well as job satisfactions with all employees who contribute to achievement of the common objectives of the organisation. We shall consider various ways of stimulating these employee ideas and of sharing the gains that result from higher productivity. Profit sharing, suggestion systems, and the Scanlon Plan for labour-management cooperation on production problems will be discussed in some detail.

PRODUCTIVITY MEASUREMENT

The most commonly used measurement of labour productivity is output per man-hour worked by production workers in manufacturing. This measure of "labour productivity" does not measure the efficiency of labour in the sense of increased effort alone, and indeed no overall measure of this is possible. What it does measure is the increase in output resulting from all factors that contribute by reducing labour input per unit of output-better and more efficient machinery, better work flow, reduced waste, improved processes, more skilled workers, and increased efficiency and effort by workers. There is general agreement among economists that "real earnings" i.e. money earnings adjusted to cost of living should increase over a long period in about the same percentage, term as the increase in "labour productivity". However, year-to-year fluctuations in the productivity index cannot possibly be matched by wage and salary changes; the correspondence should be over a longer period. In competitive manufacturing industries, product prices have fallen or product quality has risen. If price

competition were more widespread throughout the economy, the gains from higher productivity would be shared among employees, consumers, and investors (who gain through higher dividends or enhanced common-stock values if some earnings are reinvested in the business).

SOME METHODS OF SHARING THE GAINS

By and large, in practice, productivity gains seem to have been shared more with employees and investors than with consumers. Fall in product and service prices have not been nearly as conspicuous as have rising real wages and increased stock values.

PRODUCTIVITY AGREEMENTS

THE GENERAL MOTORS-UNITED AUTOMOBILE WORKERS AGREEMENT

One important company, the General Motors Corporation, USA and one of the largest unions, the United Automobile Workers, signed a notable agreement in 1948 which included a method of sharing the gains from higher productivity in line with principles that we have discussed in the preceding section. This agreement contained two innovations: a cost-of-living escalator clause to protect real wages and an “annual improvement factor” to increase real wages by a certain amount each year. At first this amount was 3 cents an hour, later increased to 4 cents in 1950, 5 cents in 1953, and 2.5 percent of base pay (with a minimum of 6 cents) in the 1955 agreement (continued in the 1958 and 1961 agreements). This amount was about equal in percentage terms to the long-term increase in output per production man-hour worked in manufacturing (2.6 percent), although the productivity increase in General Motors and in the automobile industry was probably greater than the national average.

THE KAISER STEEL-UNITED STEEL WORKERS AGREEMENT

The heart of the plan was method of “reasonable sharing of productivity and labour cost savings” coupled with stability of employment or income to assure “progress for the Company, the employees, and the public interest”. The first of the Committee’s underlying facts and assumptions” is especially worth quoting.

Progress is achieved by an industrial corporation and its employees as the result of many factors including, but not limited to, capital investment, advances in technology, public investment in community services and facilities, a skilled, intelligent and alert work force, competent and skilled management, mature labour relations, and free collective bargaining.

As a basis for sharing gains in increased productivity, the Plan noted that “in the case of labour performance, material and supply usage, yield improvement, and utilization of technological improvements, product costs are directly affected by the cooperation and performance of the employees, as well as by management. There is a clear-cut opportunity for improvement in these areas. The gains achieved, are, furthermore, measurable”.

These gains are computed monthly, by a rather complicated formula based on a ratio of employment costs to production value of 32.5 percent, with certain deductions from the reserve for increased benefits of other types, for replacement capital costs, and to even out fluctuations over 12 months. Adjustments are also made for those employees still on wage incentives. The monthly distribution, averaged 18 percent of standard wage.

OTHER PLANS

More widespread than any of the above approaches, however, are three other methods of sharing the increased prosperity of the enterprise with employees. These are (1) profit sharing, (2) suggestion plans, and (3) labour-management cooperation and cost-savings plans particularly the one known as the "Scanlon Plan". Like the labour-management agreements discussed above, they are designed also to increase employee interest in improving productivity, as well as to provide a means of sharing the gains.

PROFIT SHARING

Profit sharing initially appears to be an ideal way to share some of the gains in productivity within a firm. In many cases, however the incentive aspect of profit sharing is secondary. Although plans differ widely in specific details, there are basically three types: profits are shared (1) in cash, (2) in deferred payments, or (3) in a combination of cash and deferred payments. Under the cash plan, payments are usually at specified intervals. Under the deferred-payment plan, the money is placed in a trust fund to be disbursed usually when the employee is disabled, laid off, or retired. In the last instance, a combination of both, the employee's share is divided (in a prescribed ratio), a part of it is paid in cash, and the remainder is placed in his account in a trust fund.

EMPLOYEE – SUGGESTION SYSTEMS

Suggestion systems can be well planned and successfully operated. It is not unusual to find the percentage of accepted suggestions between 25 and 35 percent and about one out of every three employees submitting suggestions. Suggestion systems that have achieved this degree of success usually have met the following standards:

1. Top management wholeheartedly supports the suggestion system, assigns responsibility for it to a management official (usually in the personnel department), and encourages foremen to stimulate employee ideas.
2. Employees are clearly informed about the kinds of suggestions wanted and even the specific problems on which management seeks help. Rules under which the system operates are also clearly explained to employees.

3. All suggestions are promptly acknowledged, and if they are subsequently rejected, an explanation is given for each rejection.
4. Awards for acceptable suggestions are monetary and on the liberal side, usually more than 15 percent of the first year's net savings. Full publicity is often given to award winners.

A joint suggestion consisting of labour and management representatives offers management a valuable opportunity to share certain types of information with employees management and labour. If management stops short of encouraging participation of employees in the process of deciding upon suggestions, the suggestion system is likely to retain an air of paternalism – a means of “passing out a few extra bucks to the boys in the shop”.

SCANLON PLAN FOR LABOUR–MANAGEMENT COOPERATION:

ELEMENTS OF SUCCESSFUL SCANLON PLAN

Both the management and the union that embark upon a plan of this sort must be prepared to change their traditional attitudes towards each other. This comes slowly, for at first management may be interested only in a procedure for getting more suggestions from the worker 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.

As experience under a plan continues, however, 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 committees and the benefit from suggestions that reveal managerial weaknesses.

Experience with successful co-operation plans seems to indicate that the following steps are usually necessary.

1. Find a ratio of labour cost to total sales value of production, or some other measure, which can be used as the basis for computing the savings over normal labour costs under the plan. When the firm manufactures such a variety of products that a labour 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 to 60-40 in cases where the financial position of the firm has been shaky and the agreed-upon ratio favours 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. In practice, only major changes result in ratio changes.
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 payroll. These problems are important because they are recognized as joint problems, and nothing is held back.
7. Distribute minutes of the meetings 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". Improved two-way communication on a wider range of problems is one of the benefits of a cooperation plan.
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 labour management cooperation plans, such as the Scanlon Plan.

WHO GAINS BY LABOUR-MANAGEMENT COOPERATIONS?

The experience of Scanlon-Plan companies points out the vast under-utilisation of human resources that exists in most firms. The productivity achievements of these firms have allowed increased earnings to be shared by the company (including the stockholders) and the 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 labour and management to recognise their mutuality of interests and responsibility to society in general. To the extent that a labour-management cooperation plan furthers efficiency, sensibly shares the gains of productivity and reduces the chance of economic warfare, it benefits everyone.

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