Commentary from
The Human Treatment of Human Beings

“This is risky. The alternative, however, of continuing to let companies and whole
economies run downhill, producing shoddy merchandise, wasting resources, and
alienating people, has its own more serious set of risks.”

—John F. Donnelly, former CEO, The Donnelly Corporation

“John Donnelly was doing servant leadership when servant leadership wasn’t cool.
Predatory practices were the norm during most of John’s career. He chose to break
with the norm and move to higher ground. His courage and commitment are also part
of his legacy. We will not solve the problems of global poverty, and environmental
degradation unless and until we learn the art of servant leadership.”

—Robert Doyle, “Introduction”

“The highest reward for a man’s work is not what he gets from it but what he becomes
by it.”

—John Ruskin, Essayist

“John Donnelly used his family’s business—The Donnelly Corporation—as a massive
experiment in industrial democracy. He drew extensively from the best theories in behav-
ioral science, worked with great organizational thinkers like Dr. Carl Frost at Michigan
State University, and Dr. Rensis Likert at the University of Michigan to create a more
humane workplace for human beings. He experimented with the Scanlon Plan and Rensis
Likert’s “System 4” The Managerial Grid, Gainsharing and a host of other philosophies,
systems, and models to constantly perfect the way work was done.”

—Paul W. Davis and Larry C. Spears, “Why This Book Matters”

“Does all this sound too good to be true? Does it presume mankind is better than it really is?
Does it demand a change of heart by many people? Are we being presumptuous?
Yes to all four of these questions.”

—John Donnelly, former CEO, The Donnelly Corporation
THE HUMAN TREATMENT
OF HUMAN BEINGS

John Fenlon Donnelly

Paul Davis and Larry C. Spears, Editors
The Scanlon Foundation
THE HUMAN TREATMENT
OF HUMAN BEINGS

— PROSE AND POETRY —

JOHN FENLON DONELLY

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If Thomas Aquinas were a businessman today, he would act and sound a lot like John Fenlon Donnelly did in the second half of the twentieth century. He would not be just an apologist for popular business school theories. Of course, he would listen to the theories, but more than listen and follow, he would do his own independent analysis of the capitalist system and the organization of his business. The purpose of his analysis would be to understand how they work, and why they work, and how to make them work at the highest levels of excellence.

John regularly sent reprints of interesting business articles, mostly Harvard Business Review reprints to his staff. These were often accompanied by a cover memo entitled ‘How and Why.’ Later, in the 1970s and 1980s he began to write his own ‘How and Why’ articles. This book is a collection of John’s originals.

The reader will find these articles unique in business literature. These are not just a rehash of then current theories. They are the result of his fifty years of personal experience as CEO and Chairman of Donnelly Mirrors and his own deep thinking about the best way to manage a business.

Of the hundreds of CEOs, including Generals and Bishops, with whom I have worked, John’s passion to understand the how and why of organizational excellence and effective leadership was unequaled. He had an unshakable belief in the goodness of human nature, and despite its many weaknesses, its perfectibility. He did
not excuse mistakes, but he was always the teacher and never a
punisher. His writings, as the reader will discover, are those of a
teacher, a deep thinking teacher.

John spent his entire adult life as the President and CEO of the
Donnelly Corporation. He attended Notre Dame in the late 1920’s
and early 1930’s, where he studied engineering and, more impor-
tantly, was introduced to Thomistic philosophy by such great men
as G.K. Chesterton and Jacques Maritain. He then entered the sem-
inary in Baltimore, Maryland to study for the priesthood but soon
returned to Holland, Michigan to manage the family business when
his father suddenly and unexpectedly died.

He applied himself diligently to the task of learning how to man-
age a business, but he never gave up his drive to study philosophy,
the arts, history and the natural and physical sciences. He was a
voracious reader and the scope of his knowledge, as far as the rest
of us could determine, was without limit. We were amazed at the
range of his understanding and knowledge. Once Jim Knister and
I decided to try to find a topic outside of his expertise. Over lunch,
I began a conversation about offshore oil drilling in the Gulf of
Mexico and Jim, according to our conspiracy, picked up the dis-
cussion. In no time, John had joined the discussion and neatly sum-
marized the economic dimension, the environmental threat, and the
technical difficulties of deep sea oil drilling. We were both stunned
and, as you can well imagine, neither of us ever tried a stunt like
that again. Typical of John, he did not enter the discussion to dom-
inate it or to show how smart he was, he was just participating.

John was a leader and he wore the mantle of leadership with
grace and charm in many roles. After his father’s death, he was
needed to manage the company, and he accepted that leadership
responsibility willingly and continued it for more than fifty years.
He was a community leader. He helped the Holland Chamber of
Commerce become the first chartered Chamber in their size cat-
egory in the U.S. He was a leader in his church at the parish and
diocesan level and, in the early 1960’s; he was elected President of
the National Council of Catholic Men. However, most of all he was
a leader in his family, a responsibility more dear to him than anything else in his life. John gave great energy to his business and to a variety of social action causes but there was never a doubt that his primary responsibility and interest was the happiness and welfare of his wife, Kay, his children, and his brother and sisters and their families. He was a person and a father before he was a CEO and these priorities informed his role as a businessperson.

In his book, *Business as a Calling*, Michael Novak makes the point that human capital is the most important resource of a business. Novak, a theologian, points out that virtue and character are the important components of a business' human capital. Virtue and character, more than technical and organizational skills, build the internal and external relationships of trust and service necessary to a successful business enterprise.

Novak applies the four cardinal virtues to the vocation of the modern businessperson. These, he says, are the virtues upon which the good character of the business and business people must be built. By good character, he means the classic Greek philosophical ideal of good or kalos, meaning a goal to aspire to, with a power of attraction and beauty drawing us onward by its radiance. We do not usually talk about business goals and strategic plans that draw us onward by their radiance, their goodness. However, John was able to see things in that dimension; he had the good character hinged on the cardinal virtues. His goal was always kalos—the good, as he knew it and he worked hard to discover that which was truly good.

John scores high on the cardinal virtues. He was temperate in his passions, the first cardinal virtue. I have seen him angry, but not out of control. His absence of visible vices, and his modesty, was one of the reasons he was so trusted and respected. I can remember production employees of the company saying about a new policy or program or decision: “I don’t really understand it, but if John says it’s okay, that’s good enough for me.” That testimonial alone would set John apart from most business leaders, indeed from leaders in almost all professions.
The second virtue, his courage and ability to face adversity with calmness was a product of his strong faith in a divine providence. One Friday afternoon just before Christmas in the late 1950’s John received a call from the Purchasing Department of General Motors. He was told that beginning January 1 the company must lower the price of each rear view mirror by 5 cents. That was about a 5% cut in revenues and enough to wipe out any profit the company would make on GM’s business. He was very upset with the harsh way the company was being treated by its best customer: no warning, no discussion, and no opportunity to protect the company. He decided to keep this information to himself rather than spoil everyone’s Christmas holiday. He walked downstairs to the factory and visited with the people on the floor. While talking with the workers on the silvering line he asked if anyone had ideas about how they might take some cost out of production. One of the ideas that came up was to purchase plate glass in a slightly larger size and get five mirrors out of each blank rather than four. As soon as possible, he had Purchasing check on the availability of the larger size. The answer came back that the larger size was available and cheaper because the larger size was a standard size. For several years, the company had been paying a premium for the smaller non-standard size. This amounted to a savings of 5 cents per mirror in material and labor costs. Incidents such as this formed the rock solid conviction John held about the power and benefits of employee participation.

In addition to his encyclopedic knowledge, he had the gift of practical wisdom, the third cardinal virtue. This enabled him to see the practical value of the Scanlon Plan as a management tool to provide financial equity for the employees of the company. It was his practical wisdom that caused him to say yes when Rensis Likert asked the company to participate in a major research project on the use of employee diagnostic surveys as an organization development tool. His practical wisdom prompted him to decline another Likert invitation to join a research project on Human Asset Accounting. John knew instinctively that the true value of the human organization could not be reduced to a mathematical fact.
Likert's first project, Survey Guided Development, is alive and well to this day. Human Asset Accounting was tried for a few years in other companies and abandoned to the graveyard of intriguing but unworkable organizational theories.

Another example of John's practical wisdom occurred in a discussion he was having with Art Thornbury, the Production and Manufacturing Engineering Manager for the then new Donnelly Mirrors, Ltd. factory in Ireland. John wanted to know Art's opinion of one of the more technical manufacturing processes. Art said the process had been explained to him in a way that contradicted what he considered good engineering practice, but he said he would withhold his concerns and see how the process worked. John encouraged him not to acquiesce and not to withhold his knowledge and experience but to challenge everything until it made good practical sense to him. This Aquinas-like relentless search for truth was a key element of John's idea of participation.

The fourth cardinal virtue, Novak describes as the right touch in giving each person and each matter its due; this is the virtue of justice. John was able to talk as easily with employees on the factory floor as with senior managers, major customers, government officials, or even Council of Bishops. He did not respect people of great status more than those with blue collars. He respected everyone very highly. He had a keen sense of justice and examined every aspect of his business to be sure that justice and equity were being served. Long before the environmental movement developed a head of steam, he moved at considerable expense to clean up a water discharge that was not toxic but was an aesthetic problem. The water discolored a very minute portion of Lake Macatawa where the factory wastewater emptied into the lake. No Department of Environmental Quality forced him to do it. The community loved its lake and it did not look good, and that was enough for him to act.

Under John's leadership, we never hesitated to act on matters of social justice. We attempted a variety of affirmative action plans and participated in programs to employ the unemployable. John viewed the company as an institution of society and the community and,
therefore, an institution with a responsibility to and for the community. His support of the Scanlon Plan was prompted by his sense of justice. His desire to see justice done was also the reason why he was so eager to promote the Scanlon Plan to other companies. In 1966, while I was Training Director of another Scanlon company, I convened a meeting of several western Michigan Scanlon companies, and it was there that I first met John. John noticed the idea and provided the leadership that changed that meeting into an Association that, 40 years later as the Scanlon Leadership Network, is still actively promoting the ideas of the Scanlon Plan.

John was not unique among CEO’s in his extensive knowledge or in his practice of the cardinal virtues I have described, rare but not unique. Still, he was considerably more successful than most in creating an organization whose hallmarks were participation, equity, and trust. John had one more special ingredient that went beyond the cardinal virtues, a force that enabled him to be more consistent and more successful in his practice of management. What made John Donnelly unique among business leaders, and the reason for his successes as a CEO, was his religion. For John, religion was not something saved for Sundays, it was the driving force in his life, and in everything he did, including managing a manufacturing company. You cannot possibly understand John’s writings, his actions, and his successes without understanding his very strong religious motivations.

On the surface, he can be characterized as a typical devout American Irish Catholic. He attended church regularly and participated fully in the sacramental life of the Catholic Church. He was well read in philosophy and theology. In these, he was better educated than 99% of Catholic lay people and more than half of the clergy. He was very much a Thomist and strongly attracted to Aquinas’ zealous pursuit of the truth.

He was a serious student of two prominent 20th century Thomists: Jacques Maritain and Bernard Lonergan. Maritain first introduced him to Thomistic philosophy while he was a student at Notre Dame. Later he became a fan of Lonergan. In 1977, he wrote
telling me of a new book by the Jesuit, Bernard Tyrell, entitled *Bernard Lonergan’s Philosophy of God*. And I quote from John’s letter:

“Lonergan, in my estimation, has done more for Thomism and truth seeking than any person since Aquinas. He is developing a following among philosophers and theologians both Catholic and Protestant. While he does not often address questions of the application of philosophy to life’s problems he is very much aware that the future of mankind depends on having a sound basis for our knowing.

*He has what he calls the transcendental imperatives:*

- Be attentive
- Be intelligent
- Be reasonable
- Be responsible
- Be loving
- Develop and, if necessary, change

*These imperatives he says are the way to truth. They are also the way to love, to social justice and to the Omega point."

John’s reference to the Omega point refers to the writing of Teilard de Chardin. John was very familiar with the work of Chardin and often referred to Chardin’s Omega point, that state of perfection toward which evolution is aimed.

The preceding list of John’s intellectual interests in not exhaustive but it does cover his major interests and I cite it to show that he was neither your average Catholic layman nor your average businessperson. What I described above was the visible and intellectual side of his religious life but it was the spiritual side of his religion that really set John apart.

In a company and family history, John describes the religious character of his grandmother and of his father. About his grandmother, he said: “Her outstanding trait, perhaps the source of her cheerfulness, was an abiding faith in God. Indeed she appeared to live with Christ as a constant companion.” And commenting on his
father, he said: “Like his mother, he seemed to have God unobtrusively near.” Both of these statements could be made about John himself. He did not preach religion to his business associates and many with whom he worked were never aware of the depth of his religious faith. Those who did not understand his deepest motivation simply saw a man who was kind, trustworthy, respectful, polite, and very smart. However, today I cannot fully describe his legacy without explaining his religious motivation.

I discussed religion often with John and had the good fortune to be exposed to this powerful side of his character. John did live with Christ as a constant companion. John’s religion was not a religion about Jesus; it was the religion of Jesus. For John, being a Christian meant very simply to try to live his life as Christ lived: serving others and in all matters, living the prayer “Thy will be done.” Love one another is a basic tenet in all religions. John heard the whole of Jesus message at the Last Supper: Love one another as I have loved you. It isn’t enough to love on our terms. The ideal, which John tried to practice, was to love on Christ’s terms.

John did not pretend to be a Christian, he was a Christian.

In 1969, I talked John into going to a T-group for CEO’s. T-groups were a popular training program based on group psychotherapy. As a business training program, they were intended to teach managers to be sensitive and open to others and to increase their skills in giving and receiving face-to-face personal feedback. Small groups of 10 or 12 would discuss and interact on issues such as personal leadership and values and then tell each other what each did that helped or hindered individuals or the group. John came back from the experience and wrote the poem you will find in Chapter 16. In John’s own words, we hear him say: Please listen to what I have to say. I have studied and worked hard to understand people and work. I have made mistakes and learned from them, and my learning has always been guided and inspired by the Greatest Teacher of all: Jesus Christ. Like all businesspersons, John studied and practiced management, marketing, finance, and technology, but as he did, he sought to use the knowledge and skills of the
businessperson in a Christ like manner. This dimension gave John his edge.

I could spend a lot of time on this poem but let me make just one more point about it. When he says “my position is right,” John sounds dogmatic. How, then, could a man who holds such strong positions really encourage others to participate. The answer is that John was not dogmatic. Webster’s defines dogmatism as the arrogant assertion of unproved or unprovable principles. John was never arrogant, and the principles he asserted were, as far as he was concerned, proven. He worked very hard to discover truth and, when he had found it, he was rather tenacious.

For him, participation was not a search for a popular decision. It was always the search for truth, justice, and excellence, popular or not. If you had not done your homework, you could be in trouble participating with John. Once an employee challenged John, asking him: “How much more improvement do you want? Aren’t you ever satisfied?” John’s answer was, “I won’t ask for more improvement if you promise not to ask for more pay.” On the other hand, if your position were sound, John would gladly support it. John’s concept of participation was not a game to make people feel good. It was a way to discover truth and better ways of doing things. He expected participation to be a struggle. Achieving good things usually requires a struggle.

So now, we have a CEO who was smart, who was virtuous, and whose secret ingredient was a deep Christian faith.

So what is my point? Am I suggesting that you must be a Thomistic philosopher in order to succeed in business? No, I am not. Am I suggesting you must be a devout Catholic to be able to do the things John Donnelly did? No, I am not. However, I don’t want to get ahead of myself, so before I make my point, let’s talk about John Donnelly’s work and his achievements on the frontier of participative management.

In his first 20 years as President of Donnelly Mirrors, most of his attention was focused on the survival of the business. He took over at the depth of the Great Depression when things were anything but
stable. During WW II, he was able to get some war production, which kept the company alive and provided a new product technology that put them into the automotive supply business following the war. The company grew from this foundation.

In 1952, John installed the Scanlon Plan. The Scanlon Plan was then, and still is, a cutting-edge program that has three principal components: a highly participative management system, a formal employee involvement process, and an employee bonus to equitably share increases in productivity and profit with the company’s employees and other stakeholders.

This was to be his first formal experience with participative management but participative management was not his reason for adopting the Scanlon Plan. His main reason for adopting the Scanlon Plan was his sense of equity and fairness. Following WW II, Donnelly Mirrors, like many companies, had a myriad of out-of-control individual incentive plans. These, he said, were inequitable and divisive, and to replace the many individual incentive plans with one Scanlon bonus was more equitable and unifying. It was also practical in that it was more cost effective and administratively simpler.

So he installed the Scanlon Plan to correct a compensation problem and then he began to discover and learn about participative management. Apparently, he didn’t learn fast enough because in 1960 he was shocked when the employees petitioned for a union election. He recognized immediately that the employees’ interest in a union expressed their need to have a greater say in matters that affected them, in other words, their desire for greater participation. He opposed the union, but not in a typical competitive or adversarial way. He agreed that employees should have more say in matters of interest to them but he considered it management’s responsibility to provide the means for appropriate participation. He was not willing to abdicate that responsibility to any outside third party. The employees voted not to have a union, and John responded by becoming a much more serious student and practitioner of participative management.
He heard and understood de Tocqueville's observation that the more a people control their own government, the more it frees them to engage in cooperative efforts to improve their life situation. He created the Donnelly Committee, a representative group to review company policies and issues affecting the work community. And, as the Donnelly Committee gave people more influence in the company, they did participate and cooperate more in improving company performance.

He heard and learned from other authorities such as Drucker, McGregor, Likert, and Maslow. Before I started working for Donnelly Mirrors, I told John about Blake and Mouton's Managerial Grid; an intensive weeklong training program in participative management. John saw value in this training and sent every Donnelly salaried employee, about 50 employees, to the weeklong course. At that time, this one decision resulted in expenditure equal to about 20% of the company's annual profit. This was an example of his commitment and willingness to put his money where his heart was. This also led to my joining the company. I had been unable to get anyone from my previous company to take an interest in Managerial Grid training. When I realized I was having more influence and success at Donnelly's, I asked John for a job.

With his guidance and support, we made great strides in expanding employee participation. We pioneered the use of work teams in production and at all levels of the company. Work teams met regularly to solve problems and find ways to improve work. Prior to work teams there was a traditional Scanlon production committee suggestion process. In its first year, work teams generated cost savings three times greater than under the old system. During this period, employee bonuses averaged about 15% of their pay each month. The company consistently lowered product prices and profits grew to very healthy levels.

With a good participation process in place and good bonuses satisfying people's equity concerns, John turned his attention to the planning process as he felt this was a better source of motivation than the Scanlon bonuses. In a 1981 letter, he wrote:
"I believe a strong distinction should be drawn between incentives and motivation. Incentives encourage people to concentrate on the reward, not the work to be done. They encourage many non-productive behaviors. Motivation, on the other hand, is an internal drive that is released by worthwhile goals. Goals ought to start the process for humans. People will willingly work toward organizational goals if they believe them to be worthwhile. Providing a livelihood is a minimum goal. If the work involved is creative or helpful to others, the motivational forces become stronger. The more the CEO can provide a wholesome standard for the worth of company objectives, the more willingly people will support these objectives."

He gave a great deal of attention to the whole planning process. Most business management planning processes are only concerned with the ‘what’ and ‘how-to’ of the company’s work; the ‘what’ being sales and revenue goals, quality and customer satisfaction goals, and so on. The ‘how-to’ of planning includes budgets, staffing requirements, sales programs, etc. These, of course, are necessary for efficiency and productivity. The element John began to add was the ‘why’ of the company’s work, the real meaning in human terms for all of the company’s constituents. For John the ‘why’ was always defined as service to others, helping others. In religious terms it is: love one another. As John said in the preceding quote—when work is helpful to others, the motivation forces become stronger.

In the terms of the Maslow five-level motivation model, pay, benefits, and job security address levels 1, 2, and 3. And, for most non-management workers, companies give very little attention to any needs beyond level 3. Interesting and challenging work, which is a component of most managerial and professional work, satisfies the self-esteem needs of Maslow’s level 4. Maslow’s level 5 needs get an honorable mention in management training programs but are not seriously addressed in the world of work. We have had several generations of managers who believe that people, at least the people
they hire, are motivated solely by economic needs. Because John believed that people had a need for meaning in their lives well beyond economic needs, he tried to put more meaning into their work and the work of the company.

He believed, with Victor Frankl, the author of *Man’s Search for Meaning*, that the desire for meaning was more true to human nature than the desire for pleasure. He agreed with Maslow that the best managers help workers satisfy their needs for truth and beauty and goodness, as Maslow defined level 5. This was no easy task and I doubt that John was ever satisfied with his results in this area because his expectations were so high. However, his interest and efforts are there for us to see and they are part of the legacy he left for us to build upon. In a paper he wrote in 1979 (Chapter 10) to clarify the purpose and work of the company, he started with this John Ruskin quote: “The highest reward for man’s work in not what he gets for it but what he becomes by it.”

His interest in meaningfulness was not limited to employees of the company. Another thing that troubled John was the role of shareholders in the modern corporation. He felt that shareholders should be active and responsible participants in the business. He saw modern shareholders as investors with no more interest in the company, its affairs, or its products than the financial return on their investment. Because he believed so strongly that people are much more than the wealth they might accumulate he felt that shareholders should be interested in more than how many dollars their investment might bring them.

He tried to involve his own shareholders with more regular communications and special meetings. These efforts were somewhat successful and he never ceased to encourage responsible ownership or trusteeship.

It is a pity that John did not meet Robert Greenleaf while they were both alive. John was on the same “servant leadership” wavelength as Greenleaf, and I’m sure they could have been great collaborators on issues such as the stewardship responsibilities of boards, owners, and managers. For those of you who are attracted
to the Donnelly legacy, I recommend that you also look into the work of the Spears Center, and the Greenleaf Center, located in Indiana. They are both advocacy and educational institutes promoting the same kind of service to others, and responsible business leadership that characterized the work of John Donnelly. As President & CEO of The Greenleaf Center from 1990 to 2007, it was Larry Spears who uncovered many of Robert Greenleaf’s previously unknown writings and brought them to the public’s attention. Paul Davis and Larry Spears have now done something similar with this book of John Donnelly’s private writings. I hope that it will have a similar result: to raise public awareness of John Donnelly’s insightful and inspirational writings.

Using Greenleaf’s concept of servant leadership, I can now give you a simple model that puts John Donnelly’s character and motivation into perspective. Starting with servant leadership or servant business management as an ideal of Christian service, as one pole of a continuum, we can identify its polar opposite as predator leadership or predatory business management. You can use this continuum from servant to predator to analyze company cultures, business practices, and specific decisions. Everyday we see examples of predatory business practices. Some are truly mean, most are petty. We see downsizing, excessive executive pay, exploitation of third-world workers and petty office politics. We even have books entitled “How to Swim with Sharks.” But John Donnelly was as far from the predator pole and as close to the servant pole as any CEO I have ever known. And this is my point in telling you about his deep religious motivation. I believe his model of servant leadership to be the very essence of his legacy.

We have been trying to solve the problems of people at work with secular, humanistic behavioral science approaches for the past 50 years with very limited success. I do not believe we will make real progress until we recognize that man is truly a spiritual and religious being and take the approach modeled by John Donnelly.

I am an unrepentant optimist, and I see a shift away from predatory leadership and to servant leadership. I am encouraged by the
Novak book, the Scanlon Leadership Network, the Spears Center, the Greenleaf Center, and by this book. However, I also want to make the point that John Donnelly was doing servant leadership when servant leadership wasn’t cool. Predatory practices were the norm during most of John’s career. He chose to break with the norm and move to higher ground. His courage and commitment are also part of his legacy. We will not solve the problems of global poverty, and environmental degradation unless and until we learn the art of servant leadership.

Robert Doyle
Issaquah, Washington
January 2009
INTRODUCTION

— Why This Book Matters —

PAUL DAVIS AND LARRY C. SPEARS

Every year thousands of new books are published throughout the world. The United Nations Educational, Scientific, and Cultural Organization (UNESCO) track the number and types of books as an important measure or indicator of the standard of living and education of a country. Yet, why do we need another business book?

This volume has an unusual history. As a literary project, its genesis began with a worried phone call from international business consultant, Maryan Komejan, to Paul Davis, then-President of Scanlon Leadership Network. Maryan told Paul that she had heard that the Magna Corporation (formerly The Donnelly Company) was in the process of throwing out the old files of John Donnelly, who had died nearly twenty years earlier. At the time, Maryan and Paul had reason to believe that significant writings by John Donnelly were on the verge of being lost to the world. Paul raced over to the Magna Corporation and rescued those files.

Next, Paul asked Larry if he would help him to sort through boxes of documents written by John Donnelly over a thirty-year period to assess what was there. In 1991, Larry had the unusual experience of going through Robert K. Greenleaf’s papers and discovering nearly ninety previously unpublished writings. About half of those discoveries were eventually published by Jossey-Bass in
1996 in the form of two books: *On Becoming a Servant-Leader* and *Seeker and Servant*. In the nearly twenty years that have passed since their initial discovery, the writings that went into those two posthumous volumes are still in print and they have sold tens of thousands of copies while introducing several new generations to servant-leadership.

As editors, we began to go through these materials, and we were soon excited by the breadth and depth of our discoveries. This eventually led us to contact the Donnelly family, and to the relief of learning that John’s family had its own copies of John’s writings in their possession. With their blessing and enthusiastic support, we began to work in earnest on the task of assessing what was there.

Thus began our unique and fascinating challenge of reading through some 800 documents, totaling thousands of pages, written by John Donnelly, starting in 1953 and continuing until his sudden death in 1986. We began to sort, evaluate, and to winnow down these documents to about fifty, which we believed to be of significant relevance to those looking for answers to the critical challenges in the fields of organization development, leadership, and motivation in Global economy. These fifty documents broke out roughly into half of them focusing on business-related themes, and the other half on spiritual and faith-related ideas. In the end, we have gathered the best of the business-focused writings into this volume. The spiritual-based essays are also very powerful reading, and it is our hope that they will also be published in time.

We believe these writings warrant publication, as they contain the distilled wisdom gained over thirty years from one of the greatest organizational experiments (Scanlon principles and leadership), and written by one of the most original business thinkers the world has ever known (John Donnelly).

John Donnelly used his family’s business—The Donnelly Corporation—as a massive experiment in industrial democracy. He drew extensively from the best theories in behavioral science, worked with great organizational thinkers like Dr. Carl Frost at Michigan State University, and Dr. Rensis Likert at the University
of Michigan to create a more humane workplace for human beings. He experimented with the Scanlon Plan and Rensis Likert’s “system four” The Managerial Grid, Gainsharing and a host of other philosophies, systems, and models to constantly perfect the way work was done.

In the process, he created an organization that was ranked in the top 25 best places to work in America. He created an international manufacturing organization that produced most of the world’s car mirrors and other automotive components. His organization became the darling of researchers and writers. He was featured in the Harvard Business Review, and Fortune magazine yet none of what has been written can match what is contained in this volume.

Through these essays, you can enter into the mind of John Donnelly, stand on his shoulders, and see a little farther. John did the heavy lifting for us. He studied the great philosophers, he read the quantitative research, and he integrated the big ideas, tested them in the real world, and then took the time to record his thoughts in succinct and thoughtful prose and poetry.

His gift to the future was a deeper understanding of people, organizations, and leadership for those who have the courage and discipline to stop, read and reflect. They will recognize some of the roots of the transition to participative management that took hold in Western manufacturing companies during the remaining decades of the twentieth century and the development of organization cultures which enabled American industry adopt to many new business models including Japanese concepts of “lean manufacturing” and “continuous improvement” which have helped U.S. manufacturing maintain competitiveness in the face of growing competition from developing economies.

As we look to the 21st century challenges of global business, there are insights to be found in the 20th century writings of John Donnelly. Whether the issues are the ethical behavior of organizations; the social responsibility of corporations; innovative models for global business; equitable compensation structures or the role of
shareholders, the seeds of creative solutions can be found in the thinking of John Donnelly.

Organizational leader’s worldwide need to become more self-aware and thoughtful of their role in a Global economy where the nature of work and organizations are constantly changing. This book will help future leaders create human organizations relevant to our times

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A few years ago, I read a story in which one of the characters voiced a complaint that has grown more common of late: you just cannot find domestic help today that is as careful and industrious as you could a generation ago. This statement (I did not quote verbatim because I cannot find a citation) points up indirectly the problem I want to talk about tonight and the inadequacy of the explanation that is commonly given for the problem.

The problem is the lack of responsibility, ambition, initiative, and thrift among working people today. On every hand you hear employers talking about their workers in such terms as: all they're interested in is their take-home pay; the won't try anything new that is suggested to them; I can't get anyone to take any responsibility beyond his day-to-day routine; what's become of our people—they don't want to get ahead. Of course, some of this talk can be discounted on the basis that it is just the wailing of a modern-day Cassandra, for we can all point to some young people who are hardworking, thrifty and ambitious who will readily pick up the reins if someone lets them slip. However, these critical judgments of the working force are all too widely held and too frequently voiced to be ignored. We find there is much agreement on the cause as there is about its existence. How can you possibly have an ambitious and hard working population when a paternalistic government, whether New Deal or Fair Deal, tries to guarantee everyone not only living but complete cradle to grave security? The idea that the
world owes me a living has been preached during the last 20 years until there is scarcely a spark of ambition left. The explanation continues that high taxes have reinforced this doctrine. This evidence seems very damning and very plausible. The only possible error with the argument is pointed out by the quotation with which I began this talk. While read the book only a few years ago, it was written some 50 or 60 years ago. The quotation is from one of Conan Doyle’s Sherlock Holmes stories. So we see that the problem existed long before most new dealers were old enough to know whether to deal off the bottom or top of the deck. It is true that the various deals have played their part in dampening initiative but they could not have been the sole cause. If we stop to think for a moment we would realize the impossibility of changing a nation of genuinely industrious people into a mob of shiftless, lazy people who “won’t shoot Santa Claus” in the space of one generation.

If you examine the development closely, you will see that the New Deal merely capitalized on and fostered a condition that already existed. It existed not only in America but also in Europe. Strangely enough, it would appear to result from the same doctrines and forces that made the rugged individualist and self-made man possible. The free enterprise system as it has developed in the western world has given, and still does give, the maximum opportunity for the individual endowed with the proper intellectual, personality, and physical characteristics to get to the top and to impose his will on great masses of other people.

This notion of “self-made” man is very misleading “and it is the key to understanding of the problem of those who never succeed in being self-made. The term “self-made” seems to imply that anyone can be self-made it just takes a little hard work. This is a great fallacy because if any one of the necessary characteristics is absent in a person, he won’t make the grade. Business success presupposes at least average intelligence, or if that is lacking, a sort of cunning which can be made to substitute. Whether intelligence or cunning is the basis of his success, the self-made man cannot say that he made his intelligence. He may say that he made good use of
it, but the intelligence itself was and inheritance or endowment. There are millions of people in this country who don’t have average intelligence and nothing they can do will give it to them. The same thing is true to a lesser degree with personality traits. These also are born with us or developed by our early environment. While we can’t pick the traits we are born with nor can we pick our early environment, there is some chance to improve our personally given some guidance and a fair amount of will power. The grace of God may play a helpful part too. In any event, if the self-made man happens to be born with certain personality defects and succeeds in overcoming them, you can be sure that he did not do it all alone. We may owe him a lot of credit, but he, in turn, undoubtedly owes someone many thanks.

The same argument holds true of physical well-being. Most successful business people start out with rugged constitutions. It is the typical boasts of the self-made man but he never was sick a day in his life. He may ruin his heart or stomach on the way up, but he usually had a good start physically. A hyperactive thyroid may have been the difference between success and failure. Whether our self-made man has a hyperthyroid or not we will admit that a robust and vigorous constitution is an aide to success. There are millions of people who do not have robust health, who do not wake up in the morning “raring to go,” we can’t work long hours at a fast pace.

In addition to those traits, which the self-made man needs, many others help him. For example, if his skin happens to be white he has a big head start on some thirty million of his fellow citizens.

Now all this is not an attempt to belittle the self-made man, it is merely an attempt to understand the real meaning of the term. A self-made man is one who has chosen to use his endowments, intellectual, personal, and physical to the best of his ability to overcome poverty or lack of position or education in his childhood and arrived at a place of importance in the business world. He probably made many hard choices on the way up. He may have chosen to get up early when it would have been easier and pleasanter to sleep in. He may have worked overtime without pay and so on. He
may be able to point to friends who had much better endowments and opportunities but failed to arrive. It is certain that not everyone has the necessary endowments and opportunities will achieve business success. Some may flub their chances by that type of laziness, which could have been overcome. Others may not achieve business success even though properly endowed because they have other values and other goals in life. The real point I want to make is that there millions upon millions of people who could no achieve business success no matter how hard they try simply because they don't have what it takes. The free enterprise system may give them all of the opportunity they need but they lack one or more of the endowments necessary to success.

Less too much of this discussion seems to be based on my reasoning alone, and therefore be suspect I will call your attention to the vast amount of work that big business is doing in conjunction with the psychology departments of universities and with independent consultants on the proper placement of people. They are trying to find ways of measuring the traits necessary to leadership and even those special traits necessary for leadership and specific fields. The implication is certainly that some people have them and others do not or have them in insufficient degree and are, therefore, incapable of leadership.

What, then, does the free enterprise system offer these latter people? The opportunity to be followers? One of the members of our local school board, apparently sensing this problem, recently made the statement that the duty of the school system was not to develop leaders but to develop good followers. I think she was unduly pessimistic about the problem but there is an element of truth and her point. The great majority of people will never be leaders and they should be trained to be happy in their lot. However, we still need leaders.

The more progressive among businesspersons themselves, are recognizing this problem and making varied attempts to solve it. The problem revolves around that great mass of people who are needed by industry but could never rise above the bottom steps of the
ladder. They have a very serious psychological problem and this personal problem has serious political repercussions. This problem is becoming more acute year by year because a larger percentage of people are leaving the independent life of small farms and shops and moving into industry. The men in 1776 were mostly the economically independent and knew the value of political independence. Today the economically independent are a dwindling minority with the result that respect for political liberty is diminishing too. People have heard since childhood, in school, in stories, in newspapers, even in church, the glories of the self-made man—that here in America anyone can get to the top—opportunities beckons to all. “But what is the matter with me,” they say. “I want to get to the top like Charlie Wilson did, but I’ve been 10 years in this one department and I never seem to get ahead. There are fellows here that started with Charlie Wilson and they are not much ahead of where they were 30 years ago and they are hard workers too and they had ambition when they were young. They stub their toes often enough so they don’t try any more. There is something phony about this free enterprise. It may be all right for Charlie Wilson but it sure doesn’t apply to me or any of the people around me. If anyone gives me one good reason to change this system, I will change it. I’m through with a system that keeps promising everyone the top job and gives it to only to the few.”

So much for our friends’ line of thought. We’ve already seen the fallacy in it. Free enterprise cannot provide everyone the top job. It can merely promise that anyone can try for it. That is not, however, the way free enterprise is presented to the public, nor is it the way many that have risen to the top look at it.

A tension and mutual suspicion arises then out of the misunderstanding of the meaning of opportunity in free enterprise. We have seen that it means that anyone can try to get to the top. If he is properly endowed and makes good use of his endowment, he has a good chance of success. The more common, but mistaken view, is that since anyone can try to get to the top, if he feels he has only himself to blame, if he succeeds he has only himself to thank. Under
this misconception, the rank-and-file in industry feel that the top man was either lucky or predatory. The top man feels the rank-and-file is just lazy and jealous. These twin misjudgments are the cause of much of the industrial strife of today.

What can be done to lessen the strife? Are we condemned to bear with it because we know there is not room at the top for everyone? We realize that even if the general level of health, intelligence, etc. were raised above a level needed for success, not everyone could be on top. There just isn’t room. The problem is greatly accentuated by the general feeling of insecurity that pervades modern industrial life. Insecurity brought on by recurrent wars and depressions, by arbitrary firings by employers and by nepotism and politics within Industrial organizations.

The worker has a feeling of not belonging, or being bypassed by the free enterprise system. He may realize will enough that he has a high standard of living he hopes to put all the inventions in capital in the world wouldn’t produce the goods of a high standard of living without his sweat and skill. He knows further that his wages move up to support this standard only during times of labor scarcity brought on by boom or war or else was forced up through the collective efforts of his union. He has heard his boss talk piously of how they were all working together in one big happy family but he learned that that was usually the prelude to a cut in wages because business was bad. He heard about the glories of improved technology but usually its immediate impact on him was that he or someone of his co-workers was out of a job. True, the displaced one probably could get another job that this same technology developed but it often meant learning a new trade or moving to a new locality. It certainly meant loss of seniority and deepening of his feeling of not “belonging“. On the job, the worker also felt that this same sense of not “belonging“. He had to do what he was told, the way he was told, and what he was told. If he had an idea about improving something, he was more than likely told to stick to his job. Is it any wonder that the worker does not see himself as a real part of free enterprise? Is it any wonder that he turned to big unions
or big government or even communism in the hope of making some sense out of the discrepancy between the apparent promises of free enterprise and realities?

I am not going to advocate any of these three as a solution to the problem. At best, they are mere palliatives. As we mentioned, business itself has taken some steps to ameliorate the condition. Some of the steps were forced on business, but some result of a faint understanding of the problem and a sincere desire to correct it. For example, suggestion systems are an attempt to stimulate the thinking of the worker and reward his efforts. Incentive systems, when fairly run, give a worker a more real sense of accomplishment. Seniority rules enhance his feeling of security. More humane employer relations generally have given workers an added sense that he is regarded as a person and not a mere expendable automaton. Health insurance, sick leave, and pensions are all means to this end.

However, these programs, well intentioned though they are, are piecemeal approaches to the problem. They do not stem from any thorough analysis of what is wrong.

The real cause of the trouble is that the worker at insofar as he is a worker is not, by a large, regarded as a person. He is someone who is hired to tend the machine. He is to do what he is told. Any suggestion on his part that he had a voice in the management of the business is considered insubordination. So deeply has this thought been imbedded in the American economic scene that the workers themselves are imbued with it. People who have tried to change their thinking on lack of it meet a stonewall of opposition on the part of workers themselves. It takes much patience and strong persuasion to make them see that their full development issue as human beings requires them to take responsibility. The business leaders, for the most part, are equally resistive to the thought that the workers should take any reasonable share in management. No management prerogative, as it is called, is so jealously guarded as this one. No plan of the New Deal was so vigorously fought as proposed wartime labor-management committees.
The very thing that distinguishes a person from an animal is that the person is a responsible being. The factory system, as it has developed, generally prevents the workingman from being a responsible person. He doesn’t set up or maintain his machine, has nothing to say about what material he uses, what he makes or how he makes it. The inspection department even robs him of his responsibility for the quality of what he makes. So we find that the free enterprise system leads to one basic freedom to the ordinary man, the man without capital enough or talents enough to be his own boss. He is free to quit his job, and look for something more satisfactory. In poor or normal times, this is not too happy a form of freedom. In good times, he can pick and choose jobs but once on the job his freedom then is again limited to quitting. Such a worker is not realizing his full potential as a human being. The sad thing is, as we’ve mentioned, that a great percentage of them know no other way of life in their only quarrel with the system is the amount of pay they get. In our plant, I had been trying to get at this very problem and have most often had discouraging interest to my inquiries. I hear at first or second hand such things as “my loyalty to my company goes as far as my pocketbook”, “all I want is more take-home pay”, “why should I make a suggestion, it is the foreman’s job to figure out what we should do”. These answers are neither from CIO members nor from people in a plant with bad labor relations. Without boasting, I can say we have not had a strike in our 49 years and we enjoy a reasonably friendly relationship with our people. Still these remarks come from good solid citizens, mostly Dutch stock, completely untainted by communism. Their sole interest on the job seems to be doing what they are told and being paid as much as possible for it.

They are in free enterprise but not part of it. They may be sensible enough not to go for communism but their long voting record, including 1952, shows that the workingman is not happy with the leadership of business. I don’t think the average person knows why he is unhappy about it. He thinks it is because he should be getting more money even though he is the world’s
highest-paid workingman. The leaders and liberal intellectuals of the labor movement, the most part also agree that more money and more security is the key to the worker’s happiness. However, we all know that money does not make happiness; it literally, as the saying goes, makes it possible to be unhappy in comfort.

Do we have to destroy free enterprise to correct this condition? I think not, although one of the plans I am going to mention is something outside anything we consider free enterprise and is not communist either. The second plan is well within the framework of free enterprise and is proving successful. Both plans start with the assumption that man is a responsible person. If he is to be happy in his work, he must be a responsible worker. Now the modern factory as much too complex an organization to be run in an atmosphere of anarchy. In a factory, you must have order and authority. By the same token, the factory is too efficient a producer to replace without a grave reason. So, the problem is to find a way to utilize a modern factory with its necessary order and authority in such a way that the individual worker can use all his talents fully, talents which include, in addition to physical skill, such things as intelligence, initiative, responsibility, creativeness and a capacity for friendly cooperation.

This is a large order but, as I have mentioned, there are two plans which are now functioning which endeavor to accomplish this. Both plants recognize the majority of humanity does not have the intellectual and other endowments in sufficient degree to permit them roles of top leadership. This does not mean that they do not possess these traits at all. It means merely that they do not have one or more in sufficient degree. Both plans further recognize that man cannot be truly happy and satisfied with his work unless he can exercise these talents to a reasonable degree. They both seek to use the factory method of production but to make it work even better by reorganizing it so that the vast reservoir of untapped human resources among the ordinary workers may be put to good use. They help to make factories more efficient and people more satisfied.
First, let us look at the French attempt. It is usually referred to as the Boimondau movement or the communitarian movement. Named for the company manufacturing watchcases where the plan originated. Marcel Barbu, the founder, was a young Frenchman who learned to make watchcases. He was appalled at the clash of interest in the factory, so he and his wife sold their belongings and bought enough equipment to make a start on their own. He hoped that his workers could build a new relationship, which would allow all to develop their personality more fully. His workers were not interested. He moved to a new location. He hired younger workers in hopes that they would be more adaptable. They listened with enthusiasm to the dreams he talked of. This attempt, too, met failure because the parents of young men would tolerate no innovator to suggest new ideas to their sons. So he moved again.

By this time, it was 1940, the French armistice had been signed, and Frenchmen were willing to take a little closer look at their way of life. There was both despair and hope in the air. Barbu found three men in his new location who really didn’t know what he was talking about but promised to try to build a more harmonious way of life. They wanted to be able to respect each other boss and laborer alike. They had to feel their way along because they did not know at all where they were going. They knew that they were not satisfied with their former industrial life and they wanted a better way of making a living. They set about a series of discussions to clear the atmosphere.

One of their first decisions was for a common code of ethics, which they would enforce strictly. Then they found they wanted more education. This they got by simplifying their work to the point where Barbu was able to hire teachers to come into the plant after work and instruct workers. Gradually a new approach to industrial life was mapped out. It was based on some rather fundamental assumptions concerning man’s nature. All men are born equal in their nature but not in their worth. Some have greater talents and others are worth more to the community. So far, free enterprise goes...
along with them. But from here on, there is a divergence. The Boimondau group set about to organize an industrial enterprise that would allow each person to develop his whole personality fully. By personality we mean, not just a Dale Carnegie ability to win friends, but rather man’s sense of responsibility, his initiative, his creativeness, his sense of accomplishment. This did not involve any attempt or even desire for anarchy. On the contrary, the group had a very definite hierarchal organization, but the leaders were chosen after systematic evaluation from among themselves. Lest anyone throw up his hands in horror, I will allay your fears by pointing out that in the many places in France where this system has been adopted the workers voted in their former managers. Very soon, Barbu and his men saw the desirability of selling the company to the group he gathered together.

The organization that evolved is called a community of work. The term community does not have any geographical connotation. When the community is in a large city, the people may live as widely scattered as the workers of any enterprise may. The term community rather implies a common purpose and organization of all the activities that take place outside the home. The fundamental source of authority is the General Assembly for each of the companions, as they call themselves, has a vote. It elects for a three-year term the leader of the community. He has sole executive authority except that the General Assembly can by unanimous vote dismiss him; all votes have to be unanimous. The supervisor or department heads are nominated by the Leader and confirmed by the General assembly. The department heads as a group form an advisory committee for the leader.

In addition to the technical organization, there are nine social organizations in the community. The most important is the spiritual section divided into four teams, the Catholic, the Protestant, the humanist and the materialist. Everyone has to belong to one of these teams and devote at least one hour a week to studying with the team of his choice the basic way of life he has chosen. There is an intellectual section fostering general knowledge, civic knowledge
and their liberty. Other sections are the artistic, mutual aide, family health, sports and newspaper.

At first blush, the most startling thing about the communities of work is their method of compensation. However, a closer look shows that the method is the natural outgrowth of the philosophy behind the community. Each person is rated on the basis of his total worth to the community. Total value includes such obvious things as skill, responsibility, and initiative in the factory work. In addition there our points giving in varying degrees for activity in the nine sections of social activity. This is done on the theory that the daily work and the social activity are all part of the life of a man. He contributes to the committee both economically and socially so it is reasonable that he should be paid accordingly.

When we say everyone is paid we mean everyone: wives, children if they study, the sick, if they try to get well, the aged based on past service. Those who work in a factory, of course, are the highest paid because they can get points for technical knowledge and performance as well as points for social work. In general, the factory workers receive slightly more pay than they would in comparable capitalistic enterprises. This is in addition to the educational social activities they have and to the increasing value of their equity in the community. On the other hand, the leader and supervisors get slightly less than they might in a capitalistic plant. The committees can successfully compete with capitalistic producers. The Boimondau community has become the largest producer of watchcases in France. It is made up of about 100 families with 280 persons.

The idea has spread to other factories of greatly varied products. One group makes boilers, and others make furniture, and gas ranges, wine, etc. One is a general contractor. In addition, the idea has spread to farms, schools, and milk dealers. Where factories are concerned, the owners are usually the ones to initiate the idea. They sell the plant to the community and, as I mentioned, usually become the leader of the new community. So far, the communities are small or medium organizations. There is one giant in Italy that may be switched to this form. It is the Olivetti works near Turin. This is an
old, but very progressive firm manufacturing typewriters and calculators. Its buildings look like something out of Hollywood and its employee welfare plan is one of the most elaborate in the world. However, Olivetti wants to go further. He does not want his people to be mere recipients of the blessings he can provide. He wants them to take the direction of their lives into their own hand so that they will be masters of their own destiny. To this end, he is organizing locally and throughout Italy study groups to learn about the communitarian idea. The reorganization of a giant concern like his is not as easy as with the small ones, we mentioned earlier but he is pushing the program energetically.

So much for the communitarian ideas originating in the Boimondau community.

It is an attempt to eliminate the employer employee relationship without falling into communism. It attempts to give the ordinary person a chance to have a responsible role in his everyday life and still enjoy the technological advantages of factory production. It provides an opportunity for the highly endowed person to get to the top. Beyond that, it stimulates a more wholesome cultural life and even pays a person based on cultural as well as productive achievements. What of its chances of success? The oldest community is only 13 years old but has survived war and Nazi conquest and all the financial disasters of the postwar period. Meanwhile, the idea has spread to some 50 other groups. It is too early to say what the outcome will be but it will bear watching.

When we come back to our own country, we find under way a very successful plan called the Scanlon or participation plan. It has been tried in plants with from six to over 2000 employees; among these plants are the Herman Miller furniture company and our own company. It has brought unsuccessful companies out of a bad spot and has helped successful companies whether some trying periods.

The Scanlon plan also requires good leaders but replaces the dog eat dog attitudes so common in free enterprise with the spirit of cooperation. The basis of the plan is a formula that is worked out for each company. It is found that the total payroll (including
management) of the company bears a consistent ratio to the total sales. This, then, is taken as a standard labor factor. If, through work simplification, more efficient and greater production, the labor factor can be reduced, the saving is passed on to all employees as a percent of their earnings. By all employees, we meant just that—everyone including the general manager. The result is that everyone has a direct incentive to make the company more productive and more secure. The increase in productivity comes about through suggestions made by any employee. The suggestions are discussed and acted upon, if possible, by a production committee in the worker's own department. This committee is composed of the supervisor and one worker elected by the people of the department. When this committee is not competent to pass on the suggestion, it refers it to a screening committee consisting of top management and an equal number of workers' representatives from the production committees. These committees meet monthly and publish minutes of their meetings.

The whole plan appears to some people as a radical departure from the accepted practice. To others it presents nothing new. Actually, both views are right or wrong as you choose. To walk into a plant organized under the Scanlon plan you will see nothing different except perhaps the people attending to their knitting a little better and there may be less grousing. However, underneath the surface you will find a vast difference. There is a growing, wholesome understanding.

Contrary to what managers with long experience with unions would expect between management and labor, the screening sessions do not become bargaining meetings at all. In them, the people are not lined up based on employer vs. employee. The decisions are usually unanimous but in the prior discussions, the sides split across all the known lines in the organization. Everyone is really trying to advocate what he thinks is best for the company. The workers for the most part quickly sense that when anyone talks about teamwork or a happy family, there is no catch to the phrase. He knows that if he and the rest of the company better the
production, they will automatically get all of the labor savings. It takes time for the full realization of what this means to purvey a whole organization. Every plan has its share of skeptics. Old suspicions, injustices, and habits die-hard. They do not die dramatically at all but rather wither away from lack of nourishment in the new friendlier more proper atmosphere.

The plan stimulates the thinking of all people. The results are not automatic. Many people have to be wheedled and coaxed to make their first suggestions, but the old psychological barrier of fear is diminish so that the person does not have to dread any evil consequences to his ideas for improvement. The people we are dealing with are not geniuses and for the most part are not capable of holding top positions of responsibility but we quickly found they are thinking people. However, given the proper opportunity and encouragement they produce substantial, if not dramatic, results. In our own case in the firsts four months, the savings amounted to more than $9,000.

At the same time that the people increase the use of their brains, they increase their sense of responsibility and initiative. They watch the quality of their product more closely. They are interested in the findings of the inspection department and are critical of their findings. They want the machinery cared for better and make suggestions on how to do it. At the same time, we found a number of people asking to take instructions, which will enable them to learn to do better work. The people, in general, are more satisfied with their work.

The Scanlon plan does not make a utopia. There are many setbacks on the way. It requires more careful management than the older system, because you are dealing with men with a new sense of freedom and such men are volatile but so were the men of 1776.

As we said, and companies in the Scanlon plan will have good times and bad—it will have some inter-plant quarrels and jealousies but they should be greatly diminished. The leaders will not find themselves unnecessary because the fact that much of the thinking, responsibility, and initiative is done in a lower level of the
organization. Indeed, they will find themselves free for work that is more important and will find that where they formerly had difficulty getting an order obeyed they have now merely to hint or suggest a line of thought to get a whole chain of responsible action started.

We started out looking at the assertion commonly made that working people, in general, (there are certain exceptions) lack a desire to think or to take initiative or be responsible. We found that this antedated the New Deal although it was undoubtedly furthered by the New Deal. We found that the way free enterprise has worked that the exceptional man has had an excellent opportunity to get to the top but that the ordinary man was relegated to a position of little or no responsibility. This left him less than a human existence during the greater part of his waking life. The result, while not understood by him, was an unnecessary and unwise dissatisfaction with free enterprise.

We then examined two plans, the Boimondeu and the Scanlon, which seek to give the ordinary man a more responsible, and therefore more human, place in industrial life. They Boimondeu plan or Communitarian plan calls for the workers to purchase and operate their enterprise probably in conjunction with the former owners and managers. The Scanlon plan is less drastic but probably, in America, at least more practical and equally effective. It attempts to establish a formula for the just reward of labor and having settled this has automatically cleared the way for harmonious cooperative effort on the part of labor and management.

Neither plan is easy to establish. Both take real patience, understanding, and leadership. The problem is great, however, and its solution must be found if we’re going to achieve an internal harmony in the Western World so that we can stand firmly against a very sinister enemy that threatens us from without and which both ferments and capitalizes on the very problem we examined tonight.
Mr. Cordiner of General Electric once made a statement that illustrates what we are talking about. He said, “The Board of Directors made me president of the company in 1950, but it took four years before the organization gave me the same honor.” Certainly during that four-year interval Mr. Cordiner’s signature would have been valid on any legal document and his orders would have been obeyed. Mr. Cordiner obviously felt it was important that he be accepted by his subordinates and his feeling was based, not on any need for personal satisfaction, but on the need for cooperative effort if success was to be achieved. His problem, and our problem, is that orders are not enough—you can only order effort; you cannot order results. He knew and we know that you can threaten and punish if results do not follow effort. This may bring the desired results, or it may bring less desirable results, sulking, disloyalty, quitting, and a whole range of psychosomatic illnesses.

I do not believe that we need to theorize much on this because Mr. Klassen has done this with considerable clarity. Rather, I would prefer to talk about the application of this notion of acceptance, what are its possibilities, what are its limits, how can we change from one type of authority to the other.

There are, however, a few things that I would first like to add to Mr. Klassen’s remarks. While we talk about conflicting theories of authority—the classical and the acceptance, being the basis of different kinds of organization. I am not sure that authority is what
makes the difference with the most thorough practical use of
the acceptance theory someone would still sign the checks,
someone would answer to the board of directors. The question is
broader than just the kind of authority you use. It is a question
of whether authority can substitute for competence. You can
have a very authoritarian person who can still get people inter-
ested and involved in the work of the company, by assigning them
meaningful work and giving them credit for work well done. To be
authoritarian in the classical sense one need only reserve to him the
decision to start a project, evaluate its results and accept or reject
them. Great latitude of means can be given for planning, investi-
gating, experimenting, designing, and executing projects. The trou-
ble is that most people who emphasize the classical authoritarian
approach in their work tend not to give this latitude.

They tend not to do so because they seem to think that author-
ity confers wisdom and knowledge and competence on its pos-
sessor, but it does not. It only confers the right to order and decide.
If the orders do not generate wholehearted response, if the deci-
sions are based on faulty information or bad judgment, then the
authority will not have an effective organization.

The manager who uses the acceptance theory does not abrogate
his right to order and decide. Rather he has found, sometimes
instinctively, sometimes by study, that others in the organization
know some things he does not, they have skills he does not and they
are interested in seeing the work done well and the organization
prosper.

It seems to me then that the difference in organizations is based
more on the manager’s attitude toward people then his attitude
toward authority. If he distrusts others he will tend to use his
authority more because that is an easy way to make his ideas pre-
dominate. If he trusts others, if he recognizes their talents, if he
wants to multiply the effectiveness of his own talents, he will rely
less on authority. By explaining and discussing, he finds that peo-
ple take orders from the situation. By consulting, he finds that con-
sensus has made decision unnecessary. However, if a blockhead
doesn’t understand the situation or if a quarrel displaces consensus, then authority will have to be used, but the situation is not conducive to high productivity.

This difference in attitude should not be taken lightly because changes in attitude may be pretty hard to come by. I have seen competent men unable or unwilling to adapt their attitude to that prevailing in their organization so that they become ineffective. This same difference in attitude is deep seated in other phases of American life. DeTocqueville noted it clearly in political life, “the object of the one party is to limit and that of the other is to extend the authority of the people.” Eric Fromm detects it also in psychology, “Rational authority has its source in competence. The source of irrational authority, on the other hand, is always power over people.”

If we want to look at how these attitudes can be changed, and how we can put authority in its place, we can best start with a group. It is in a group that we can let our hair down a bit, that the threat of authority is not as great as in a man-to-man situation. Suppose a manager has five subordinates responsible to him, and he wants really to share his responsibility and tap the resources of all the men. He has tried talking to them one at a time, but he seems always to end up going around in circles, so he calls them all to his office for a conference. He sits behind his desk and the five are ranged in front of him. He explains his goal, patiently and at length. He asks for a response and gets none. Strike one.

You ask why. It may be that each man saw this conference not as a group action, but as five man-to-man sessions taking place simultaneously. The boss was on his throne just where he was the last time he bawled me out. Now the boss doesn’t want to strike out, so after the first strike he reflects. His idea was good, but it didn’t work.

A week later, he tries again. This time he moves away from his desk and sits at a coffee table. He embellishes his talk a bit and the response starts but soon sputters out. Strike two.

A week later, the boss and his five meet more or less accidentally for lunch in the company cafeteria. After the usual pleasantries, the boss makes the casual remark that production is really
down—the grinding department. The chief engineer says one of his men had told him it was no wonder production was down when the people were not following the standard method. The factory manager is quick to say that this is impossible with the kind of steel that is being bought. This prompts the purchasing agent’s statement that he bought the steel from the place the boss had told him to . . . so a passing remark has started a chain of responses that dumped the problem back in the boss’ lap. On reflection, he cannot recall ever telling the P.A. to buy any kind of steel, but he had suggested that he develop a second source and that he had heard company X was a good supplier.

As tactfully as he can he tells this to the P.A. who further says that company X is only temporarily out of their regular type of steel and had substituted the closest thing they had. The engineer then volunteers to send a man in to adjust the method to handle this temporarily. With that, the meeting breaks up and the boss goes back to his office to ponder on several ideas that are swimming in his head.

Number one, which is slightly irrelevant and for which neither he nor I have any answer, is why subordinates like the P.A. will take a passing comment for a command and at other times treat a positive order as something to do if he has time.

Number two, is, of course, how the boss hit the home run when he figuratively wasn’t even looking at the ball. His casual remark started a whole chain of discussion that solved a knotty problem that people had been kicking under the rug for weeks. His other thoughts were all answers to this question.

The situation for the discussion was relaxed. So far as possible within the company buildings, the meeting was away from scenes where authority was normally exercised. What the boss had tried to accomplish by moving away from his desk in session two, he achieved by moving out of his office altogether.

Another thing he realized was that he opened the discussion by asking about a concrete problem. This was no theoretical discussion about roles and authority that might threaten every man’s job;
this was real, this the men could get at. It was probably with some relief that the P.A. was finally able to tell the boss what his “order” was doing to production. On a man-to-man basis with the boss, he would likely have resorted to excuses and subterfuges not to confront the boss; but with the group back of him, he had more courage.

Another thought that crosses the boss’ mind was that maybe the first two sessions weren’t strikes at all—maybe they were practice swings. While they had not produced immediate results, maybe they had prepared the ground for today’s fruitful, if accidental, session. Maybe they had shown the men that he wanted a change, but they weren’t sure he was serious. The concrete problem convinced them. If all this is so, the boss then realizes, this theory he was trying out really works. Problems will be solved without any orders at all. The chief engineer took his orders from the situation. He could see the situation because those who best knew them presented the relevant facts.

Perhaps this case does not seem real. It is certainly simplified, but I can say from experience that things happen this way. Careful research in companies like Detroit Edison is confirming it. Your next reaction may be that it is too time consuming, that it cannot be used in emergencies and anyway ordering is much easier.

Surely ordering is easier and faster, but remember you can only order action, you cannot order results. There are even limits to what you can order. For instance, the boss sets everyone’s pay, but if today he ordered a ten percent pay cut, he might find no one around to execute the cut.

This process certainly takes time, but if it produces results, you have balanced time against the results. A process that saves time but yields poor results is not much of a process.

It is important to remember that the advocates of this type of management do not claim it is the only way to work, they merely say it produces better results, like more profits, like less psychosomatic disease, like more satisfied people. Typical titles of works describing it are *People and Productivity*, *Toward a More*...
Effective Enterprise, Enterprise for Everyman, and The Human Side of Enterprise.

As far as emergencies are concerned, I think I can best give a real situation.

- New crash project
- Weekly reporting sessions
- Chairman cut time in half
- Men agree and do it

Are we going back on our system?

- No, because climate is there
- And, the chair is really giving the situation.

In what circumstances do you not have a conference, but give orders:

- Wherever order is routine
- Wherever situation is well understood.

When must you use it?

- When difficulties arise—Production Engineering Meeting
- When situation is not understood
- When someone will be surprised or adversely affected.

How do you change people’s attitudes—?

- Some you don’t
- Patience Persistence
- Get concrete
- Be relaxed
- Use third parties
- Consultants

Side effects?

- What starts at top should proceed throughout organization. Titles of books emphasized enterprise. We might think for a moment about Free Enterprise and how this type of management involves
people in the company and so gives them a meaningful stake in Free
Enterprise.

Catch phrases:
You have as much authority as you can motivate people to accept.
On other hand—Power is the ability to use people as things.
Rather best attitude is to think of authority as a tool, which
becomes dull with overuse.

We started with something about General Electric and we might
finish with a paraphrase of their motto, “Progress is our most
important product,” by saying, “People are our most important
product.”

If our people are mousy, browbeaten, lazy, we still should not
want to perpetuate this situation by use of autocratic authority. We
should involve them as much as they are able.
A president’s job is the easiest in the company. All a president has to do is tell others to do their work. It is when he forgets this and tries to be the company’s expert on everything that trouble develops. If he sticks to his own work, it should be easy. I say should because there is one serpent wiggling his way into the Paradise occupied by the President. This modern serpent is a lineal descendant of the original one that messed things up in Paradise. The problem is simply that people do not necessarily do what they are told.

Sometimes the orders lack clarity, at other times they contradict their orders, again they may be impossible or the recipient may have a better idea of what is needed. In fact, maybe the order should have been a request, a suggestion, or even a question.

We have to go to some efforts to get people to do what they are told and we have at times to do some homework even to know what we want people to do.

Now when a company adopts the Scanlon Plan as a way of life, what happens to the president’s job? We started out with an idealized version of what the president does and then found reality somewhat less enchanting. Do the same annoyances bother the Scanlon president? On paper, his job has greater possibilities of being like the ideal because under the Scanlon Plan everyone should be highly motivated to get the job done so the president should find immediate and willing response to his orders—only he does not. In fact, it begins to look as if people do not like to take orders.
Does this mean then that Theory X is right after all; that “people dislike work and will avoid it—that people must be coerced, controlled, directed, and threatened to get them to put forth adequate effort and that they prefer to have it this way?”

I believe that our practical everyday experience tells us of people who answer this description. It may even indicate that most people behave this way. Such a verdict, however, betrays the optimism we evidenced when we adopted the Scanlon Plan. While Joe Scanlon’s work preceded McGregor’s Theory X and Theory Y, he assumed people behaved in the way that McGregor later labeled Theory Y. If people are otherwise, the Scanlon Plan will not work.

This contradiction is only an apparent one because Theory Y says that it is only when conditions are ripe for it that people enjoy work, responsibility and challenge. In industry, generally, the total structure is designed to limit people’s freedom to act, so Theory Y people behave according to Theory X. This gives us the key to how a president’s job differs in a Scanlon company. His primary effort must be directed toward developing policies, environment, and relationships between people that are conducive to having people behave in a responsible manner.

Just take a basic thing like a work standard. We need standards as a guide in pricing and as the basis for production scheduling. If we also use them to tell the man on the machine that he is expected to produce this many pieces in a day, we run the risk of having the man take the standard as a ceiling on his production. Over the years, this simple problem has continued to plague us. We need standards but people resent externally imposed standards.

We have gone on for several years with other practices or policies at variance with the Scanlon Plan. We are still finding these inner contradictions. We had a practice that we considered very advanced of having a monthly meeting of our managers to review our latest operating statement. We would find out what had gone wrong and resolve to correct the mistakes. We did this in spite of very broad hints from Jack Frost that we ought to be controlling
our operations by being sure that we had adequate and trained workers who knew what was needed in the way of quality and quantity. The light finally dawned on us that the whole setup surrounding our statement review session made people realize that looking for mistakes was our chief means of control. Our monthly profit plan was not taken seriously because the statement review had all the official emphasis.

It was surprising how little we had to change to give a different feel to our controls. We changed our monthly meeting from statement review to statement preview. We studied our profit plan instead of our statement. We asked ourselves if our projected profit was adequate and what roadblocks there were in the way of achieving the goal so that we could take whatever corrective action was necessary.

This helped create a climate more conducive to Theory Y and to giving the Scanlon Plan a chance to operate. We were looking ahead not backward. We were solving problems instead of correcting mistakes, and we obtained wider participation in drawing up the profit plan and greater commitment to its fulfillment.

All this seems rather subtle but its effect on our profit statement and bonus percent was not subtle. I offer it to you as an example of how I see my job as different from pre-Scanlon days. I am still responsible for profits, for growth, for the legality of our acts, for security of our assets, for having dynamic research and marketing programs. However, I see that my best hope of achieving these is by creating the conditions in the company where a candid discussion of company problems does not bring with it threats to the candid one, where people can speak out ideas without being told by word or attitude to mind ones business, where initiative is not only praised in theory but is given scope by less rigid controls, where people can truly function as a team by helping to develop corporate goals that will enable them to achieve their personal goals, where an idea is judged on its merits and not on the rank of its author. This involves a different kind of satisfaction in my work. I no longer need be the expert on everything but I
can enjoy seeing many experts freely and cooperatively setting and achieving higher goals than I would dare to set under the pre-Scanlon way of things, and this is what a President's job really is.
We Have a Dream

The meeting today brings us to a new growth level as an organization. For the first time we have new shareholders who are not members of the family of the man who started this company. A small step perhaps in comparison to companies where no family owns as much as one percent of the stock. A small step maybe but a significant one. The significance is real to both those who authorized the sale of shares and to those who were able to buy them.

There is something else of significance going on in our company. The significance is for people employed in the company, for shareholders, and for a much wider public. I would like to talk about how this matter affects the latter groups: the public and the shareholder.

Society today has a deadline ahead of it. The deadline is perhaps more real and more imminent than the highly publicized threats of nuclear destruction or the poisoning of our physical environment. I am thinking of this question: can man humanize organizations before so many people reject the very thought of living and working within organizations that chaos replaces society? The growing rejection of organization is universal as regards the type of organization and as to its geographical location. The red guards of china parallel the religious rebels in our churches, not because of any conspiratorial connection but because they both manifest a disenchantedment with existing organizations.

A recent review of a book by a former officer in the American Communist Party described this problem as it existed in the party
but the words can be applied to churches, schools, government, unions, or business. “It was the organization that grew, not the people. Organizations grow larger than the original experience they were created to sustain; and when they do the original vision vanishes, replaced by a machinery that becomes unwittingly self-perpetuating. It spawns endless cadres of look-alike bureaucrats, their collective gaze focused tenaciously within, to the mechanics of structure rather than outward, to the goals to be accomplished.”

People reject organizations because they find them insensitive to the needs of the people they serve. We easily see this rejection among young people because of their well-publicized anti-organizational demonstrations. The problem, however, is not confined to the young, but the rejection by older people is less visible because it results in apathy, not demonstration.

We might say let the organizations crumble and let us go back to the old-fashioned rugged individualism or the new-fashioned individualism of the hippie. A little thought must show us that world is far too crowded and complex for this. If the old organizations are destroyed, they will have to be replaced by new ones. When this has happened under stress in the past, the new organizations were more tyrannical than the old were. Look at the French or Russian revolutions. The process of taming organizations is slow and tortuous. Think of our experience with the business corporation. We have made great progress in the past 100 years in civilizing the corporation but we have not arrived by any measure. Look at the millennium it has taken to democratize western governments.

So if we want a rational approach to our problems we ought to make a strong effort to humanize our present organization, by that I mean get them to serve the people they are meant to serve: let the schools serve the faculty and the students; the church serve its members and those people to whom its creed directs it; the government serve the official and the citizen and the business serve the owner, the customer and the employee.

What has all this to do with a meeting of shareholders. Just this: We are engaged in a significant experiment in our company that
offers some real hope in this matter of humanizing organizations, an experiment that has implications far beyond our company or even our state.

This statement can be criticized on two important points. The first criticism is simply that this is a business organization so our only interest in experiment is toward making better profits. Secondly, the statement is grandiose. It is a dream. How can anything we do have significance beyond a small range? Both criticisms have more than a little validity but I would still stand by my statement and hope to show you why.

We stumbled into this experiment some 17 years ago when we started to use the Scanlon plan. We were looking then for solutions to some very practical problems. We needed to pay higher wages and salaries to meet the reasonable needs of our people. To achieve this and at the same time pay an adequate return to our shareholders we needed higher productivity. The Scanlon plan had something to say on both these subjects. What I heard it saying was, “offer people a bonus and they will produce more.” The Scanlon plan put everyone in one group making fairness possible and it provided a basis for calculating the bonus that was simplicity itself.

This was, therefore, an ideal solution. It worked, but not quite ideally, so we had some new problems.

For instance, management people felt their work would be lightened when the bonus was established. We thought that everyone would henceforth work without guidance or supervision; but in thinking, this we had not thought our plan through and we stopped short of the next logical step, which should have been to abolish our jobs as unnecessary, had our prediction been true.

So, we had problems along with our successes. Either the Scanlon plan was not the ideal instrument—we had thought it or we did not use it correctly. In retrospect I would say it was some of both but finding this out has been a long process with much help from many people, both in the company and out. This effort to make the Scanlon plan work is the experiment and the matter of significance I spoke of. The experiment has importance beyond our
company because in working with the Scanlon plan we have learned many things about the causes of unrest and how to remove them in a socially acceptable way.

A question immediately comes to mind. The Scanlon plan involves a bonus based on production. How can such a plan apply to a university or a church let alone a city? Our answer would be only partially from our work. It would rely also very heavily on social scientists interested in organizational effectiveness, the causes and cures of unrest, and how to motivate people.

We find the bonus is not so much a motivator as it is a guarantee of equity; a pledge that greater productivity would be rewarded promptly and fairly. This sets the stage for other motivators to come into action such as the satisfaction of a job well done, the excitement of being on a winning team, the opportunity to plan, to create, to take responsibility, the recognition that one's work makes a difference to himself and to others. The bonus becomes more a yardstick of success than success itself.

However, this distinction translates our experience into something meaningful for other organizations. When it became evident that factors other than bonuses were the motivators, we could see how our experience could apply to non-profit organizations as well. Other means of guaranteeing equity might be needed, but once this was done, participation by all the members of the organization could move the organization to greater achievement. We learn that organizations can be structured and operated so that people can enjoy their work, can find fulfillment in it, provided people can have a part in determining their work and goals. The experiences on such a cooperating team carry one beyond him. He works for himself but for others too.

This process for transforming a company from a typical business organization into one with these broader possibilities is not simple, and it is not easy. Joe Scanlon proposed some 30 years ago committees of management and labor to discuss solutions to company problems, and he was an insightful, trusting, and brave man to do so. Today we have to build on his framework an elaborate net of...
interlocking work teams. We use grid training and ICLS surveys to carry out his basic insights. We sometimes think we have all the answers to how one brings this off. We have even considered setting up a consulting branch to sell this know-how to other companies. When we are about ready to go on such a program, we discover that not all is well at home and we wonder what we really know. We don't have complete answers. We do have some answers; we are still looking, but perfection eludes us.

What Joe did show is that the rank-and-file worker in the organization has much to give the organization besides physical labor. Not only does he have it, but he will give it freely when given a fair opportunity. The clincher in Scanlon's work was that, when conditions were set for this kind of effort, all the people related to the company prospered—not just employees but shareholders and customers as well.

As our company goes on year by year using these ideas to make itself a more human environment for man's work and as the results become measurable both in human achievement and return on investment we will be demonstrating to society that men can be better men because of being in organization. The specter of the faceless "organization man" need frighten us no longer. That fear will be seen to be as unreasonable as was the fear of machinery in the early days of the industrial revolution. Just as he mastered the machine, man can master the organization. The experiment we conduct in your name is intended to show him how to do so or at least help to show him.

We have spoken primarily of making the organization suitable for the employee. We implied that benefits also accrued to customer and shareholder. Naturally they both benefit financially; the customer with better quality and service and lower price; the shareholder with better dividends and growth potential.

But is this all the shareholder can look to, important as it is? It has been said that top management in old style companies kept all the psychic increment of the operation for themselves such as the opportunities for initiative, responsibility, creativity, and
self-fulfillment. A characteristic of the new style or participative company is that these psychic benefits are both greatly increased and more widely distributed. Is there any psychic increment for the shareholder in a participative company? I think there should be and is, to some extent, but we could do much better. We see how participation helps the employee and so offers a solution to the public. Does it also help the shareholder? The mere knowledge that his company is working in such a direction is a satisfaction in itself. The format of our shareholders meetings and the communications by letter are intended to make you aware of what your funds are doing and how your trust is being used. This is a good start. A person with knowledge of what goes on can then feel more satisfaction than he would get from an investment in a gambling casino or in a company making a worthwhile product but with little regard for its people.

Is something more positive than this available? Consider this question: How would you feel as an investor if I were to make this announcement? “We are going to abandon the Scanlon plan and every form of participative management. This jazz has run its course and we are going back to no nonsense management.” I would hope that such an announcement would bring about demonstrations at the office door with employees and shareholders joining ranks because they would both know that neither human beings nor investment dollars would be adequately employed under such a backsliding.

Now, I think shareholders do believe this and I think it is true of the family shareholders and the shareholders who are here for the first time. I think they would, given the occasion, react in the way I described but perhaps in less dramatic fashion. If so, the shareholders are making a psychic investment as well as a financial one. They are giving that trust that characterized Joe Scanlon’s initial insight. They are backing Jack Frost’s efforts to prove what giants ordinary men are when they work together. Most of all, they are supporting a management team that is proving that these ideas are real, that they make the organization not only livable but desir-
able, that they produce human results and financial results that make very pleasant reading indeed.

Since shareholders are more than passive observers, they obviously are entitled to some of the psychic increment, or to use less academic language, some of the non-financial satisfactions. They get these satisfactions from the very act of trusting and encouraging the directors and executives and from seeing what then happens. They should rightly feel that they are doing more than putting in dollars and making a return. They are doing it in a way that has benefits in human fulfillment within the company and so points the way for other organizations to make similar achievements.

So we are back at my opening statements that we are part of an experiment significant for us and for society. I hope you come away from this meeting reinforced in the belief that you are at least partly responsible for the results being achieved. I hope you get a real thrill out of it; a thrill that will match that when you deposit your dividend checks and that will stay with you longer than the money does in your bank account.
Toward a Happier Future

My paper is entitled, “Toward a Happier Future.” I could perhaps just as well have called it “Can We Have a Future?” I chose the more optimistic view because I believe a future is possible for us provided we achieve a better record in solving conflict—conflict on every scale; personal squabbles, marital problems, labor strife, political quarrels, and the champion of them all international conflicts. Even the small conflicts are important because they are so numerous that they establish a climate in which the greater conflicts flourish.

There is a tendency to say, “Conflict is a part of human nature. It has been there since Cain and Abel. So why get excited. Besides, we get necessary discipline from the military and many of our great inventions came during war. Conflict builds character and so on.” We cannot escape the fact that these statements have truth in them but similar things could be said about disease or even death. That does not make us like them or want to seek them out. No, we are quite willing to spend effort and money to avoid disease and stave off death. For some reason we are not so willing to dedicate ourselves to resolving conflict.

It was said above that conflict is part of human nature and we must agree that it is so common a part of our lives that it does seem to be of our very nature. In fact, some authors are saying it is part of all animate nature. Man, however, is said to have a special problem regarding conflict that arises from aggressive instincts buried deep in our animal inheritance. Other animals have developed
instincts or reflexes to turn off the aggression of others of their species and so avoid conflict. Lorenz has shown for instance that turkeys will kill any small animal that comes near. He wondered why they did not then kill their own young. He finally discovered a turkey hen that did. When he also found she was deaf, he was on to the answer. Turkey pouts made a peeping sound that somehow turned off the parent's aggression. A noisemaker simulating this peep and attached to mice and rats rendered them also immune to a normal turkey's attack. Since man is in general short on instincts it is not surprising that he has no such built in way of defusing aggression.

Man has a problem therefore. We are aggressive and we have no automatic anti-aggressive mechanism. When this predicament is coupled with intelligence, we have a pretty destructive talent at work so it is not surprising that conflict is ever present in human life and history.

Conflict has several meanings that we ought to keep straight if we are going to achieve anything tonight. First, it refers to the situation where two or more parties seek goals that are apparently contradictory and each has power to try to frustrate the other from his goal. This is the meaning of the word, "conflict," I want to speak about. The second meaning comes about when the parties are determined to reach their goals and a resolution of the conflict is not achieved and violence results. Someone takes possession and the other tries to drive him off. This also is called conflict but usually conflict with an adjective as armed conflict or violent conflict.

We will discuss this violent kind of conflict as one very good reason for giving careful attention to our aggressions and to the improved insights into conflict resolution that we are coming to understand.

In this regard, let us focus for a moment on the destructive nature of violent conflict. Take World War I for instance. What with World War II, Korea, and now Vietnam, World War I seems small and far away. Yet it cost us $25,000,000,000 in 1917 and 1918. This does not say anything of the lives lost, the interest expense, the
pension cost, and the disruption of our economy and that of the Western World. Now suppose some fast talker had arrived on the scene in 1916 and persuaded the American people to stay out of the war and set an example to the belligerents by waging peace as vigorously as they were waging war. For our $25,000,000,000 we could have, for instance, built a new home for each of the 33,000,000 families we had in America at that time or perhaps twice that number of homes for the poor of South America or Africa.

War is undoubtedly the worst result of unresolved conflict. To attempt a complete list of other bad results would presume on your patience, but a short list can help define our problems. Strikes are much in our awareness today as are riots. Divorce is the unhappy conclusion of marital conflict. Murders, beatings, revenge, feuds have conflict for their source. In the face of unresolved conflict, some people turn on themselves instead of the other and suicides, alcoholism, drug addiction, and many kinds of insanity. It is these bad effects of conflict that we want to try to eliminate or reduce. We cannot hope to do this by eliminating conflict itself but by learning better ways to resolve it.

We see from this list how great the stakes are that we are considering. We also see there are two kinds of results from unresolved conflict, the obvious destruction, loss of life, bitterness, and misery, and the less obvious constructive things that might have been.

This quick look at World War I sets the pattern for how I would like to proceed. I propose to take specific conflicts from various aspects of our lives, conflicts that were well resolved or were compromised or ended in violent conflict. I expect to go into them only far enough to see if they have a point to make for us. I would also like to play a little “what if” as we go along to see what might have happened if somebody had done something differently.

Take the recent auto strike. One factor in the negotiations that will leave people wondering for a long time is the unknown effect on the proceedings of the presence of two new men in chief bargaining roles. Death and retirement conspired to place Woodcock and Bramblett on opposite sides just prior to the opening talks. It
does not take much imagination to realize what mischief this could cause. The triennial negotiations have billions at stake and are filled with tension. Publicity men for both sides build up the suspense. Months in advance the stock market has made its estimate of the outcome. So what does a new man say to himself as the day arrives? He must share the feelings of a rookie pitcher in the World Series. He wants to justify the trust that his constituents placed in him. He wants to win big. Did this color the actions of Woodcock and Bramblett? If so, by how much did it prolong the wasteful strike? How much did it cost you and me in higher prices and taxes? We have no way of knowing for sure even if it was a factor, but we get a hint from the fact that neither man would appear with the other at a press conference announcing the tentative agreement.

The real question is, why should this accident of personnel changes have any effect at all? The issue was a straight economic one of how much the union needed and how much the company could pay. Or was it? The incident gives us a non-controversial first point; egos tend to get in the way of conflict settlement even when egos are not the issue. I say this is non-controversial because I believe we all have first hand evidence of similar cases of ego involvement.

This ego business has many ramifications in conflict. We just saw where it was extraneous to the main conflict but still a factor. In many conflicts, our egos may be subsumed into a superego of sorts like a union or a football team or political party or church or nation. But when our team is playing a big game, our egos are on the line even if we are on the sidelines. What do we want for our egos? We want victory. What do we want for the other fellow’s ego? We want defeat. And what good is defeat?

Let us look at a simple and clear-cut case of victory, deserved victory at that and defeat. Take the issue of fluoridation of drinking water. As far as I know, it is a perfectly safe and inexpensive method of getting rid of a nagging human problem. The American dentists, to their great honor, unselfishly promoted the program. City by city victories were won and we can all say “Look ma no cavities” provided of course that we still have our teeth. What is so
significant about this victory? I think it is amazing what with our memories of dentist drills that any opposition developed at all. The opposition did not say there was a better or cheaper way they just said “No.” Then the issue became confused as communism, sex education, and ungraded schools were all mixed together.

No implication is intended that we were wrong to go ahead. The problem was that we took it for granted that if we had the votes, we could use them and the opposition would go along with us. Only they did not. They kept up as the defeated often do a sort of rear guard action and their efforts gave new life to the moribund radical right. The point is that victory and defeat do not resolve conflict. At best, they give the victors a breathing spell. In the case of fluoridation, was there another way? Maybe not. Granted that persuasion went about as far as one could hope, what then? I do not know but we could speculate on what if non-fluoride water was offered free to those who wanted it? Would such an offer, made in a conciliatory spirit, have taken the sting out of defeat? I do not know but if it had, it would have been worth it.

I think we can draw a couple of conclusions. Victory entails defeat and defeat entails revenge. Secondly, where victory is necessary, consideration for the feelings of the defeated can make the laurel wreath sit more comfortably on the victor’s brow. We can see one other point in this issue. It was not a conflict subject to compromise. Like Solomon’s baby, the split would solve nothing. Half the fluoride would make the treatment ineffective but the water would still have been contaminated for the objectors.

Not that compromise is all that great. It does enjoy a great reputation and it does provide a quick practical solution where the stakes are not high. Where much is involved and feelings are high, as in the GM strike, compromise is often resorted to for want of the imagination to find a better way. GM nearly doubled its offer, the union cut its demands, and the public will pay the difference. Is anybody happy with the compromise? Not even President Nixon. Compromise may be the easy way out but it leaves everyone shortchanged. More practically is anything else possible. We have
become so used to this sort of compromise that we take it for
granted that there is no other way or a big company like GM would
have used it.

However, Business Week carried an interesting short account of
Britain’s largest chemical company, Imperial Chemical Industries,
with 64,000 employees most of whom are involved in a congeries of
unions actively engaged in jurisdictional disputes. For the past few
years, ICI has been engaged in an intensive program of training its
senior executives in behavioral science. They finally got themselves
to the point that they could address their labor problems imagina-
tively and developed a plan to take to their people. “The plan was
formalized by an agreement between ICI and nine unions. Most Brit-

ish workers expect wage increases of 12% this year, but output is
expected to rise only 2%. ICI, however, is putting into effect a wage-
productivity agreement that has so far increased wages 22% and
helped boost output upwards of 25%. The agreement first went into
effect in 1968, and there have been no strikes wherever it exists. The
scheme is now working in 30 of ICI’s 75 British plants and covers
24,000 men. All of its 64,000 workers should join in by mid-1971.”

The changes in people and the way they work are startling. A
production worker said, “The foreman used to be a white-coated
bastard. Now he’s more a father confessor.” This does not lead to a
country club atmosphere as one supervisor indicated. “Before the
study, Penny had estimated that it would take 2,100 workers and
220 skilled craftsmen to run the plant in 1968. His actual man-
power, after the agreement went into effect, amounted to 1,664
workers and 180 craftsmen, a saving of some 20% in work force and
a wage bill that was $600,000 less in spite of a new wage contract
that hiked pay 14.”

These two labor conflicts have an obvious difference in the way
they tried to resolve their conflict. As a result, one disadvantaged all
concerned and the other benefited all. The difference in their meth-
ods was that with GM-UAW the issue remained strictly what it was
to start. “I can only pay so much and I can only settle for so much.”
With ICI, management elevated the thinking of both parties to see
that the productivity of the enterprise was the key to giving both parties all they asked for plus no increases in price and a stronger more secure company.

If it is so simple, why doesn’t everyone do it? I wish I knew. I can make a guess. I think that the notion of winning; of, to put it bluntly, of beating those bastards, is so much a part of our culture that neither management nor union officials dare to talk about an alternate. There are a few hopeful signs around but victory or the possibility of defeat does something to our egos. Perfectly decent men will get truly frenzied in a labor negotiation.

Labor and management have no monopoly on these foibles. Diplomats have been negotiating for a longer time and have not, I think, done as well. Take a current example the position of the North Vietnamese who say, “We will not negotiate until the last American is gone.” Regardless of whether or not we have a right to be in Vietnam, we are there and if the North Vietnamese want us out, the quickest way is to talk to us. Both Arabs and Israelis have laid down non-bargainable conditions that make bargaining impossible. Preconditions heighten tension, lessen trust, and so obviate the possibility of a solution.

Closely allied to this propensity to lay down impossible conditions is bargaining with threats. An example is found in a recent Pentagon press release on the capabilities of Poseidon carrying submarines. In deference to the sensibilities of the Russians with whom we are negotiating, the Navy assured the Russian people that these missiles were not intended for use against Russian civilians but only against Russian missile bases. A few paragraphs farther on the release just happened to mention that if only one of these were stationed in the Mediterranean, every major Russian city would be under attack. Now I have heard that Russian civilians live in major Russian cities and I will bet they got the point. My point is that this is a hell of a way to conduct negotiations.

We have seen how egos get in the way of negotiations and threats are a first class way of inflating the other person’s ego demands and so escalating the conflict.
It is not that we do not know better. Both Kennedy and Nixon have used the opposite method, tentatively perhaps but with positive results. Kennedy, unilaterally, suspended atmospheric nuclear testing. The news had for some reason better coverage in Russia than in most American papers and that was a hint of what was to come. Russia soon stopped jamming our broadcasts to Russia and agreed to the inspection procedures for some nuclear installations. Soon, as a result, negotiations were under way and concluded for a nuclear test ban treaty.

President Nixon has followed a somewhat similar method in Vietnam. He started troop withdrawals on an announced schedule. The North Vietnamese have not, it is true, formally announced any quid pro quo but the weekly casualty figures show clearly a lessening of aggression and a cooling down of the war.

We learn from these two incidents and also from Johnson’s bombing halt and the beginning of negotiations that when one side risks a little in the direction of peace, the other side may develop enough trust to go on to a fruitful resolution to the conflict or at least take some risks of its own to move in that direction. Trust involves risk at all times but especially in a conflict because the person trusted is in some way regarded as an enemy. If he betrays the trust, he may be in a position to do some real damage to us. Trust is, however, so necessary a condition for resolution that if you don’t want to use trust in such a situation my only suggestion is not to get into conflict.

History provides some marvelous examples of trust leading directly to the happy resolution of conflict. None is as spectacular as those of Gandhi and his non-violent followers. Non-violence to many Americans is a sort of Eastern mystic thing not at all suited to the manly American type. One of Gandhi’s followers, however, belied the stereotype. He was Ghaffar Khan, a powerful six foot four member of the wild and warlike Pathans of the Northwest Territory of India, an area never subdued by the British.

He was a Muslim but became a staunch follower of Gandhi and persuaded more than a hundred thousand of his people to adapt
to Gandhi’s non-violent way of life. In 1930 when Indians were exerting real pressure on the British for their freedom, his unarmed people took over the provincial capital of Peshawar without a shot. Three days later the army arrived and machine-gunned a crowd. They stood their ground and part of the British army mutinied at further shooting and went to prison. So many Indians, Hindu, and Muslim alike, resisted non-violently that more than one hundred thousand were imprisoned at this time. The British finally could jail no more and opened negotiations, which led to the recognition of the Indian people as a nation and eventually led to their independence.

Ghaffar Khan and his unlikely band of non-violent activists marching unarmed gives us some appreciation of what trust means and the price it can exact but also they show how violence caves in, in the face of genuine non-violence. A few bought independence for the many with their lives. It is hard to imagine a braver act than standing up to machine gun fire unarmed. It is also hard to imagine winning independence for a subcontinent with so few lives lost and so much moral stature gained. The non-violent way of Gandhi provides the only solution to truly irreconcilable claims.

Gandhi taught non-violence to his people as a way of life. He used his methods to settle strikes, to end discrimination, to stop unjust treatment of tenant farmers and finally to win freedom for India. If he felt the people involved were not sufficiently schooled in love and non-violence, he postponed action until they were.

When he was still in South Africa, he started an important action that was winning some relief for Indians from oppressive laws. However, he called it off because the government was being embarrassed by an unrelated railroad strike involving violence. He did not want his cause compromised in the public mind. He got the relief anyway by later friendly negotiation.

Gandhi’s efforts help us to see the kind of conversion or change of heart needed to affect lasting solutions to conflict.

In the history of political conflict, we Americans have one episode that should give us great satisfaction. When our founding
fathers gained their independence and patched together the Articles of Confederation, they were not able to sit back and enjoy their new freedom. Internal conflict replaced armed conflict: The mercantile North against the agricultural South, the Frontier against the settled East, the money interests against ex-soldiers, the states against the central government, and the large states against the small, free artisans against slave owners.

The Articles proved inadequate to manage the problems. Some men did not give up. Such opposite types as Hamilton and Madison worked incessantly through hot and plague ridden months to fashion a new constitution, a sheet of paper that would bring this gaggle of quarrels into harmony. Not only did this seem impossible, but there was the further impossibility of getting the electorate to agree with them. Well, in case you haven’t heard they succeeded and on June 21, 1788, the Constitution was formally adopted.

How could they have succeeded? After reading their story, we are inclined to think of them as some sort of supermen since success was so unlikely. They were truly great men but not supermen. Others equally great have failed at lesser tasks. I think the key to their success can be found in the preamble they wrote, “To form a more perfect union, establish justice, insure domestic tranquility... secure the blessings of liberty to ourselves and our posterity.” So all the quarrels, bitterness, rivalries, and pettiness were subsumed into this greater goal. It takes some doing to get disputants to forget their private goals and find that they can get all they want and more if they work toward the larger goal.

The method performed well for the founding fathers. Unfortunately, it did not become a standard practice for later politicians. Others, though, have profited from the example. This is what the marriage counselor, for instance, tries to do. He tries to develop what psychologists call a superordinant goal for the couple. That is, tries to lead them away from what we might consider the selfish demands of each partner toward the image of what a happy marriage can mean. Marriage is particularly amenable to this kind of
solution because the satisfactions gained from selfish ends are nothing compared to the happiness that can be had when the selfish habits are modified to build up the partner. The same effort merely redirected to the good of the partnership changes bitterness to happiness.

Spectacular it is, but most areas of human conflict are subject to being subsumed into a superordinant goal. It takes two factors to solve conflict in this way. Imagination must be involved to discover an appropriate way to merge the conflicting interests in a higher or superordinant goal. The company and union as we have seen can become more productive and share the benefits. President Johnson offered hydroelectric and irrigation works for the whole of Indo-China if the fighting would stop. It was a good try but it did not work for the reason that the belligerents would rather defeat the other than gain the larger goal. This leads to the second condition needed to gain the superordinant goal. Each of the conflicting parties must be brought somehow to forget his win-lose syndrome, his desire for victory over the other. Changing his thinking of victory over the situation instead of victory over the opponent may help. A method that may work slowly but which works very surely is love, “but you know that,” in the words of the immortal Ed McMahon.

A great share of our difficulty in conflict management lies in this overarching influence that the desire for victory has in our lives. Our common wisdom is full of such sayings as Vince Lombardi’s, “Victory is everything,” or the adage, “Negotiate from strength.” This has, however, bothered enough people so that we have an opposite but equally unsatisfactory saying, “It does not matter if you win or lose, but how you played the game.” Where victory is unavoidable, Knute Rockne’s instruction is helpful, “Win without arrogance and lose without alibis.”

However, some societies can exist without victory and the reason they do may have a message for us. It was discovered that when the Navaho Indian child is brought to a white man’s school, he has no concept of winning. He has to be taught it in school like you
might teach honesty or thrift. He hasn’t experienced victory or defeat because the harsh reality of desert life has taught the Indian that victory over another is too costly a luxury. Survival requires him to spend his energies in cooperation. I wonder if we can learn this simple lesson without being driven into a desert created by nuclear war.
CHAPTER 6

Innovative Management—
Cost or Cost Reduction?

This title may be a little presumptuous because the first part implies that we consider our company to have something special in the way of innovation, the second part would make you think that all this innovation has not cost us anything but has led to cost reductions. Well, I will plead guilty on both counts but remain unrepentant because there is some validity to the title and its implications.

What I would like to tell you about today does involve innovation to the extent that we have used ideas about management from many sources and put them together. What innovating we have done has been more in the way we have organized our work than in the products we have developed.

We don’t pretend that our innovations did not involve cost nor risk but rather that the cost and risks involved did lead to substantial cost reductions. They have also led to better quality control and customer service with the resulting higher market share capture.

This experience covers twenty years. In 1952, we stumbled on an idea that looked good to us. In fact, it looked so very good that we thought paradise was just around the corner. Now twenty years later, we are still looking for that corner but we also still regard the idea as good.

Let me show you some lines that may help you see why.
What then was the idea that we stumbled on? In two words, it was the Scanlon Plan. In two other words, it was participative
management. For the benefit of those who are unfamiliar with the Scanlon Plan, I will describe it briefly. Joe Scanlon, its author, believed that everybody in a company not only could be more productive but they wanted to be. Sounds interesting today? Well, it sounded good even in those far off days when the dollar was worth more than 33 cents or whatever amount the economists now say it is. (Incidentally, I never could figure out why the cents didn’t depreciate right along with the dollar but that is someone else’s problem.)

Well, Joe Scanlon not only said that people could and wanted to produce more effectively, he set out to prove that it was so. I might add parenthetically that the idea was born out of efforts that he set in motion to involve the staff and rank in file members of the United Steel Workers in keeping a small and struggling steel company afloat in the waning years of the great depression.

He convinced the company president that the men would help him with his crippling burdens if he would do two things:

1. Let the people know what the problems were in terms they could understand,
2. Demonstrate to them that they would share equitably in any improvement made.

A plan was put together that enabled these two rather straightforward requests to be met. The ensuing years have seen dozens of variations on the original plan but several characteristics of the original persist in the great majority of successful plan. The structure of committees of management people, and representatives elected by non-management people. These committees were to disseminate information on the problems facing the company and solicit and process suggested solutions. A monthly company or division wide bonus based on savings in cost over some agreed on historical floor. The formula was a simple one such as total payroll as a percent of sales, or direct cost as a percent of sales, or cost per ton of output. The bonus was thus easy to calculate and easy to understand.
This all sounds very elementary and may have led to some cost reductions but since it was thought up by Joe Scanlon and not by Donnelly Mirrors, you may reasonably ask, “where does the innovation come in?” We quickly found that the soundness of Scanlon’s ideas did not guarantee their successful application.

In the second year, we ran into a problem over material costs and operating supplies. Our purchasing people found we could save money by buying cheaper materials and upgrading them by selection and polishing but this added to labor cost and hurt the bonus. On the other hand, machine operators found that by increasing the pressure of the glass against diamond grinding wheels they could increase production per man-hour; they also skyrocketed the diamond wheel expenses. So what started out to be a cooperative effort with company and employee interests in harmony soon was in danger of hurting both parties by conflict of interest. When this situation was explained people were willing to back off from some of these less productive practices, but the feeling haunted us that we were settling for second best in overall efficiency.

We finally found innovation number one by putting all savings in labor, materials, and operating supplies in a common pool and splitting this between the people and the company. This seems obvious but most companies with Scanlon Plans still operate the old way, and suffer the inefficiencies it entails. They try to correct some inequities by frequent changes in the percentage of allowable expenses. This creates uncertainty and keeps questions of equity always in people’s minds. We have only had to make one change in our percentage in 18 years and that was occasioned by the merger of a company with a very different product into ours.

Before the plan was much older, we had to decide what to do with allowable percentage or bonus base when we introduced new equipment. Traditionally, Scanlon companies had changed their base for the reason that the people had not contributed to the buying of the machine. However, with our plan, both people and company would share in the saving so it seemed logical not to change the bonus base.
Two other reasons supported this course: first, we had found it helpful to involve the operators in the selection of equipment or in the design of it if it were a special machine because they had very practical ideas that we could not afford to overlook. So many people were in fact contributing to the purchase of the machine—operators, engineers, and buyers. The second reason was that we wanted these machines to produce up to or over their capacity. Too often businesses find that labor saving devices create featherbedding. By not factoring the machine improvement out of the bonus base our people got better equipment and had a stake in getting maximum results from it.

This decision cannot be classed as one of the great innovations of American business but it was one more step in developing an organization that can compete with the best. A little documentation might be in order. We have one product, a mirror for automobiles that has been produced all through this twenty-year period. In spite of increasing its size from seven to twelve inches, changing from a simple rectangle to a complex shape, adding a precision bevel, improving quality, and doubling field life, we have reduced the price by 25 percent. Our market share in the world is approximately 70 percent. Even more pertinent for today’s concerns, we have added a pollution control system to remove soluble oils and glass grindings from processing wastewater so we no longer pollute our lake.

This talk many begin to sound like the perils of Pauline since each success seemed to create a new problem. Indeed the successful introduction of labor saving equipment brought with it the threat of technological unemployment. Now, as far as I know, no bonus nor any need for self-actualization will motivate the ordinary worker, or the ordinary manager for that matter, to work himself out of a job. So what to do?

First, we tried to time our purchases to coincide with upswings in our employment. This helped but not enough. Then we added a guarantee against technological layoff. This meant that a person whose job was eliminated by technology or any kind of work ratio-
nalization would be kept for six months at his old pay. He could be asked to do any suitable work during that time and would have first crack at job openings that would pay at least as much as his old rate. We later added guaranteed annual income to increase people’s sense of security.

Many companies here may have given their people similar benefits. The only innovative feature of our action is that by doing it in the context of the Scanlon Plan we get something in return. We really thought we arrived the first time a man felt safe in suggesting how his job could be eliminated. Actually, the first person was a woman who worked in a stock room as a receiving inspector. She suggested that if a man who carried material to her were to take her place he could do both jobs. If there is a cynic in the audience, he will be pleased to hear that she was about to leave the company anyway and have her first baby.

A better example was the case of a team of five people feeding and unloading a multi-stage injection-molding machine. They modified the work so that four could keep the machine loaded. Since there were two machines operating three shifts, six jobs were eliminated. A somewhat related phenomenon is that we use engineered standards mostly for scheduling and costing. In general, operators set the rates for themselves. When people break production records, their names are posted and the coffee machines operate without money for the day. We now accumulate new records and post them only once a week. It seems that it lost its glamour when done daily.

Incidentally, people will sometimes say to me, “my you have a philanthropic company since you give so many benefits to your people.” I have to disillusion them by pointing out that we are not the philanthropists. We get value received for all these benefits. It is the big car companies and the giants of steel that are the philanthropists. They give escalator clauses, guaranteed annual wage and what have you, and get nothing in return.

During the 1960, we began getting results that are even more striking from our plan through some further developments. The fact that people were really beginning to understand the value of
cooperation and to trust the company to give them fair treatment made it possible for us to start changing systems and structures to be more compatible with the new attitudes. We were able to move faster in the changes because of the outside help that became available to us during this period. The names of these helpers are commonplace in business today: Douglas McGregor, Bob Blake, Rensis Likert, and many others.

The first named man, Douglas McGregor published a great book in 1960, *The Human Side of Enterprise*. In it is the best short description of the Scanlon Plan but more pertinent to our immediate discussion were the two chapters in which he introduced the world to his Theory X and Theory Y. These descriptions of two contrasting managerial systems evolved out of McGregor’s close association with Joe Scanlon at M.I.T. What McGregor did for us was to give us a clearer vision of the leap Joe Scanlon had made in moving companies from Theory X operations to Theory Y. Scanlon had merely asserted that men not only wanted to work better but would work better. Scanlon operated on that kind of simple faith and then doggedly went after the obstacles that prevented men from working, as they really desired. McGregor and the others were systematizing and making explicit what Scanlon had known instinctively.

But this new help was important because it made us see how heavily influenced by Theory X were business systems, structures, and practices. We began to see the new opportunities that became possible when managers really wanted Theory Y to work.

A first change came in our control system. At that time, we placed production scheduling in the controller’s office. Along with this, we let it be known that when a foreman or an operator accepted the responsibility for producing a certain quantity we would expect it to be done on time unless it was reported as soon as a possible variance became apparent. This is not earth shaking but it is the cheapest form of real time control I know of. It enhances every job in the company, increases job satisfaction, gets fast action on troubles, and improves scheduling. With this
first hand, experience with production scheduling the controller saw that this could give new life to his attempts to install financial budgeting. Under the new name of profit, planning our budgeting soon became more reliable than our operating statements. Each week then a summary of plus and minus variances updated our monthly profit plan so that we really began to feel like we were proacting instead of reacting. We were at last really managing our business.

Toward the mid sixties, we began to see that it would be worthwhile committing substantial money to some of the new programs being offered by the behavioral scientists. What appeared most helpful to us was Bob Blake’s managerial grid. This gave us three things: First, a language to use in describing good and bad managerial actions; second, a personal awareness of how our behavior impacted others; and third, a plan for organizational development.

The grid gave our organization, especially at the supervisor level, a real sense of professional pride. We felt we knew what we wanted to do and knew how to do it. A few years later, we learned about the work Rensis Likert was doing at the Institute of Social Research at the University of Michigan. Likert has come closer than anyone I know of to making the social sciences into an exact science. He studied many companies, large and small, in an effort to define the characteristics of successful and unsuccessful managers. He identified our consistent styles and called them systems I, II, III, and IV in the order of increasing effectiveness. McGregor’s Theory X, Blake’s 9.1 and Likert’s system I are different ways of describing traditional management and all agreed it was either the least effective or one of the least effective ways of managing. Theory Y, 9, and system IV were remarkably similar and described the most effective styles of management.

We have of late been relying more heavily on Likert’s work for several reasons. First, there is more research back of it. Then he presents a model for organizations that answers a key need for any company using the Scanlon Plan or any form of participative management. This involves the interlocking work team concept that I will come back to. The third reason for following Likert is a survey
tool that can be used to guide the development of companies and teams and compare their progress from previous periods or to compare their position in systems 1 to 4 with that of the many other companies for whom data is available.

The notion of interlocking work teams can be seen best by comparing it with a traditional organization chart. Here we see groups of men responsible to a single boss. There are many potential teams on this chart, but in spite of much management rhetoric, few of these groups operate as teams. Even when a group meets with its boss, there is a tendency to have a series of one to one dialogues with the boss. Likert did find that some groups in companies did act as teams and showed consistently higher performance. This discovery was the basis of his system IV. When the head of one team was also part of a real team at the next higher level he became a linchpin between the two teams and the work of both became even more effective. So, the interlocking work team structure looks like this. You can see that the one to one lines are gone. If the peer members of the team support one another, they can deal more realistically with the boss. He can and in fact must become a leader to remain effective.

Well, enough of this theory. Let’s see what happened when we presented this idea to the organization. The first reactions were good because the new structure should make the efforts at communication and cooperation more effective. So, we tried it. Some teams worked well at once. Others had poor leadership or private quarrels and their progress was slow. We did get outside help with these teams and began to staff an organizational development group in the company to speed up the work.

The next two charts will show some results in productivity. The first shows an index of production related to direct labor. We are showing an index because it covers a variety of products and does not reveal confidential information. Phase ii represents the period following the introduction of work teams and shows a sharp increase in productivity. This slide shows just phase ii and some of the developmental programs introduced during the period. You
notice the first item is the start up of the work team program. The survey feedback refers to report on a Likert survey of employee attitudes with special emphasis on their relations with their teams. The next significant thing might seem unrelated. We changed our pay policy so that time clocks were eliminated and all people were put on salary. This program was introduced at meetings of each work team. They had time to discuss the pros and cons and later had a chance to vote on the proposal. There was a surprising amount of questioning of the plan centering on whether absenteeism would hurt the bonuses (it has not). Productivity gained very rapidly after it was accepted.

You will also notice two places where productivity bargaining is shown. It is not an apt term for what we do but regardless of what we call it, it has produced startling results. Our fiscal year begins May 1. In the planning before this date, we have presented information to representatives of the teams about company plans and expectations. This includes sales forecasts, possible sales price increases or decreases, inflation factors, and wage changes in the area. Out of all this, we settle on a wage and fringe package. In 1969, we introduced a new factor. This was the amount of cost reductions that would be needed to make the pay package and maintain the company’s return on investment. We asked the teams to see what they could offer in the way of ideas. Our first target was $177,000. When the teams came back, the ideas totaled $284,000. This included higher production, material savings, labor saving devices from engineers, price reductions from purchasing, additional sales, and so on. Not only was the total higher than expected and the commitment to the program high but enough of the savings had been effected before the start of the year to cover the entire wage package.

In the next year, the target was $610,000. We achieved $643,000, the next year the target was $453,000, and we made $521,000. Our current target is $550,000. You will notice that there has been some fall off in annual targets. Some of this comes from strikes by two major customers, the recession, and sharpened competition and
because we have been concentrating more effort on new product development and reorganizing for further growth. However, the results are substantial. Some of this data presented was prepared as part of a doctoral dissertation. Among other tidbits, the candidate found was that if only half the productivity gains of the 4-1/2 years covered by his study are compared to the survey costs, consultants and in-house O.D. staff there is a return of 220% on the costs.

In 1970, Fortune carried a study entitled, “It Pays to Wake up Your Blue Collar Workers.” Our efforts have been directed at both blue and white-collar workers and it has paid. The innovations we have made have not been spectacular but our people have made our efforts look good. Each time we made a commitment to a new program, we would wonder if there were still gains to be made but we have not yet found anything that looks like the end. If we were to think in terms of the intangible benefits such as job satisfaction and pride in work, I could spend the rest of the day talking but that would decrease your satisfactions so I will stop here with the hope that, if you are not already looking at the possibilities of participative management, our experience with it will encourage you to do so.
CHAPTER 7

Business Ethics

Some years ago, Norbert Wiener wrote a book on ethics called, *The Human Use of Human Beings*. That sets the stage for what I want to say better than anything I can think of. You can quarrel with the word “use” because the phrase “using people” has a bad ring. In business, we do use people to get things done and we deal with them in other ways. We sell to them, buy from them, accept direction from them, counsel with them, and so on. Perhaps then, in a talk on business ethics we could think of *The Human Treatment of Human Beings*, getting rid of the word “use” and broadening our scope at the same time.

The phrase will help us remember that ethics covers dealings with other human beings and it expects that we will treat them as humans. That seems simple enough until we try to define what a human being is and what constitutes human treatment.

We can get some help from a common experience. When you buy a new camera or a new car and pick up the instruction book, you will be greeted by a statement like this, “Congratulations! You are now the proud owner of a Konix camera, which is designed by finest scientists and made meticulously. With it, you will be able to record your trips, your children, and so on.” It will also list a few things to avoid doing but it will not have to say don’t clean the lens with sandpaper or use the camera as a doorstop, etc.

The point is that they start out telling you carefully what you are dealing with so that you will understand how to get the most from your camera. When you understand, this well there is no need to
spell out everything to avoid; just those things that might not be obvious.

I hope you see that this has a parallel for a talk on ethics. Ethics is the science or discipline that talks about appropriate ways to deal with, not cameras, but other human beings.

We could start out by saying ethics says don’t lie; don’t cheat; don’t steal. That is rather a negative and unhelpful approach. So it might be better to stop for a moment and think of what a human being is before we say what to do and what not to do.

Humans come in many shapes and sizes but except for the unfortunate ones who are crippled physically, mentally or culturally they have a number of common needs and capabilities.

Their basic needs, which must be met for survival, are food, shelter, and clothing. When these are reasonably met people begin to feel the need for security. Then they want to belong, to achieve, and to be recognized and finally to become the best person they are capable of being.

These are the normal needs that move us to act. These needs are the basis of most of the motivational work that goes on today.

What, then, are people capable of?

Surprising as it may seem, people are capable of work, and not only capable of, but they like work. Surely, you can point out people that you know who do not like to work. Most people though become bored with play sooner than with work. This is true even though it is generally recognized that little attention has been paid to making work interesting. In fact, the contrary is more the rule. The methods people have, until quite recently, carefully broken jobs into smaller and smaller bits so that an idiot can nearly do it. Still people work at these jobs, partly for money but also because they like to make things; to see the job through; to feel achievement however small.

Not only do people work but, if given half a chance, they will be responsible for what they do. This point can raise a heated argument because it is commonly said that work is sloppy today, “no one takes any pride” and so on.
Still you can buy watches today that are more accurate and, more versatile than was dreamed possible a few years ago. There are pocket calculators for a few hundred dollars that make the computers of ten years ago look primitive.

So there are responsible people doing good work. There are, on the other hand, creative people who have been shut out of responsible roles for so long that they use their creativity to defeat the system that cut them out of the fun part of work. When workers respond in this way the boss calls for more supervision, more inspectors, and more rules. This results in more creativity against the institution. So people do like to work, they are or can be responsible, they can be ingenious or creative.

They also have rights. In this Bicentennial year, we are very aware of those inalienable rights of life, liberty and the pursuit of happiness. We recognize the validity of this statement. It may presuppose a religious or philosophical position to support this belief but it is not necessary to go into this. We can presume that everyone here recognizes that men are more than animals and should be treated so.

This quick survey gives us a glimpse of what kind of article it is we are dealing with when we come face to face with other people in a business situation. If we want to get the most out of them, we have to understand them just as we had to understand our camera if we wanted to get the most out of it.

Now this may sound as though I have gotten off the track because what does getting the most out of people have to do with ethics. That sounds more like motivation theory.

Well, in business we spend a great deal of time trying to get the most out of people. The boss wants more production; the worker wants more pay from the boss; the finance man wants higher prices from the customer; the customer wants more for his money. The shareholder and government also want in. There is tremendous pressure to squeeze more and more out of the company.

If we look at the company as a static thing then there is no way all these people can get all they want out of it. Tensions develop and somebody decides he is going to get his share, regardless. Then the
cheating, the white lies, the something under-the-table, the threats, or power plays begin and now we are in the field of ethics. Ethics talks about the fair, the just way to deal with a question so it has a great deal to say about how we get the most out of somebody, whether it is employee, boss, customer, supplier, shareholder, the public, or the government.

There is another problem in ethics that we should look at before getting down to cases to see what ethics should say to us about how we go about our work.

The reason ethics is so much of a question today is that traditional ethics or morality has been concerned primarily with how people behaved in what we now call private life. Until quite recently, in terms of the history of humanity, most of a man’s life was what we call private. People earned their living largely on their own farms or in their own shops or stores. At the beginning of this century, for instance, roughly half of the workforce was on farms.

Under such circumstances, the Ten Commandments and what one learned in church or from the McGuffey reader covered a person’s whole life because it was pretty much all-private, and traditional morality dealt with this kind of activity.

Since that time, the percentage of people who now work in organizations has changed radically. Today the great bulk of people work in large-scale organizations. These are of a size hardly dreamt of a hundred years ago.

With organization, morality or ethics faced a new kind of situation. People spent a great deal of time doing things they were told to do or “expected” to do. So it became very easy to say, “I did not like to skimp on the quality but I was told to do so. I had no choice.” Alternatively, he could say, “I did not realize that what I built would be unsafe. I just followed the plan that was given to me.” Conversely, the boss could duck responsibility by saying, “I did not do it, one of my people did, and you can’t expect me to know what they are doing all the time.”

It sounds a little bit like Adam and Eve explaining how that apple core came to be littering the garden. The big organization was the
The Human Treatment of Human Beings

best excuse ever invented. “It” could do almost anything and get away with it.

This fact of separating decision from the execution of the decision has created a general feeling that things can be done in an organization such as a corporation that would not be countenanced in an individual.

When you move into governmental organizations, the problem is far greater. Governments can order large-scale violence and oppression and the officials can shift the blame onto the needs of the nation.

Gradually the public is being awakened to the fact that people in organizations are getting away with too much.

There have been several periods in our history when we started to “clean up the mess,” but gave up after passing a few laws but before we achieved any consensus that the laws be obeyed.

The situation today seems to be more favorable to a solution because people, including many businesspersons, are seeing that they would like an unpolluted environment, that they want to drive in safer cars and that they recognize that fighting with labor does not pay. Things have gotten so out of kilter that many influential people are asking what we can do to get at the basic problems and so move ahead.

This does not mean that the millennium is just around the corner but that there is enough public support for good behavior that people are willing to say to themselves, if not in public, “How should we change to make things better?” or “What have we been doing that is making people unhappy?” “Have we really been giving minorities a fair break?” “Are women treated as equals in our companies or as convenient helpers?”

We started out by seeing that if we want to get the best from a camera we needed to understand it, then we would not need a lot of “don’t” do this or that.

Since this could be a model for dealing properly with humans, we refreshed our understanding of what a human is that he has needs, capabilities, and rights.
In business, we saw a problem arising from everyone trying to get the most out of everyone else and there did not seem a fair way to do this.

Then we saw another problem arising from the fact that business organizations are larger and involve more and more of our attention and that they are the neatest way yet for ducking responsibility.

So how can ethics help us? If we want to treat human beings humanly, we can start with the Golden Rule. It is a great signpost. In any situation, you can ask yourself, “What would I like this opponent to do to me?”

A word slipped out there that may have surprised you. Why did I say opponent in talking of the people I deal with? In explaining this, I take a risk because I may seem to be attacking the fundamentals of business. It is common to speak of business as competitive enterprise. Indeed the law requires us to compete and refers to people in the same business as competitors. It is unfortunate that that word was chosen to describe a process intended to leave markets free. “Free enterprise” gets the idea across much better. When we emphasize the notion of competition, it tends to permeate all our relationships. We encourage competition within the company and then wonder why we cannot get teamwork. We fire up a sales representative to beat the competition and are surprised when he promises the customer more than we can deliver.

In buyer-seller relations, which should be a cooperative arrangement, we often end up with the buyer trying to beat the price and the seller in retaliation trying to stick the buyer.

We call that process bargaining. However, what is done generally has little relationship to the kind of transaction that gave birth to the process. The old Yankee horse trading, like so much bargaining in simple conditions, was intended to bring out the true qualities of the horse and whether it would meet the buyer’s needs. Both parties expected to come out well without hurting each other. In fact, it was typical to seal the bargain with a friendly drink at the tavern.
The point I am trying to make is that, in business, we have a strong tendency to turn what should be cooperative ventures into adversary relations. It is very difficult to be fair when fighting. However, we can help ourselves even when the law requires us to compete. I think of the statement of an American General, I believe it was Grant, who said, “Always treat your enemy as though he will one day be your friend.” This is an astounding statement coming from a general but even in war, it has its application. We have certainly learned to relate well to Germans and Japanese in spite of our previous adversary relationship.

While we cannot cooperate with competitors, we can recognize that they, too, are humans anxious about making a living and worried about what we are up to. If it is possible to regard competitors as human, how much more should this apply to all our other relations?

To go back to our use of the Golden Rule, perhaps we can help ourselves most by thinking of the people we are dealing with, not as opponents, but as people.

“This is risky,” you say. “In this dog eat dog world people take advantage of you. You have to treat them as adversaries or they will walk over you.” As a person fond of dogs, I would like to say a word about dogs eating dogs. I have never heard of one doing so. They will eat chickens or rabbits but I have never heard of a Great Dane eating so much as a Chihuahua. Dogs even have to be trained to kill another dog, let alone eat it. Dogs fight but they have an instinct that generally stops a fight short of death. The dog that is losing lies on its back and exposes its jugular vein. This stops the fight. It also teaches us a lesson: To stop an adversary takes risk. By extension, we can say there is risk in the process of trying to deal cooperatively with people. They will suspect our motives. They may think that this is my chance to get even with this person. Alternatively, they may think we have gotten soft in the head.

There is a new science called game theory, which attempts to deal with how people act in such situations where one person can win or lose both can win, or both can lose. They have not fulfilled their
initial promise but they have learned some things. One is that to be trusted you have to trust others. This sounds rather stupid at first thought. If you are an honorable trustworthy person dealing with untrustworthy people, why should not they trust you even though you cannot trust them? The problem is that the more untrustworthy a person is the less inclined is he to trust others. The process of building trust is to expose you to some loss. Let the other know that you realize you are exposed. If he takes advantage, do not retaliate. Try him again and perhaps repeatedly if it is important. Sometime he will get the message.

It seems then, that there is some evidence that we can improve the climate in which we deal with others and so lessen the ethical problems that inevitably arise in adversary relations. This is an important ethical consideration. We can make it easier for everybody by changing the situation in which we work so that the areas of conflict are lessened.

For instance, in tennis each player has a racquet, which can be a formidable weapon. Still I do not believe there are any rules about striking an opponent on the head with a racquet because there is little opportunity. In hockey, however, there is both opportunity and provocation and rules. In spite of severe penalties, there are many infractions. In shifting from hockey to tennis when we change the situation it lessens the opportunity for violence and improves conduct. We can help ourselves if we try to shift from a competing mode to a cooperative one.

Once again, game theory tells us something. The theorists developed the name zero-sum to describe situations in which there is a limited reward available. So what you win I lose, or vice versa. The way out of that trap is to change the situation so that there is the possibility of a productive game.

For instance, two soldiers had a chance to scale a wall in a prisoner of war camp, but they had to help each other and neither trusted the other because of a long-standing feud. Each was afraid that if he boosted the other up he would be left behind. Finally, one had a bright idea. He said take off my clothes. You lift me up. Then
I will pull you and my clothes up. They changed the situation from win-lose to win-win by a very simple twist, which involved some ingenuity and only a little risk.

When we speak of productive game, we should really arouse the interest of business people. Productivity is the name of our game. We are forever hearing representatives for free enterprise tell how management and capital get more out of an operation than goes in. I believe they are right, but we keep forgetting this in practice. People go into collective bargaining each side thinking that what they win comes out of the other's hide. The solution is so obvious that it amazes me why more people don't use it. I refer to productivity bargaining, in which management tries to understand the legitimate aspirations of labor and labor tries to understand management's need for increased productivity to make the increase in pay possible. The bargain can often be reached that will give labor a higher raise than they really expected in return for a commitment to increase productivity.

It is not easy to move collective bargaining to productivity bargaining but the rewards are great. Both sides win and friction is lessened.

This has even more positive consequences. It frees up the creativity of the people in the company. They can see that better methods can result in more pay; a stronger company; more achievement; more feeling of worth. We are getting the most out of our people and they are getting the most out of their work.

I hope by now you can see that there are ways of getting the most out of people without taking advantage of them. In fact, it begins to appear that ethics need not be the sort of straight jacket that some people think it is. If it leads to better understanding of and between people the frictions are lessened and the rewards greater.

Productivity does not end ethical problems; it merely makes it easier to handle them. If productivity creates, a larger pie to divide each can receive a larger slice. There is always the possibility, though, that some one will get greedy and want all of the increase for
himself. To avoid that requires some forethought so that people will know what to expect from different percentages of increase.

This also is a good ethical principle: When people know what to expect they will regard that as fair.

In general, one of top management’s most important jobs is to create a plan for taking the inputs from employees, shareholders, vendors and customers and creating something larger and devising a plan for dividing the increase among those parties so that each will be fairly treated.

One-step, as we have said, is to let people know what to expect. Another is to compare the results with what they could get in the free market elsewhere. A third factor is to keep force or threats of force out of the situation. This is the basic condition for free markets and free dealing with others. If someone threatens force, there should be a strong effort to help that party see that he is spoiling the game, changing it to a zero-sum game or worse. We can have lose-lose games as well as zero-sum or productive games. Strikes and lockouts are generally lose-lose games.

So much for the problems resulting from everyone trying to get the most out of each other. The second big problem has to do with responsibility in organizations. What do I do if my boss tells me to pass some material with minor defects, with important ones, with defects that make the product potentially dangerous? What if he suggests I offer a buyer a bottle of whiskey or a weekend at Las Vegas or two weeks in Jamaica? What should I do if I see a fellow salesman padding his expense account?

There is no easy solution to such questions. There may be times when we have no choice but to quit our job rather than acquiesce. We may have to report an action even of a friend if we want to live with ourselves.

I have a friend who was ordered by an officer to shoot a Japanese prisoner of war or be shot himself. He refused and was about to be shot when his captain came in and stopped the proceeding. The man really practiced what he believed. We seldom find situations where a person has to put his life on the line for the sake of
conscience but he may have to sacrifice a job, a promotion, or an order. There are many such decisions. Each time a person makes a sacrifice he adds to a reservoir of goodness that somehow brings others around to doing the right thing. This does not make the loss easy.

Such sacrifices are the ultimate weapon against unethical orders. Publicity is another. The Jack Anderson’s, the Woodward and Bernstein’s or their small town counterparts can stop many abuses with a timely tip.

Professional organizations should, but usually are not, a help for a person who is being ordered to do things improperly. An engineer who has been told to shave some weight off a vital part should be able to go to his society and get support for a refusal. Such support should be there, but often isn’t. The ethical thing to do if this is a problem is to work within the association to get a policy to support people in such cases.

Auditors in companies can be tipped off to stop many kinds of wrong behavior. This is how Seidman got on the track of Equity Funding. An employee tipped them off and they had the nerve to pursue the tip even though it meant considerable expense and embarrassment to themselves.

The best defense against this climate of irresponsibility in organizations is for the top people to set an example first and then expect other managers to follow and hold their subordinates responsible for their actions. It is further important for management to spell out clearly what it expects from its people so that there are no mistakes about “business is business” or “the only objective of business is profit.”

This has been a rather strange treatment of business ethics. I have listed very few do’s and fewer don’ts. Still I believe that what I have said can help us to have behavior that is more ethical.

We know that if we understand our cameras we will get better pictures. Therefore, if we understand the nature of man, his needs, capabilities, and rights we can get better results from him by recognizing these traits. Men can be against us or with us. They can
hurt or help as they choose. Their choice is greatly affected by how we treat them. If we give people opportunity and trust, we will find a more productive situation in business.

The great problem of irresponsibility in organization has no simple solution. The individual conscience is perhaps the first line of defense. The individual is weak against the bulk of the organization. He needs help from associations or associates, from publicity or some respected power in the organization. The main defense though must come from top management. It is their job to create a climate of productivity and justice so that the people can behave honorably.

In summary, I would say against so many big people in businesses who complain about all the busybody environmentalists, consumer advocates, and reformers that ethics, far from costing money, usually makes money. The costs are all short range; the payoffs long.

Ethics should not generally cost money but it does cost effort, foresight, ingenuity and a belief that men and women are great, needing mostly trust, encouragement, and opportunity to show what good things they can do.
CHAPTER 8

Director Donnelly Reflects on Ownership

“One of the finest statements I’ve ever heard,” said D. J. DePree in response to Director John Donnelly’s report to the stockholders. He continued: “I think everyone ought to get a chance to read it.” Mr. Donnelly’s report appeared in the Herman Miller Statement of Ownership, dated September 15, 1977. It is reproduced here in its entirety.—The Editors

What I would like to speak to you about today is a topic that is not your “run-of-the-mill” shareholder report, but then this is not one of your “run-of-the mill” companies. Proof of this statement can be seen in this year’s Annual Report. In comparison with previous ones, it has a very conventional format—conventional, that is, until you try to read it from cover to cover. Then you find that when you get to the end you are only at the middle and you have to turn the book around and start at the back, which is now the beginning.

This odd arrangement is not without a purpose and it should alert any intelligent investor that he is dealing with a company that innovates, not merely for the sake of innovation, but does it to achieve exceptional results.

This year the Board of Directors, in an effort to keep pace with this philosophy, undertook a bit of innovation of its own and prepared a Statement of Ownership, which our Chairman sent to you. Apparently, it met some need of the shareholders since the response was both favorable and heavy.

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This statement is what I would like to talk about today by giving some background for it and by drawing some implications from it.

Sharing Ownership in a Company Not Like Owning a Home

The title alone arouses interest. You might expect something like “Shareholder Relations” instead of “Statement on Ownership.” It suggests we go back to fundamentals and say that the shareholders own the company. This may not strike you as a novel position since you knew all along that you were the owners. Technically, you are the owners. But ownership of shares in a company works out to be quite a different thing from owning a home or a small business.

This difference is what makes a Statement on Ownership an important thing for shareholders and for business in general. What is the difference that I am speaking of?

In the year I entered business, a book was published by Adolph Berle and Caston Means entitled “The Modern Corporation and Private Property.” They surprised people of that far off time, 1932 to be precise, by claiming that shareholders no longer controlled the large corporations they owned. They proved that managers whose stock ownership could be incidental were the people who controlled the company.

The managers, furthermore, usually had more pressing needs than those of the shareholder to attend to. Customers spoke loudly and clearly about needs for lower price and better quality. When employee demands were not heard, the employees got an amplifier to insure that they would be listened to. Some amplifier brand names were AFL, CIO, and Teamsters. Meanwhile, the managers had their own set of demands, which had to be met with stock options, pensions, and various perquisites.

All the while, this was going on, the government, the press, and assorted publicists convinced the world that shareholders’ profit was robbing the country blind. In the years since 1932, this process has
gone on with new demands from taxing authorities, environmentalists, and consumer advocates heaped on the old ones.

**Shareholders Reaction: Apathy**

It should not surprise us then if managers over the years did not place shareholder needs high on their priority lists. Only when businesses needed to go to the market with new issues of stock did the managers realize that they had also to attend to shareholder needs. Then earnings per share would be the magic word in the boardrooms and upper levels of management.

This dismal narrative of recent business history might explain in part why investors are putting such a low value on common stocks and have turned to bonds, real estate, commodity options, and so on. The market has to struggle to show a little gain even though pension funds constitute a huge and almost mandatory additional market for stocks.

None of what I have said so far should lead you to feel sorry for yourselves in your role of shareholder. In spite of what any individuals here may have done to be responsible owners of shares, by and large, shareholders have abdicated their responsibilities as owners and bear a significant part of the responsibility for their predicament.

Apathy is the failing common to shareholders. (Present company accepted, of course.) I am quite ready to admit that for any of us to try to influence AT&T, as the owner of 100 shares of their stock would seem like a hopeless task. Still, we do troop to the polls on a certain Tuesday in November every fourth year when the odds against our affecting the outcome are about the same.

The difference is that the owner has some options that the voter does not have. He can give management a vote of no confidence by selling the shares as well as writing a letter to the chair or voting against management. Unfortunately, we too often opt for selling the shares—a very indirect method of trying to influence the company.
Shareholder Rubber-Stamping

Another sign of shareholder confusion is the almost automatic way that shareholders support management in any question in which someone is trying to get the company to act responsibly. The response is of the knee-jerk variety, even though more and more thoughtful business leaders are realizing that the only alternative to business becoming responsible is for the government to force it to. How much better if shareholders would step in before the government has to.

Let me give you a personal experience. In talking with a friend about this subject a few years ago, I mentioned that my wife always read the various resolutions accompanying proxy statements and tried to vote responsibly. I said she had been particularly indignant at the position taken by the management of a pharmaceutical firm regarding a shareholder proposal that the company give warnings equivalent to United States requirements on its products sold in other countries where those countries had no warning system. Management said this was an interference with the sovereignty of the other country. In addition to voting against the proposal, my wife wrote the company to tell them that they should warn anyone of known health hazards with their products regardless of whether any government required them to or not. The shareholders, as is to be expected, voted the proposal down.

My friend got a strange look on his face. He finally said that it was his wife who had campaigned to get the resolution on the ballot because their daughter had taken sick in Spain and had been given this company’s medicine which management would not label with a warning in Spain. As a result, the young woman died.

Such management will destroy our free enterprise and we will sit around wondering what happened.

Another personal experience may give some added insight. A few years ago, I was a guest of one of the big-three Japanese trading
companies at their headquarters in Osaka. One of their officers showed me around the building and ended the tour with a view from the roof. As we looked in the direction of China I asked him what would happen to all this if China decided it wanted Japan. His very matter of fact reply was that he planned to be a commissar. That would not likely be the reply of many American managers, but we do not have China on our doorstep.

Still these two stories give some insight into the fact that ownership and control of companies are largely separate functions with somewhat divergent interests, and owners should begin to think of how they can make their companies protect the shareholders’ investments by acting more responsibly.

Resulting Dangers

You may feel am unduly alarmed by a few casual incidents. I believe those episodes were mere indicators of a more general situation. A look at what is going on in Europe is a bit more frightening. A good general rule is that in legislation and social movements the United States follows Europe by about a generation, say 10 to 30 years. What happens there today happens here a little later.

This year the Common Market countries have adopted a rule requiring disclosure of profits by product category. This is a most closely guarded secret in American companies. General Motors would fight to the end to avoid telling which of its car lines is most profitable.

If this bit of news does not bother you, think of the situation in Europe regarding membership on the board of directors. Germany for some years has required two union officers to be on the board of the company. Other countries either have adopted or are adopting bolder requirements. The government of Great Britain is considering a proposal that shareholders elect one third of the directors, the union’s one third, and the government one third.
Is the Experience of Ownership Still Real?

Problems with ownership are not limited to stock ownership. In fact, if you stop to think about it, ownership of tangible property in any significant amount is a vanishing experience for Americans. Take our favorite possession, our car. Ten percent of them are leased and not owned by the operators. That leaves 90 percent owned by the operator. True up to a point. Sixty-five percent of that 90 is covered by loans of one sort or another. The custom is now to try to stretch out the payments so that when the term is up there will be enough equity to cover the down payment on the next car. We really cannot say we have much genuine ownership in our cars. How about homes? Only 35 percent are rental units. Therefore, 65 percent of us own homes. We and the banks, that is, since the equity we have is only 37 percent of the 65. I believe that leaves us with about 27 percent equity in our homes.

Someone said to me a few years ago that the reason that Russia cannot produce as well as the United States is that the Russian worker does not own the machines he works with. My reply was obvious: “In what American factory does the worker own his machine?” No, real ownership is not something that Americans in general have much significant experience with. Fortunately, though, it lingers in our culture. We still tend to behave as though we owned things; not always and everywhere, but often enough so things still work reasonably well.

The Need to Revise Ownership

We cannot live forever on that bit of folklore. We have to strengthen the experience of ownership and broaden it. The key to strengthening it is, in my estimation, for owners to act responsibly. Indeed, all of this is indicating that the conditions of socialism are moving into institutions that we consider being the foundation under free enterprise. The giant corporation is operated by non-owners,
the workers are non-owners, and in Europe, the board is being filled with non-owners. To cap it all, the owners themselves do not seem to act in ways we think appropriate to owners.

Therefore, socialism is challenging free enterprise—not only through government ownership but also by the divorce of ownership from control in corporations.

**Shareholders Must Demand Corporate Responsibility**

If today a corporation can produce better than a state-run business, it is hard to attribute the difference to ownership. It seems more likely that the difference is that one is governed by market considerations and the other by planning.

To bolster the institution of private ownership, it is crucial that we can show that private ownership benefits the public as well as the owner. For shareholders this can best be done by demanding that corporations act responsibly toward the public.

This does not suggest that corporations generally act irresponsibly; only that enough of them do bad things often enough that the public is suspicious of business as a whole and shareholders in particular.

Here is a little test: Suppose you are newly started in a work career and have saved a little money. You tell a friend that you have bought a hundred shares of a good stock—say Herman Miller, Inc. He says to you, “That is fine. Now you want to be careful to protect your investment.” You then decide: (a) to put your shares in a safety deposit box, (b) to leave them with your broker with an order to sell if the price drops two points, (c) to study company and analyst reports, vote carefully, and write the chairman occasionally about what you think about the company programs.

All of these actions are reasonable. The last one, however, is the kind of action our Statement on Ownership tries to foster. Such action looks on the ownership as a trust, a responsibility, as well as
a right to dividends. It helps to strengthen the company. It makes a stronger unit in the free enterprise system.

Will It Help?

Of itself, one action will not save the country any more than one vote will save democracy. The quickest way, though, for us to lose the whole business is for each of us to do nothing.

As I think back over what I have been saying here I am a little embarrassed. I feel as though I have been preaching to the saved. Your presence here shows that you are interested; you do care.

I am not so embarrassed, however, as to want to withdraw what I have said. No, if I have given you any fresh insight or encouraged further action, I am happy.

You are fortunate in your choice of shares in Herman Miller because both the Board of Directors and Management are pledged to working for the benefit of shareholders as well as customers, employees—yes, and managers. The Statement on Ownership is a genuine invitation for you to understand your company, to learn what makes it succeed, and to encourage responsible action by management.
CHAPTER 9
How Do You Manage Without
the Scanlon Plan?

The choice of title for this conference is a happy one. The real problem is definitely with those managing without the Scanlon Plan rather than with those using the plan. Business literature is full of problems about alienation, blue-collar blues, white-collar indifference, staff unionization, low yields, scrap, and declining productivity. These are the common complaints of industry. Similar complaints are found in other types of organizations. Whole economies are suffering from these pervasive problems. In traditional business theory or organization theory there is no real cure for them. There are palliatives such as zero defects programs and even quality of work life, or flextime, but no system-wide cure has been offered.

This is true except for the Scanlon Plan. In saying this, I do not pretend that the installation of a Scanlon Plan will automatically cure all these ills.

What the Scanlon Plan sets out to do is:

1. To treat the systemic sources of the problems,
2. To shift the operation from Theory X to Theory Y. (It is worth recalling that McGregor developed his descriptions of Theory X and Theory Y from watching traditional companies adopt the Scanlon Plan in its early days.)
3. To pattern the interactions in the company on a cooperative rather than competitive model.
4. To encourage all the people in the company to see the customer as the source from which all blessings flow and competing companies as the only enemy if enemies are needed to keep the adrenaline flowing. (I don’t believe they are.)

5. To supplement the structure of the organization to encourage the new kinds of activities that all of the above requires.

6. To shift the focus of equity from a concern only about distributing what is there to a concern for producing enough to satisfy people reasonably, when it is distributed.

7. To operate four, five, and six so that each activity is carried out through the others and also reinforces the others.

8. Finally through leadership to overcome the inertia in the organization so that the process will start and gain momentum.

The leadership must be in top management but also may be in anyone who wants to see things made better.

You can see from this list that starting and continuing a Scanlon Plan is no easy task. Neither is it easy to continue with our present way of operating with its multitudinous problems. If the Scanlon Plan is correct in seeking all these changes, it is easy to see why partial programs have so little long-term effect.

**Does It Work?**

A question might arise in your mind about this time, namely does the Scanlon Plan really work? There is no single answer. Scanlon Plans have failed. Scanlon Plans have just bumped along without really succeeding, but still not failing. Some Scanlon Plans have turned in impressive results. It is impossible to give overall figures because there is no formal reporting on who starts or who terminates a Scanlon Plan. Some case studies have been made of failures and two reasons for failure stand out. First is lack of top management commitment to changing itself and coordinating the other changes in the organization. The second cause comes from
looking on the Scanlon Plan as an incentive scheme which is self-executing and whose bonus provides all the motivation.

Now then, does the Scanlon Plan really work in cases where it is really tried? I believe it does. The best evidence that it does comes when people who are inquiring about the plan visit a company where the Scanlon Plan seems to be functioning. The inquirers usually observe something at work that they have not seen before. They arrive with a fair amount of skepticism. They typically ask for permission to select people at random for interview and want to conduct interviews with no manager present. In spite of these precautions, they frequently indicate that they are envious of the observed attitudes. Now attitudes are not operating results, but it is difficult to maintain positive work attitudes without good operating results. Hard operating data tends to be confidential so I do not have any to offer you. I do not apologize for this lack because by the time people become interested in the Scanlon Plan they generally have so many problems that they can accept the soft data that is available.

What Is the Scanlon Plan?

We listed earlier eight changes that the Scanlon Plan sets out to make in order to give organizations the kind of effectiveness that will reduce to manageable proportions the problems we recognized in companies generally. We should go through this list one by one, but before doing so, we should give a brief description of the Scanlon Plan so that we are all thinking of the same thing.

When you say Scanlon, two things come to mind, participation, and bonus. These are important but not the whole thing at all. The best consultant in the field, Carl Frost, points to three factors, identity, participation, and equity. I would like to add a fourth and that is the interaction between those three factors that makes the plan into a system. We can look at the three factors separately and then see how they interact.
Preliminary Considerations

Before Carl Frost will undertake to help install a Scanlon Plan, he wants to be assured of several things. First, do management and employees recognize a need for change? If there is general satisfaction with the way things are he leaves it the way it is. If change is desired, is top management willing to make the changes in attitude and practice that are required? Finally, is there the managerial competence to manage the process of change? Not too many companies pass these three tests, although the number is growing at an increasing rate and larger companies are among the number. Both Firestone and Motorola, to mention only two, are active in installing and using plans in their divisions.

Identity

Say we are beyond these hurdles, what do we do? Identity is our first factor. Management must identify and clarify for its people what its real business purpose is. What are the reasons why customers turn to it rather than to its competitors? Only when people understand and are committed to the belief that this is a sound position can they key off from this and go about their work intelligently. This is not an easy undertaking, but is worth the effort. When this is done sharply and worked through the organization, people begin to focus their work on serving the customer. It should help the company move toward a position of leadership in its chosen markets and it should help people become more interested in working with the company rather than against it.

This task is primarily a task for top management, but once the identity position is developed, many people must be involved in breaking down the overall goals into product line or functional goals so that eventually everyone can see how his or her work either directly or indirectly affects the customer, and so company prosperity and security, and finally, the employees’ prosperity and secu-
rity. About now, I imagine that some of you are thinking that this speaker is more than slightly deranged. This impossible task would have no value if it could be done. I grant you that at first sight it may seem so, but let me tell you two stories, one showing how we stifle intelligent work and the other showing the kind of help we can hope for. A few years ago, a friend was showing me through his factory. When we came to a conveyor where parts were being packed for shipment, he saw something wrong. He called a supervisor over and asked why those parts were being packed. The supervisor began to answer, “I thought that . . .” but that was as far as he got before my friend interjected, “you thought; who in hell pays you to think around here?” Perhaps this doesn’t happen in Irish industry, but it does show some gap between what the top of the company and the shop floor think are the customer’s needs. It is a gap that was never closed in that company.

Conversely, the next story is a machine operator’s response to a problem regarding a pay increase. It involves his understanding of the importance of market leadership, of serving the customer well. During Donnelly Committee’s consideration of the amount of this year’s increase in wages at DMI, one employee from direct production explained why he thought it was important to avoid demanding too much money in straight pay. Differences in opinion regarding the size of the increase had narrowed to three (3) cents. He said, “I think of those three pennies an hour as my contribution to the salesman’s effort. When he goes in to negotiate prices, I contributed those three pennies to what he has to negotiate with. If he can get the business, I know I’ll get part of that money back in bonus. At least I will not have cost us the business by being too greedy.”

The understanding we are seeking is not about order size or product specifications. Those things should be spelled out clearly for all concerned, but there are gray areas not easily specified. What is this customer’s general attitude toward quality? Is on time delivery vital to his continued operation? Do partial shipments disrupt his work? The more the organization understands about these
needs, the more intelligent its responses can be to the problems that
evitably occur in serving the customer.

In passing, I would like to mention an important bit of Joe Scan-
lon’s terminology. He banned the use of the terms nonproductive
labor, nonproductive staff, and nonproductive material. Either peo-
ple and expenses were involved in production, or they should not
be there. People and expenses were either involved directly in pro-
duction or they assisted indirectly. This is not intended to be a quib-
ble. If a research person is not working to assist some future process,
product, or equipment, or to gain better understanding of these
things, he belongs in a university. Maintenance people are obvi-
ously helping to make production possible. Marketing people do so
less obviously but we can see that production needs orders. How-
ever, what of accounting and finance and typists and reception-
ists? The proper terminology causes people to rethink the purpose
of his or her work. The terminology helps each person realize that
the real work of everybody is to aid the process of getting goods or
services out to the customer. It helps all people relate their work
more directly to the main purpose of serving the customer. It cre-
ates a sense of urgency about work.

Participation

Now suppose that we have our statement of identity worked out
and everyone is convinced that they want to help the customer,
what does Scanlon tell us to do?

His second factor is participation. This means creating the cli-
mate and the structures that make it possible for everyone in the
company to assume more responsibility for his or her work and to
use his or her intelligence in solving problems or improving oper-
ations. If the identity work has been carried out, the climate is
already warming up. This makes possible a start toward participa-
tion. As participation is tried, the climate improves further, which
encourages more active participation. To facilitate participation
Scanlon devised very simple structures to supplement the formal organization. He asked for every department in the company to have a Production Committee consisting of the manager or supervisor and one or two people elected by the people of their department. Their task was to cooperate in improving the work of the department. This could be working the wrinkles out of schedule changes, surfacing. Problems, soliciting ideas for solutions to problems, and encouraging suggestions for improvements in the process or in safety. They would then recommend decisions on what should be done, implementing those within their competence and passing on to higher committees those beyond their competence. They also told suggestors what actions had been taken. They reviewed monthly bonus reports and answered questions about them.

There was also a top committee for each plan and there could be intermediate ones depending on the number of people involved. The top committee would have people elected by the elected representatives on the production committees and some key executives, the chief executive, heads of manufacturing, sales and engineering, and the controller. This was called the Screening Committee. It acted in much the same way as the Production Committee. The Screening Committee processed suggestions which Production Committees had referred to it and tended to look at company-wide changes and problems rather than departmental.

This structure is intended to encourage and legitimize suggestions. The committee discusses the work of the department represented so each member speaks from knowledge. Suggestions are the order of the day so no one need take offense if a suggestion proposes a change in a long-standing method of operation. A suggestion that is turned down by a committee must have the agreement from the suggestor before it can be finally dropped. This demands that the committee get a thorough understanding of what the suggestor has in mind. This requires listening and the assurance that he will be listened to is a great stimulator to people with questions or suggestions.
Equity

By now, you see everything set for participation to work in the company except for one thing. Why should anyone break his neck to help the customer and the company and probably work himself out of a job? The answer to this was Scanlon’s greatest insight. People will work desperately hard in an emergency, but barring that, they have a pretty firm notion of what effort is fair for what pay. If all the effort and bright ideas merely make the customer happy and the company rich, people will be a little careful about thinking on the job. Scanlon knew this and looked for a simple way to measure the improvement in productivity and to insure that the results were fairly shared. He first used profits, but soon felt that that was too complex for many people. He then chose the ratio of payroll to the sales dollar or production dollar. A standard was established based on the average ratio for a three to five year period before the start of the plan. At the end of each month, the actual sales were multiplied by the ratio to give the standard payroll for the month. If the actual payroll was less than this, the difference became the bonus. The saving was divided by total payroll (including fringes) to give the bonus percentage. Each person’s earnings multiplied this percentage for the month, whether on wages or salary. This division was based on the assumption that a person’s pay was the best measure of his normal contribution to the company and should measure the extra contribution also.

The bonus has several advantages. It is simple to calculate and understand. It lets people see that they will automatically share in improvements. There is no need to quarrel over who gets credit for what or who got the idea first. This is not however, a powerful incentive. The incentive comes from the understanding of what can and should be done and from the opportunity to influence the success of the company and from a feeling of equity. The bonus merely makes it a rational action to follow that motivation. Under ordinary circumstances, extra effort, solely for other people, is not something we can expect except from the saints among us. If we want to
free people up for better work, they should have assurance that they will benefit from it.

Mutual Dependence and Reinforcement

You can begin to see how the identity, participation, and equity depend on each other and reinforce each other. The intelligent effort from all people (if we are to serve our customers well) comes through participation. People are not likely to do the extra work called for in participation without some share in the improvement, without a feeling of equity that comes through the bonus. The bonus would not amount to much unless the original task is done of serving the customer so well that more business comes to the company. We have a sort of round robin that spirals gently upward with better returns for customer, company, and employees.

How It Meets the Eight Objectives

That, my friends, is the Scanlon Plan in a nutshell although a rather big one. How then does this meet those eight objectives we listed at the start?

Works on Systemic Causes of Business Crisis

The first objective, which the Scanlon Plan gets at, is the systemic sources of the problems in industry. If we think of the supervisor in my friend’s factory, we can see that he would not be likely ever again to think constructively about the work of the company. That was perhaps an extreme case, but it does follow from traditional management theory that thinks of wisdom and intelligence flowing downward in a company. Wisdom takes the form of orders, which are questioned only at considerable risk.
The industrial system has been recognized as being patterned after the military, which has a dubious track record. For every army where the system worked in other words, where it won the battle, there tends to be one or more where it didn’t work since it or they lost the battle. Beyond that, the military does have a sanction for its authority which business doesn’t have. Even in bad circumstances, being fired is somewhat preferable to being shot. But even the sanction of firing recalcitrant workers is greatly restricted now by law, by union contract, and by public opinion. Business finds itself with a system based on authority that relies on greatly weakened sanctions. In addition, work attitudes have changed considerably. As Western lands have enjoyed a long spell of prosperity people come to look on work as, at best, a necessary evil, to be gotten out of the way as quickly and painlessly as possible. This tends to throw the whole responsibility for keeping the prosperity going on the upper levels of management. These people are becoming victims of the same disease that is infecting the rest of the company. Psychiatrists are reporting an alarming rate of alienation among top executives.

Scanlon tries to reestablish a greater acceptance of authority and a more positive work ethic by getting authorities to rely on acceptance more than sanctions.

Moves from Theory X to Theory Y

This happens when managers move from Theory X to Theory Y. If a manager trusts no one to work unless driven to it, he will pay a high price to get work done. He will have to pay extra high wages, hire extra supervisors, pit one person against another or some combination of these or other unpleasant tools. This manager cannot just pretend that he has had a change of heart, pretend that he trusts people, and pretend that he thinks people can get satisfaction from work. People can easily see through such pretense. The change must be genuine.

Such a manager usually has to go to the wall before he will change. Sometimes though, he may teach himself that such a change is
worthwhile. He may observe some person going out of his way to
do an extra good job. Sometime he may have to trust someone to
get an important job done. If so, the experience may give him an
insight and encourage him to trust others a little further or to chal-
lenge someone to do an especially good job. Little by little, such man-
gagers do change. They start to follow Theory Y even if they have
never heard of it. They do so because it makes their own work more
effective. In fact, Rensis Likert developed his System 4 type of man-
agement, which has similar assumptions to Theory Y by observing
how the best managers in traditional companies operated.

Substitutes Cooperation for Competition

Our third objective is the shift from competition to cooperation.
This can seem like heresy to managers who glory in the benefits of
competition. My experience about the glories of competition in
business is that most people who talk this way are glorying in the
competition among their suppliers. I have never heard a salesper-
son talk of a glorious competitor who was really competing. The
glorious competitor is the pushover. I may be overly critical of the
notion of competition, but even if it is necessary in dealing with
other businesses, it is questionable when used inside the business.
When you are trying to build teamwork and direct activity toward
a common goal, the injection of competition is a distraction. When
two teams compete in a sport, no matter what good sports the com-
petitors are, you need a fair number of referees to keep the com-
petition in bounds. The same thing can happen in companies when
competition is fostered. A good deal of managerial time goes to ref-
ereeing disputes.

The climate then that the Scanlon Plan seeks is one where
authority relies on acceptance rather than sanctions. The best basis
for acceptance is a combination of competence and consider-
ation. The consideration manifests itself in the attempt to oper-
ate from Theory Y. Cooperation naturally replaces competition as
we move first into identifying the service to the customer as our first objective and participation as the means for achieving the objective.

Makes Customer the Focus of Attention

The fourth objective relates the welfare of the company to thoughtful service to the customer. This has been pretty well covered.

Structure to Encourage Participation

Our fifth objective called for supplementing the structure to encourage participation. We have seen what the structures are and how they work. At this point, I would only like to stress that these structures are supplements to, not replacements of, the normal structure of the company. They encourage people to suggest, to solve problems, and to inform but not to decide. Especially with the Screening Committee many, if not all, levels of the company are represented in one place so that very different perspectives are brought to bear on the discussions. A factory manager can hear at first hand the reaction of a machine operator to a proposal. The operator may learn from the sales manager why the product does not please the customer. There is more data available for reaching better understanding of problems and situations.

No manager of competence has a reason to fear a loss of control by using such structures. He should have to supervise less but he should have more time for constructive managing.

Equity with Plenty

Equity was our sixth objective. It is perhaps the hardest concept to understand. This is so because normally equity is looked on as a
demand to give me what I think I am worth. In business situations there is seldom enough to give customers, employees, and shareholders all they want. Scanlon adds to the equity discussions the question of how to increase the pot so there will be enough for reasonable satisfaction for all.

The bonus formula gives a fixed share of all improvements to the people working in the company and divides it in proportion to pay. This raises some questions especially by machine operators. They wonder why their pay does not go up in proportion to an increase in their output. This gets back to Scanlon’s insistence that everyone is a production worker, either direct or indirect. The work of the direct person is dependent on much help.

A hypothetical case might help. An operator has been running one of several similar machines for a year. There is a tacit agreement to produce 1,000 pieces a day even though this is about half the designed output. There is a big demand for the product so the operators propose that they will raise their output if their pay goes up proportionally. They let the word out cautiously and finally get the okay from the plant manager. Production goes up and so does the pay. The next day an engineer storms into the manager’s office demanding to know why he doesn’t get more since he designed that capacity into the machine. After some stammering excuses from the manager, the engineer leaves determined to get some benefits for himself. He approaches the operators with a proposal. He can modify the machines to raise levels still higher with little added effort. The catch: he wants 25% of any increased pay that they get. A deal is made but word gets out. The machines break down one by one, and maintenance is exceptionally slow about getting them going until a new proposition is heard which calls for 10% for the maintenance boys. Dirt and scrap accumulates, interfering with production until the sweepers get 3%. The sales of the company begin to falloff mysteriously. The mystery is solved when a salesperson drops the word that his quota has been filled for the quarter, and he has a lid on new orders. Ten percent for the sales department loosens up the orders. The process continues until finally the weekly
paychecks arrive late or unsigned or with a few missing and the payroll department is in for 1/2% leaving the operators with a net increase of about 20% of the increase that they had earned earlier. This was not enough to keep them producing at the higher rate so the operators impose the old ceiling, business goes down, and everyone suffers. Finally, someone suggests that they reason together. They all liked the extra money and didn’t mind the extra effort. Being busy felt good. All the haggling and uncertainty were bad. At this point, the advantages of a Scanlon-type bonus ought to become obvious. It is quite possible that its fairness does also.

_Mutual Dependence and Reinforcement_

I believe also that enough has been said about the seventh objective, how the Scanlon Plan is more than the sum of the three ideas of identity, participation, and equity. It is fine to know how we want to serve the customer, but he is not served to the best of our ability until everyone is participating in the effort. People will not go the extra mile called for by participation unless they share fairly in the results. When the customer is well-served there is more business, the company prospers, and there is more available for the bonus to share.

_Leadership_

To get this process moving our eighth objective mentioned the need for leadership. Anyone in the company who sees a problem or an opportunity should be free to exert leadership regarding that item, but the crucial leadership is that of top management.

There will be resistance to change at all levels of the organization. People tend to adjust to their environments and even if the adjustment is not completely comfortable, it is bearable. The shifting around during change may be very uncomfortable, so they usually wish to be left as they are. Top management must articulate why
there is a compelling need to change and point out a possible course for changing to something better. Assuming that the organization accepts the prospect for change, leadership is still needed to keep the focus on the main objectives and to adapt a general program to meet the needs of a particular organization. There will be disputes, frictions, jealousies. Leadership must surface and deal with these. Once bonuses come they will tend to reinforce the process, but until that first bonus, there will be the need for encouragement, help, and challenges.

What is required of the leader? We have already seen that he or she must have acquired an operating acceptance of something like Theory Y.

He has to trust people (judiciously). He must trust them with needed information. He must trust them to do the job, not trusting rashly but always helping people to stretch themselves a bit beyond where they have been.

Beyond this, he must communicate constantly with the company, pointing out goals, achievements, and opportunities. In addition, he should interpret events for the company so that people can understand how cooperation pays off for people and how divisiveness hurts.

Is it Worth the Effort?

All this sounds like a lot of work. Wouldn’t we be better off to muddle through? My own belief is that the time for muddlers is just about over. More positively, I would say that the extra effort is worth the cost. It does, I believe, give better operating results, but it does it in a more satisfying way. Let me give you three different possibilities as answers to the question of whether or not the Scanlon Plan is worth the effort. The first is a case where neither the Scanlon Plan nor anything like it was tried. I have a near neighbor who has achieved a high level of business success but at a cost. His home has been robbed twice. He has been beaten up in his home. Such
happenings are getting too common everywhere. The surprising thing about his case is that the neighbors don’t get excited and install burglar alarms or call for more police protection. They seem to feel that the episodes are unfortunate, but not unexpected in view of the way he ran his business. Again, I have used an extreme case to make a point. The point being that the human cost of trying to operate a company on the basis of traditional authority has become unbearably high. In Detroit, executives going to and from work keep in touch with one another by two-way radio so that they can sound an alarm in the event of a kidnapping attempt. This strikes me as a condition in need of change.

General Motors and other auto companies are addressing the problem with what are called quality of work life programs. These move in the direction of the Scanlon Plan but only part way. They call for more consideration by supervisors and more participation by workers. There does not seem to be a formal program of identity and there surely is no formal sharing of productivity gains. As a result, the union says there will be no productivity gains from the program. It is only a case of everyone being happier together while the Japanese take their business and jobs away. These are partial programs treating symptoms not systems.

The third possibility is the Scanlon Plan. The story I told of the man not pushing for the final three pennies is the kind of achievement it should produce. It speaks rather clearly, as to whether the results are worth the effort.

In this talk, I have not tried to give details about the nuts and bolts of starting or operating a Scanlon Plan. That can be figured out by an intelligent person. I have tried to give you some insight into the inner dynamics of a working plan. Scanlon offers us a system of managing. He moves the basis of authority from sanctions to acceptance and acceptance requires managerial competence and consideration. This is the challenge that faces you if you are interested in using the Scanlon Plan.

Is your management aware of a compelling need to change and is it willing and able to lead the process of change?
CHAPTER 10

Work at Donnelly Mirrors: The System of Market Leadership, Participation, and Equity

“The highest reward for man’s work is, not what he gets for it but what he becomes by it.”

John Ruskin

I. INTRODUCTION

During our fiscal year ending in June 1978, I carried on a dialogue with our shareholders seeking a short statement that would describe the Identity of our company. We ended up with three key factors: Market Leadership, Participation, and Equity, which characterize what we do and how we go about doing it. During the next year I wrote a series of letters to the shareholders on the Implications of Our Identity, which attempted to enlarge on those three terms; showing why they are important to us, what they mean to us, and how they are applied. On the basis of much feedback from shareholders and others, the letters have been edited, clarified, and put into essay rather than letter form.

Identity covers a broad range of factors that distinguish companies. In our company, there are three areas that we especially emphasize and which were stressed in the identity statements: market leadership, participation, and equity. The stressing of the combination of these three gives our company its special identity. We
will look at these three factors to see what they mean to us, how they operate, and finally, how they mutually depend on and support each other to the point of forming a system.

When things are going along smoothly in the company, why do we need such a discussion? Each of the three factors is an important subject by itself. Each requires understanding by many people if it is to be used well.

Reason one: Such a process needs continual renewal if it is going to succeed. Some people in the company have been with the plan as it has developed. It can seem to be second nature to them. Others, arriving later, have put their minds to the task and really have caught on. Many others, however, may have arrived lately or have not tried to learn. They see many strange practices but do not realize why the practices are there. When I speak of people in the company, I mean employees and managers but also shareholders and directors. The three categories above cut across all these classes.

Reason two: We want to point out why what we call the Donnelly System is a system and not just the idiosyncratic manner of one person; and, that being a system different from other systems, it will have parts that may not be interchangeable with parts from another system. An acceptance of this last will save many headaches. It should help people see why a practice, which has been successfully employed in another system, may have failed in ours. The rejection of the part is no reflection on the part or the proposer of the part. When we do not understand what a practice is for we are likely to want to change it. I hope to show, as time goes on, why change without knowing can be risky. John Kennedy learned painfully, as President, “Not to tear down fences before knowing why they were built.”

Reason three: As is no surprise to you, I intend to retire—someday. While the system is not mine, I had more to do with bringing it together than others. I would like to record what I know about how we got to where we are so that we do not have to repeat my mistakes.
II. MARKET LEADERSHIP

In the responses to the letters on Identity, there were many statements about Market Leadership; so many, in fact, that Market Leadership was chosen as one of the three key points that identify our company. I have tried to summarize what those responses seemed to point to when they talked about how we serve our customers. The summary can provide a framework for our discussion of Market Leadership.

To be a leader, a company must become recognized by the customers as a leader. In general, this means deciding which of the following are the critical aspects of each of the markets we serve: price, delivery, quality, product design, innovation, technology, and capacity; then planning how to excel in the chosen areas; executing the plan with zeal and efficiency; and finally, helping the customer to appreciate the results. This process should aim at the capture of that share of the market that will yield the highest return on the investments of time and money.

Being a market leader is more than an advertising slogan. It means being recognized for excelling in the right combination of the critical aspects of the market. When this happens, potential customers and old ones instinctively turn to the leader for help on critical problems or with ideas for new developments, inventors offer their ideas for exploitation, return on investment should lead the industry, and the combination should promote a healthy growth. A key ingredient of Market Leadership is the utilization of the full talents of our people at all levels of the company. There are in these paragraphs nine key points that should be elaborated. Five tell what we must do, the sixth says how we must do the five, and three describe some of the results we can hope for.

A. Critical Aspect of Markets

This point may seem so obvious that we should not have to say much about it. What is important in a given market, however, is not
always apparent. Why, for instance, did we succeed in making prismatic rear view mirrors? The answer is a long story.

As we came out of the Great Depression, we found ourselves with skills for making mirrors for the furniture industry. A problem became apparent. The Grand Rapids furniture industry was dying, being replaced by companies in the southeastern states. Shipping costs made it impractical for us to serve the new customers. It would have been too costly to move to the south. We looked in many directions for opportunities to use our skills. Among these directions was the auto industry. A tip from a friend alerted us to the fact that General Motors had a new development in rear view mirrors and was searching for a supplier. It proved to be a more difficult product than my friend had indicated but “in the rash lustihood of my young powers,” “I was undaunted.”

The very first critical aspect of the market to appear was the need for reliable delivery. This required much more mechanized processes and equipment than we had or were available. We had a huge job but the lure of the equally huge market pulled us through some trying years. Other markets were easier to enter, gave us immediate support, and helped to finance our development work. We finally got processes that could deliver a good product consistently at an acceptable price. While they were outgrowths of our former skills they bore little resemblance to them.

Soon after we succeeded in delivery, we faced a new problem. The volume of orders outstripped our capacity. When we failed to keep up General Motors began to produce their own mirrors. Then began another long struggle to convince them that we would meet their needs and that we would not gouge if we were the sole supplier. This meant heavy investments in equipment and inventories. It meant anticipating changing needs so that we would be ready when the need materialized. It also meant cost reductions to finance the expansion and to pass on as price reductions. So to serve General Motors’ needs we had to learn that the critical aspects of their market were capacity, service, and price.
This took care of General Motors, but Ford and Chrysler were buying very little from us. They bought a complete product, the mirror in a case. We had to, therefore, work through the case maker, which put us at a disadvantage. To sell directly we have to have a case that would give us some advantage. Making the case of plastic would give us a little head start over other case makers because they had experience only in metalworking. This would give us an advantage over competitors but it gave the customer no particular reason to change from metal cases to plastic. At this point, we had a bit of luck, which taught us a lesson. Just about the time that our plastic case met indifferent response from the car companies the government demanded more attention to safety in car design. The car companies saw that they could score two safety points by using a plastic encased prism. The mirror would be less likely to shatter in case of accident and the prism would reduce the glare from overtaking cars at night. Our lesson was that we must first think of customer needs and then our own. So long as we thought of the plastic case as something to help us, we could not sell it. When it became obvious that it helped the customer it virtually sold itself.

We can see this again in a different product. Car companies began to design cars with stationary windows next to the rear seat. These required a simple piece of glass molded into a plastic frame. We had the technology for this so it seemed like a good product for us. The only problem was that a lot of other people had the same skills so competition drove prices and profits down. Our marketing and engineering people were able to identify an additional factor that was critical. The windows were very difficult to install, requiring a black mastic sealer that tended to mess up the upholstery. Ingenuity was applied to the problem, leading to a design change and patents. The new design virtually snaps into place and needs no messy sealer. This has led to additional and more profitable business. So again, taking care of the customer’s need helps us also. In the process of identifying the critical aspects of the market, we must be honest with ourselves by keeping customer needs foremost and our own secondary.
B. Planning

In the course of identifying the critical aspects of a market, we have also seen that the next step is to plan how to take care of those aspects. People have to do hard and creative thinking to find an answer that really brings customer needs and our skills together in a product. Sometimes there is one clear-cut answer as in the redesigned rear windows. Other times the answer comes in a whole series of increments—using large Blanchard grinders, finding the right combination of diamond wheels, developing vacuum chucks, modifying the Blanchard’s for glass grinding, and developing polishing machines and finally transfer hoists.

We are going through this planning process today in supplying parts for the LCD industry. Even after the basic process is accepted, a host of planning problems remain. What will be the size of the market? How fast will it grow? How low will the price go? All this takes sharp thinking, flexibility, and nerve. If we succeed then we will have a fine new product line, provided we do two other things well: execution and customer recognition.

C. Sales

Selling was not specifically mentioned in our opening summary, because it is really part of the execution of our market plan. It does have a transitional role in the process and needs special treatment. Selling makes the execution possible. Once the order is in, wheels can turn. We sometimes hear that a product is so good that it sells itself. Fortunately for people who earn their living by selling, this does not happen very often. We cannot hope that even excellent market planning will result in automatic sales.

This fact can be understood best by thinking of what people say of successful salespeople: “They could sell refrigerators to Eskimos.” Conversely, poor salespeople are reputed to be “unable to sell snowballs in Hell.” Salespeople often see their task as making up for
the poor design, poor quality, and poor delivery by the rest of their company. We can be sure that if our response to the marketplace is superior to our competition, their salespeople will be in there with both feet and an active tongue. Competitors have salespeople also.

Our sales approach has to match the rest of our efforts. Salespeople have to understand the psychology of the decision process and the organization structure of the customer. They also have to understand the needs of the market, and how our response meets those needs. Similarly, they should know the strengths and weaknesses of the competition's response. The salesperson is the main link for information flow between the company and the customer. Since we are taking the pains to become the market leader, we want our relationship to the customer to endure. Trust is the key to that endurance and the salesperson is the keeper of the key. Being the leader, then, does not lessen the sales job. It may make it a bit more pleasant, but sales is still at the action point. All prior work in the company is for naught if the order isn't brought home. Sales effort must hit the mark, as must the other critical effort of the company.

D. Execution

To execute a plan effectively people must know what the plan is and what is expected of them. To execute well we need the active participation of all the people of the company. This participation will be discussed in the second section of this paper. For now, we will assume it is operating in the company. If we have used participation effectively, the people who must carry out the plans will know what is critical about the program and will know what is expected of them. They can make the planning come alive and payoff. They will appreciate the job that has been done to make the new product line possible, and so they will be prepared to deal with the oversights that are bound to occur in planning a large project.
E. Customer Recognition

Had we properly decided on capacity, service, and pricing as prime factors and had we planned and executed well and stopped there, we would not have enjoyed the amount of General Motors business that we did. The reason is that G.M. has a firm policy against using a single source for production parts. Each year the buyer has to get permission from corporate headquarters to continue with a single source. We made sure that the buyer was well aware of the steps we were taking to make sure that G.M. would not be shut down for want of mirrors. This is the one remaining task necessary to make market leadership payoff. The customer has to know he is getting what he needs. We have to know who the people are in a company that can say we want a different supplier. It may be an inspector, an engineer, a buyer, a product planner, a general manager, or a combination of some of these. We need to let them know how well we serve them so that they will think twice before taking business from us.

F. Excellence

One overall condition applies to the four steps of identifying critical market needs, planning to meet them, executing the plans with precision, and helping the customer to recognize a job well done. That condition is that the work in the four steps has to hit the mark—really. It is not sufficient to say that these are the three (or whatever number) critical aspects of market. They must really be the critical aspects, sharply defined and clearly stated. The planning must develop genuine answers to the customer needs, not just to our wishes or our capabilities. The execution has to be excellent in the critical areas. The right people have to recognize the job well done.

The measure of how genuinely these four steps are done is the success we have in becoming the market leader. If anyone of them
is “just about” good enough, we may end up as “just about” being the leader. We will have to settle for less than excellent profit, growth, and customer loyalty. The difference between being the leader or being second best is usually not quite the same as the difference between winning and losing, but it is close. “Second best” may get a share of the business, but he is on the defensive and is not likely to get the side benefits that are likely to fall to the leader.

This outline merely points the direction one should move to become the leader. He will know how well he has done the work if he becomes the leader. The whole approach to the market must be marked with excellence. I hesitate in a way to use the term, because most people seem to think that their work is always excellent. In fact, the word is losing its original force. The verb “excel” still means to surpass or outperform; but the noun and adjective can mean merely high level or very good, as well as highest level and best. In relation to market leadership, excellence must have the original meaning of highest level in relation to competition.

Two qualifications apply. Excellence means that the company’s response to the market must be enough better than the competitors’ to gain that share of the market which we think best for us. The response is tailored to specific market need and to likely responses of other suppliers. So when we say we have an excellent product, it does not have to be the highest possible quality. The quality must be excellent in relation to the specific market need and what competitors are willing to do.

The other qualification is that the response must not only be better than the competition but must be enough better to get us the desired market share. If we come in with a fine product at a low price, but only slightly better than others offer we may miss the second qualification as far as excellence is concerned, and we probably will have missed the leadership role. As we have said, we will know that enough of our work is excellent when we become market leaders. Becoming and remaining the leader is a tough process. It means using intelligence and ingenuity. It calls for alertness and concentration. It means getting results, not merely going
through a set of motions. Doing the job rightly is important, but not more important, than doing the right job.

G. Share of Market

Here again we have a term that gives misleading signals to some people. In our summary statement on market leadership, we referred to that share of the market that will yield the highest return on our investments in time and money. We have to consider such factors as: a larger share may provoke price-cutting by competition; a certain share is needed to justify the necessary equipment; a given share is needed to be able to meet the learning curve of the final market; a definite share is needed to preclude additional competition.

It is not enough for us to say we can get a certain share and then go after it. We have to think of the main results of getting this share, and then factor these into our return calculations. In other words, when we speak of market share, more may be better, but that is not necessarily so. Our long-term return from the share is the important consideration. For instance, it is often said that General Motors is afraid of getting much more than 50% of the United States car market because of the threat of antitrust action. Whether the executives act on this or not, it has to be a consideration when decisions affecting market share are made.

H. Synergy from the Marketplace

As our company gained a reputation in the industry as the leader in rear vision, interesting things began to happen. We were offered licenses from customers for products they had developed. Suppliers helped us get additional business. For example, the Ford Glass Division has helped us get into the molded window and moon roof ventures. We were able to get a position on 'the
SAE Rear Vision Committee. We were able to work closely with National Highway Traffic and Safety Administration of the Department of Transportation on specifications for rear vision. Inventors have offered us licenses. We have had an easier time in hiring competent people. Customers became freer with information on their inventories, needs, and plans. Overall, this attraction for ideas and opportunities is a big side benefit from market leadership.

I. Growth

Because of this synergy with the marketplace, we find ourselves growing at a healthy pace. We have, at times, found ourselves with too many opportunities. We have to think of growth with at least two factors in mind. How fast must we grow to serve the customer properly, and how fast must or can we grow to meet our goals, and still not overreach ourselves? In the case of growth, as with market share, more may be better, but is not necessarily so. We have to ask how much we need for the customer and for ourselves, and how much can we stand.

1. Diversification

Diversification is sometimes thought to be an end in itself. More often and more properly, it is seen as a way to gain growth and security. It can promote growth by opening up new markets or bringing new skills or new technology into the company. It is put forward as a security measure by making us less subject to adverse changes in our markets, technologies, or products. We have seen already that market leadership tends to bring us growth, even to the point of being able to pick and choose among the opportunities.
2. Security

We have not spoken much of market leadership as a security measure, but leadership surely helps make a company secure. The activity that brings about leadership also keeps the company aware of new possibilities for new products and new technologies and of trends in the market itself. Innovation is generally the mark of the leader, so that the leader strives to make the changes happen and happen at a time he wants. We are talking about two schools of safety thinking. One says “don’t put all your eggs in one basket,” the other says “go ahead, put them all in the basket, but take care of the basket.” Rather than prolong this discussion, it is sufficient to note that market leadership has very good credentials in accomplishing the two things that diversification does: giving growth and safety.

Market leadership exacts high performance from a company. It is a tough discipline. It demands but it also rewards. The goal and its achievement provide strong motivation to people at all levels of the company. Market leadership needs stellar performances done in a context of teamwork. A company can excel only if people direct their minds and energies to the customers’ needs. This intelligent work presupposes pertinent information broadly communicated. Market leadership, then, thrives on participation; it also brings to the company and its employees and shareholders rewards in terms of financial benefits, security, and growth. There is also the satisfaction that comes from belonging to a vital organization and from doing one’s work superbly.

III. PARTICIPATION

The section on Market Leadership places heavy demands on an organization for excellent performance. Some companies have become market leaders through the excellent work of one person or a small group. This puts a heavy strain on the few, and leaves the results at a lower level than could be had if most of the people were
striving for excellence. It also leaves many people feeling that they are not genuinely involved in the success of the company. Like the handle on the coffee pot they are there but not in it. Two reasons appear then for looking toward the fuller involvement of people in their work. We need their full help in reaching for market leadership, and the people are entitled to the consideration that recognizes their ability to help. This process of involvement is what we call Participation.

A. Some Distinctions

Before starting on participation, we should distinguish it from some other related terms. Participation is often used interchangeably with the Scanlon Plan, the Donnelly system, or our management system. A word of clarification is in order. Participation is a broad word covering the involvement of people in responsible decision-making regarding their work. The Scanlon Plan is a system for putting participation to work. It is more than a scheme. It is a way of operating a company. It deals with clarifying identity, fostering participation and determining equity. It is the most coherent management system I know of.

The Donnelly system or our management system is a specific way of applying the Scanlon Plan. The Scanlon Plan has been enriched, broadened, and deepened since Scanlon died. The Donnelly system has been part of that process and, as a consequence, it may differ in structures and emphasis from other applications of the Scanlon Plan, but it should not differ fundamentally.

B. Why Bother?

Why does this company have at least a beginning toward a guaranteed annual wage? Why does it have a policy protecting against technological unemployment? Why does it try to have all its people
on salary? The cynic will say, “The company has to meet the com-
petition of other employers.” Others may say, “The Board is very
humanitarian.” Both statements are true, but they do not answer the
question. The answer is that we installed these policies in order to
keep participation functioning.

The next questions could well be, “Why do you want participa-
tion to work? Why don’t you operate the way other companies do?”

Item: I can best answer this with some facts. One week we had
three visitors from Esso International; one from Houston, one from
Sydney, Australia, and one from Singapore. I asked them why they
came so far to see us. The answer was that the costs of paying peo-
ple were rising so high that they had to know the best ways of orga-
nizing and working with people so that productivity would keep
pace. They had already indicated that they knew participation was
the answer, so I asked why, since this was so, they did not just put
participation to work. The answer was that it was one thing to
believe but another thing to practice. “We need to know,” they said,
“what things fit and what don’t.”

Item: General Motors is trying to improve productivity through
their Quality of Work Life program. They see the same difficulty.
They believe in participation but, “How do you make it work?” The
General Manager of Pontiac asked me to talk to their top manag-
ers on the subject. I think I failed to influence them, but their inter-
est does testify to the need to use participation and to understand
“how to” as well as “why.”

Item: Firestone Tire opened a new plant intended to meet the
competition of Michelin. They not only wanted the best equip-
ment but also the best way to employ their people. They adopted
the Scanlon Plan in that plant and are working on it in other
plants.

Item: Operating people from a new Goodyear plant visited us. I
asked why they came to see us. They had attended a seminar on
participation given by Scott Myers, the former Director of Person-
nel for Texas Instruments. He used our company as the example of
how it should be done and they wanted to see for themselves.
Two points should emerge. Large and successful companies recognize the need for spending much of their money to learn how to make participation work. Believing in the idea is not sufficient to insure success. It is necessary but not sufficient.

C. Basis for Participation

This section is going to address the “how to” primarily, but it is necessary to review two fundamental pieces of work that underlie the whole notion of participation. If we do not accept these as reflecting what makes people tick, we should abandon the whole notion that we have a viable system.

1. Maslow

The first piece of work is Maslow’s theory of motivation. There are few subjects on which there are more experts. It is the rare businessman who is not considered to be an expert on motivation—surely by himself but perhaps by some other people as well. Some are indeed expert on the subject. Most, however, seem to be following bits of wisdom they have discovered or learned as they have gone along. The wisdom may motivate some people in a way that demodulates many others. The wisdom is all right as far as it goes, but it usually does not comprise a well-rounded, coherent program directed toward creating a commonality of interest between employees and company. The need for a more thorough understanding of what makes people act has grown as industrial life has become more complex and pervasive. Much research has been done to establish what comes close to being a science of motivation. Business schools are avid purveyors of this knowledge.

Maslow’s work arrived early on the scene (1954) and has stood the test of time. It is in fundamental agreement with the Scanlon Plan and participation. Maslow says that people have at least five
fundamental sets of needs: physiological, safety, love, esteem, and self-actualization. These needs are felt by us in the order listed above. In general, we will not be concerned about a later or higher need until the lower one is satisfied. People act or are motivated to act to fill these needs. When a person is frustrated in an attempt to satisfy a higher need there is usually an attempt to get excess satisfaction for a lower need.

What has been said so far accounts for typical behavior on the labor scene. Money is the important means for satisfying physical needs so there was an early demand for more money. By the 1950's these needs were largely met and negotiators faced demands for pensions, supplemental unemployment benefits and other security measures. With these satisfactions generally met, workers should, according to Maslow, have been looking for love or, in words more suitable to the work place, satisfaction for the need to belong. As far as companies are concerned, this need to belong was a closed issue. There were managers who belonged and workers who could come or go. The denial of this need according to theory should call for more demands in the safety and physiological areas. That is what happened, escalating demands for more security benefits and more money. That is where industry has been generally hung up until recently when the first steps toward breaking the impasse were suggested by organizational development people who are being introduced in large numbers into large companies.

2. McGregor

Maslow's work, which I have barely sketched, has influenced many people, researchers, and practical people alike. It is just beginning to affect industry. One person it affected quite early was Douglas McGregor of M.I.T. who worked with Joe Scanlon when Scanlon joined the staff of M.I.T. In writing his book, The Human Side of Enterprise, our second basic work, McGregor drew heavily on his work with Joe Scanlon. McGregor, a psychologist, wanted to explain
the startling success Joe Scanlon was having in turning hostile work situations into productive collaboration. He found that typical managers operated on a certain set of assumptions which he called Theory X. Managers in Scanlon companies operated on another set of assumptions which they had either developed themselves or were taught by Joe Scanlon. These assumptions he called Theory Y. Theory Y has long since passed into the classics of management theory. Everybody by now is expected to act on Theory Y. Alas; it is like Christianity, honored more in word than deed.

This section is going to be about how we put Theory Y into practice. In McGregor’s own words the assumptions of Theory Y are:

1. *The expenditure of physical, and mental, effort in work is as natural, as play or rest.* The average human being does not inherently dislike work. Depending upon controllable conditions, work may be a source of satisfaction (and will be voluntarily performed) or a source of punishment (and will be avoided if possible).

2. *External, control, and the threat of punishment are not the only means for bringing about effort toward organizational objectives. Man will exercise self-direction and self-control, in the service of objectives to which he is committed.*

3. *Commitment to objectives is a function of the rewards associated with their achievement.* The most significant of such rewards, e.g., the satisfaction of ego and self-actualization needs, can be direct products of effort directed toward organizational objectives.

4. *The average human being learns, under proper conditions, not only to accept but to seek responsibility.* Avoidance of responsibility, lack of ambition, and emphasis on security are generally consequences of experience, not inherent human characteristics.

5. *The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.*
6. Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.

It is important to note that McGregor has couched his assumptions in precise language—“depending upon controllable conditions,” “not the only means,” “people learn to accept responsibility,” and so on. He does not set workers up as paragons of virtue. He says that they can, with appropriate conditions, be enabled to enjoy work, seek responsibility, and exercise ingenuity.

This is the challenge that faces industry, government, indeed Western society. If we survive as a civilization, we have to recreate the conditions in which people can grow in their work.

As we quoted on the title page, “The highest reward for man’s work is not what he gets for it but what he becomes by it.” More prosaically put is the adage, “Unless the job means more than the pay, it will never pay more.” In looking again at The Human Side of Enterprise, I noticed three questions I had written myself when I first read the book some fifteen years ago.

“List three ways we apply Theory Y.
List three ways we apply Theory X.
How can we correct the X’s?”

These questions can be re-asked today and they will be worth looking at again in five years and ten or more. The process will only stop when (and if) people stop growing and stop learning more about what it means to be fully human.

At the beginning of the section, I suggested that we might have done certain things because the Board was humanitarian. Perhaps I was too hasty. We can say that “humanitarian” is not quite the right word, and I would agree but it does point in the right direction. Leaders in the company as well as the Board have, from the company’s foundation, been concerned about people. This concern can perhaps be articulated more clearly
today because of what has gone before, but the fundamental option was that people, all people, are important. Their work should develop, not enervate them. The work should be better because of the people and the people should be better because of the work.

It is true that we did start certain practices to insure that participation could function, but the company began using participation because it is fundamentally the human way to treat human beings. That is also enables human beings to produce more effectively should surprise no one granted the basic goodness of the universe.

D. What Is Participation?

In looking for a standard definition, I went through several books on the subject and found only one. This dearth of definitions may be why there are so many misconceptions about participation floating around in the business world, even in companies trying to use the system. You can hear that participation is “industrial democracy” or “rule by committees” or “where you can do what you feel like, how you feel like it” or that it is “permissive management.”

Carl Frost defines participation as the opportunity for the employees to influence responsibly the process of suggesting, deciding on, and carrying out change toward a better utilization of all the company’s resources in meeting the perceived demands.

On the surface, this sounds harmless enough. It is hard to quarrel with the overall idea. There are, however, in the definition, two words on which the definition hinges, “responsibility” and “change.” These two notions cut the ground out from under the misconceptions we mentioned above. You cannot be permissive and responsible. Further, if you want change, and say it must be responsible change you have undertaken a tough assignment.
E. Responsibility

Any company would like to get people to act “responsibly.” The question is how do you get them to do it. McGregor's fourth point reminds us that under proper conditions, people will learn to accept and even seek responsibility. What are those conditions? If we want responsible action, we must identify the conditions and establish them.

3. Conditions for Responsibility

a. Security. One effective way of killing responsible action in the bud is to lay people off because they have worked so well that there is nothing left for them to do. Some sense of security is an underlying condition for responsible action. Responsible work will at times lead to effort well beyond the call of duty. It generally stops short, however, of economic suicide. This need for security (which we can recall is second in priority among Maslow's five motivating forces) became so obvious to our company that we adopted in the early 1950's the name Security for our version of the Scanlon Plan. Security was an acronym for

- Satisfying
- Employment
- Cash bonuses
- Understanding
- Result from
- Ideas and
- Teamwork by
- You

Corny? Even as author, I will admit it, still it does sum up a great deal of what participation is about. To put some substance on this slogan we also adopted a policy controlling layoff because of
technological improvements and a partial guaranteed annual wage. The whole effort can spell security because in Frost’s words we seek change in the direction of more effective use of resources in meeting needs. It helps us beat the competition.

b. Teamwork and the Bonus. So security is one condition for responsible action. What is another? According to McGregor, behavior will be a function of the rewards. Scanlon’s most important insight was that work went better with teamwork. His effort was directed towards forming small teams to get at the problems they could best handle. Then he linked these teams to get at bigger problems. The payoff came if the total effort succeeded. So he provided a company wide bonus as the reward. It rewards teamwork, cooperation, supportive behavior, and work facilitation; not all Scanlon’s words but words compatible with his idea. So teamwork is another condition for responsible work. Allied with teamwork is a bonus that rewards or encourages teamwork.

c. Knowledge of Goals. A third condition also appears in McGregor. People can be creative and innovative in relation to organizational problems. If we want to get this kind of work, we have to let people know what the problems are. Closely associated with problems are goals. Each goal presents a set of problems as to how the goal can be met. So people need to know about company problems and company goals, overall and broken down into pieces they can get a hold of. This is indeed a high form of responsible work and its condition is pertinent information.

d. Membership. In these conditions, two of them, bonus and security, are responses to the first two of Maslow’s motivating needs. We can see how the other motivating needs can also be seen as conditions to be met in prompting responsible action. After security, Maslow says people want “love” or as we said “a feeling of belonging.” This condition calls for the company to say to all its people, “You are important to us. We need not just your hands but you, all
of you. We need your strengths; physical, mental and emotional. We need your skills, work skills and interpersonal skills. We are not just saying this, but we are setting up special structures to enable you to use these strengths and skills. We are training our supervisors to learn how to deal with you in this new relationship. We are setting up new communication systems so you can get at the larger more interesting work.” These are ways we meet this condition of letting people know we want them to belong and feel that they belong to a close-knit work team and the larger team, which is the company. This is the prime condition for encouraging responsible work. If the leaders mean these statements and can convey that conviction to the people, there will be participation. With proper structures, information, and skills there will be effective participation. The first and essential step, however, is the loud clear signal that people are important.

Esteem or recognition and self-actualization are the two remaining of Maslow’s motivating needs and we can see that they also can be turned to conditions that will prompt responsible work. So we have a long list of conditions that can help us promote responsible work: security, teamwork, company wide bonus, a feeling of belonging, recognition, and an opportunity to become a fuller self, to grow skill wise, emotionally, economically, and as a full person.

e. Equity. One other factor will be treated more fully under the third main point of our identity, which is Equity. The factor is that goals have to become an integration of the goals of all those connected with the company—all the constituencies; employees, customers, vendors, and shareholders. Naturally, no organization can meet all the goals even of one person, but if the company wants many people from each group to contribute willingly to company success, each willing person must see a reasonable number of his or her goals being met. The more we look for each person to contribute whether in money, orders, supplies, or responsible, innovative work, the more each person will hope to receive. Since participation expects people to deliver more effective work, the
organization has to develop a plan for more output so that each group can receive more. This condition satisfies McGregor’s second point, which provides for self-control and self-direction for goals a person is committed to.

All these conditions are just to promote the responsible work called for in Carl Frost’s definition of participation. This is a big job just to encourage responsible work. It makes us feel a little more sympathetic toward the manager who says he cannot spend his time on participation. Still we have to recall that many large companies have decided they have to get the responsible work that participation promises. Why? The almost daily announcement of government ordered recalls is one reason. Recalls are usually the result of irresponsible work by an assembler, a designer, a manager or a Board of Directors or all of them. Relating examples of how “they don’t make things like they used to” is a favorite American past time. Inflation is another sign that many people want more in exchange for less. Participation, on the other hand, in integrating goals, in spelling out for people the need to give more in order to get more, sets the dynamic force in operation which can combat these negative influences in society. Right today our company should have little trouble in meeting any reasonable set of wage and price controls because through participation, we are able to pay our employees and shareholders well and still keep our price increases at a fraction of the general inflation rate.

We have seen some conditions needed to foster responsible work. These do not change basic corporate structure, but there is a need for some additional structures, different communication, and a new attitude toward people everywhere in the company.

2. Attitudes for Responsibility

Top management must say we want people to be involved and we want them to share the results. We will rework our goals, we will give people the information they need, we will give opportunity to
talk about problems and plans, we will encourage self-control, we will see that they know what to expect in return, and we will see that they get it. We believe this can happen and we trust our people will respond. The others in the company also have to say we will trust that you mean what you say and we will give it a real try.

3. Structures for Responsibility

Even with right conditions and right attitudes, we need structures for participation. We need a provision for appropriate groups to solve problems and plan how to improve conditions. Typically, in Scanlon companies each department has a production committee consisting of the supervisor and one or two other people elected by the people in the department. They are to talk about department or interdepartmental problems and how to solve them. This is how we started. As time went on, we found departments with a wide variety of work so that one or two could not represent the thinking and needs of all. At that time, information was coming out on basic research on organizational effectiveness that gave a different slant on organization structure. The work was done by Rensis Likert and the Institute for Social Research. It is the basis of such new programs as General Motor’s Quality of Work Life. It also proposed that work that is more effective could be done when people are organized in teams rather than the typical leader-followers group.

a. Work Teams. This work can be most easily understood by studying diagrams of two different views of a typical business organization. Figure 1 represents the traditional view of a company. The President is at the top. Each person reporting to him or her is in the next row of boxes. Those reporting to the second row are in the third row and so on. That is all very neat and orderly and it tells quite a lot. It may be unfair to recall the song, “Little Boxes,” but I do not think so. The compartmentalization indicates the isolation of each person in such a structure. The lines only connect one to a boss and
subordinates, if any. Even within a department, nothing indicates a sense of community or teamwork. The title on the box also implied that there was a very definite set of characteristics needed and whoever filled the box had to have all of them, because there was no way for one person to pick up what an associate missed. Particularly in small companies where one person often must wear several hats, it is difficult to find people with the right combination of skills.

Likert’s work led him to search for what differentiated the effective departments from the ineffective ones in large companies. It was easy to separate them by results, but what made the successful ones successful? He began to see that the least successful were most authoritarian. A cut above were those who practiced a sort of benevolent despotism. “You do what I say and I’ll take care of you.” More successful were those who brought people into active consultation. The manager could call a meeting and carry on a series of dialogues with his whole department. The top performers tended to bring his or her people together, present problems, and encourage group discussion.
The better the department was the less it behaved according to the model above or according to standard organization theory. In other words, Likert found that many large organizations had departments functioning in much the way Scanlon hoped whole companies would perform and these groups were most productive. Likert then set out to diagram what he saw and expand it into a whole company. In order to show the linkages from one function to another he used a three-dimensional model, which is hard to show on paper, but a two-dimensional drawing will give the flavor.

He uses a sort of rounded triangle to represent a boss and his or her subordinates. Where a subordinate also has a department, this team is shown as a partially overlapping triangle. Each person is indicated by an X within the triangle.

Figure 2 looks very different from the earlier diagram and it is easy to see why it does not immediately appeal. On the other hand, it does tell a different story. It lets people see that they are part of a team. It does not put up barriers between people on a team. It encourages group discussion, not sequential dialogues. It lets people see that a team has a total job too, that it succeeds or fails as a unit, and that there can be some give and take as to who does what in a stressful situation. It puts into operation Drucker’s dictum that organizations succeed by utilizing a person’s strengths and making his weaknesses irrelevant. Another thing it shows is that many
people are on at least two teams, their boss’ and the one they head. The three dimensional model would show interdepartmental task forces as third teams a person might belong to. This overlapping of teams helps to show how work and results are carried from one level to another. On the whole, while both models are pyramidal, Likert’s model does not have the same implication that all wisdom flows downward.

This model came along just when we seemed to be outgrowing the original production committee structure. After some consultation with Likert, we decided to drop the production committees and assign their work to each department as a whole. We devoted a lot of effort to training supervisors and their people in the new way of dealing with problem solving. As a result, many teams found that they had enough internal support so that they could confront their supervisor when his behavior was hurting the work of the team. This added a new dimension to our work improvement. It often improved production and improved morale, even the supervisors.

In making this change, we gained some and we may have lost some. We gained by having more people involved, having more peer support in work and interpersonal problems, and by having more freedom in job assignments. Some problem areas exist. For example, an occasional team will get hung up on interpersonal problems and spend time on them to the detriment of work related problems. More often, a work team meeting will be seen as a way for the boss just to pass on information or even his or her solution to a team problem instead of using the team to solve problems and coordinate work. These are not the fault of the system, but merely indicate the kind of training and refresher work that every organization needs to keep on track.

b. Screening Committee. A more fundamental problem is that in changing the production committee to work teams we abandoned the Screening Committee, which is the top committee of typical Scanlon Plans. Abandoned may be too strong but, in any case, we let it die because it did not fit well. The Screening Committee is an
untidy structure. It consists of such top managers as the President, Factory Manager, Controller, Chief Engineer, and Sales Manager as well as elected representatives of the production committees. It meets monthly to review plans and progress toward goals, the bonus results, and to decide on suggestions that were beyond the competence of the production committees. The committee was what is called a diagonal slice of the organization. It represents all levels and functions in the company. It is small enough to get good discussion and yet broad enough to bring many points of view to bear on a question. A decision by a good Screening Committee gave real credence to the plans and results of the company. By letting this committee die, we have lost this cross-fertilization and the cosmopolitan turmoil that can be so fruitful in developing ideas and understanding.

We do have the Donnelly Committee, which fills some of the void, but it handles only pay and equity issues. It does good work but does not get at the work issues. By divorcing equity from work, we run the risk of developing the point of view that the company owes people something without relating it to what work is done. It tends to put most of the burden on the President, of putting forward the countervailing point of view that the company can only payout of what is produced; that ultimately one only gets more for producing more. All is not lost, however, for the question is being studied as to how the function might be revived.

c. Variance Reporting. One other factor is best treated under the heading of structure even if it does not seem to be a formal structure. We speak very often of “variance reporting” in our work and we stress it in training. This means that each person is expected to be aware of the goals of his or her work, how the work relates to the goals, how it is actually going, and then reporting significant variances to the supervisor as soon as they become apparent.

Such an activity is almost a definition of responsible work because it makes each person aware of the why and how of the work and whether it is going according to plan. It is the closest
approach to real time control that I know of. It reduces paper work and allows for faster action on problems. Does variance reporting really work? Can it be trusted? Does it eliminate supervision and quality control? One of the first pieces of extensive research on our company took two Michigan companies that were using the Scanlon Plan. One had lower returned goods, better safety, higher profits, and so on. Why the difference? It was suspected that in the successful company people were more aware of the reality of the work place. On a careful, formal questionnaire, they scored about 50% higher than the other group on knowledge of goals, how to carry them out, and what the results were. They also had about half the number of times when the answer was “don’t know.” Having the knowledge at the point where the work is done does seem to help. This does not eliminate either supervision or quality control people. Supervisors are able to act more as managers when they are not merely being police. They can spend more time on planning, coordination, and cost reductions. Quality control people can be getting the quality built into the specifications, methods, processes, and equipment. They can look for trends and for the usual type of problem that is not immediately apparent. Further, some work can best be done by separating production and inspection.

Before leaving that question, we should point out a special feature of the Screening Committee that contributes to its untidiness. It will highlight a question many people have about participation. Screening Committees decide. Where does this leave the Management Team or the Board of Directors? Do they turn over some of their responsibilities to the Screening Committee? First, the Board could not legally do it. The Screening Committee and every other group has to operate within policies and regulations of the Board and top management. Other groups can propose, recommend, argue, and express indignation; but the buck still stops at the top. The proposing, arguing, etc., is legitimized in a participative company. Nobody should be penalized or fired for voicing opinions or suggestions in reasonable ways. There has to be
time for all these vociferous activities but the work must go on; the results must be achieved.

F. Change

The definition of participation calls for responsible efforts to effect “change toward better utilization of all the company’s resources . . . .” This does not call for just any change but purposeful change, effective change. It will simplify things a bit if we look at these efforts under three headings: Organization change, problems, and opportunities.

1. Organization Change

The organization change I have in mind is to get the organization geared to promote responsible work. In a way, this takes us right back to the previous section where we talked about attitudes, structures, and so on that are needed to encourage responsible work. All that needs saying here is that some of the participative effort must go to keeping the system functioning. Most supervisors need to acquire the skills to communicate, to turn problems into opportunities, and to develop trust. Team members need to learn how to approach a busy boss with problems and how to trust.

For example, a major source of suggestions has been complaints. “My machine always breaks down on Mondays” or “this material is no good.” Complaints are statements of need. The two above can be re-stated as: “I need a machine that keeps running” or “I need a material that grinds more easily.” Since need or necessity is the mother of invention, the restatement of the complaint puts us on the way to a solution if (and the “if” is a big one) the supervisor listens constructively. Nobody enjoys a complaint, but in a work environment, complaints are a prime early warning system. Supervisors have to encourage people to be alert to trouble and feel free to talk about what they see and hear. Constructive listening turns the
complaint into a need and the need into a solution. A few repetitions of this process will strengthen the relationship so that people will be phrasing their complaints as problems or needs, and eventually they will even take the risk of starting out with a suggestion about what to do about the problem.

It may seem farfetched that people need encouragement to voice complaints, problems, or suggestions. We all know people who are only too free with complaints. Not everyone is so put together. I remember my mother answering the doorbell years ago and a passerby was standing hat in hand and saying very deferentially, “Pardon me ma’am, I don’t want to bother you, but I thought I ought to tell you your house is on fire.” Obviously, the man had had to screw up his courage to state this problem to a stranger. When problems occur few people like to tell the boss, so a continuous effort needs to go into changing the climate so that people will be observant of impending problems and have the responsibility to speak up. Supervisors need reminders or training to encourage this behavior and to know how to process the complaint even when they already have more complaints than they know what to do with.

This change of climate is what makes participation workable, it makes variance reporting a real system of control, and helps work teams perform as teams should. A factor that stops many organizations from changing the way they work is that they fear that any change threatens their security. In fact, the very opposite is more nearly the truth. The absence of change is the surest way to oblivion, if not disaster. Right now, the company is feeling more threat from competition on prisms than it has felt in 20 years. It is also the area where we have made the least change in recent years. Change is being planned in prism production now and it should control the threat. Again, there is an “if.” If people see it as a way of better serving the customer and so protecting their jobs, they will support the change. If the change is seen by the people as a speedup threatening their jobs, they will tend to resist change. The difference lies in how clearly leaders convey information about the problem and elicit support in solving it. This is one example. Such problems constantly
face the company, so leaders must constantly work at getting people to understand and accept the need for change.

Another block to effective participation can be policies. While many policy changes, such as going to a guaranteed annual wage and one covering layoffs caused by technology improvements, have been made to secure a better climate, some effort must be devoted to seeing what else needs changing so that people are able, willing, and free to participate in the changes that improve the company’s work.

2. Problem Solving

Changing or improving work is what participation most often brings to mind; the change that directly affects the output or work of the company, the change that solves a problem. First, we talked of changing the organization and the people in it so that it and they would accept change in work. Now we can get at the process of really changing the output of the company. As we have seen, the key to change is to surface the problems that keep us from reaching our goals; whether the problems are scrap, downtime, low output, lack of sales, poor product design, or being out of inventory. Once we know that a problem exists, finding a solution is a straightforward process. We look for the cause, then look for a variety of solutions, and finally choose the best solution.

Where does participation help in this process? If it is a production problem, why not just assign an engineer to it and get an expert solution? Depending on the kind of problem, an engineer may be needed. A quality control person may be better in some cases, or maintenance or setup person. The supervisor, once he or she knows the problem exists, has to decide if help is needed and who can best give it. Serious problems seldom have simple answers so several disciplines may have to be called on to help. One may be needed for diagnosing the cause, another for finding solutions, and a third for determining which solution is best. What is often overlooked in the process is the person who surfaced the problem or the
people doing the work. These people may not be good at finding the answer, but they may have keen insights that will help find the cause. Again, when it comes to choosing the best solutions, their familiarity with the operation can often prevent oversights or suggest modifications that will enhance the solution. The fact that their needs and ideas have been considered will at least insure that the machine is accepted and fairly tried.

A classic example was a machine that was designed to make work easier and increase output. When it was started up, it produced mostly scrap because no operator could keep up. The engineers tried everything they knew to no avail. Methods people said the operators should be able to keep up but few good parts came out. Finally, the supervisor asked an operator what she thought was the problem. She said there was no way they could make good parts at that speed at the start of the shift. Once they were off to a bad start, they never seemed able to catch up. She then gave the cause and solution. “If we can start slowly and build up speed as we get the rhythm, we will go faster than the machine is set for and get you more parts, so why not give us a variable speed control?” It was installed and the operators started slowly for a half hour, then built up to a peak and slowed down the last half hour and got about 15% more output than the originally designed capacity. The operators could not have designed the machine, but they did have the information and ideas that spelled the difference between failure and success. The failure to discuss a conveyor design with those who were to use it caused unnecessary frustrations, bickering, and delays.

Less dramatic examples are: A strip cutter noticed that after the size of a part was made smaller he could get nearly five strips from a sheet instead of four. He called this to his supervisors’ attention. They worked out the suggestion so that an eleven percent increase in sheet size would yield 25% more parts. This was not a high volume part, but it saved $462.00 a year.

The next example begins with a statement of a problem. In the defroster line, the supervisor was aware that the profit margin was low and Sales was reluctant to seek new customers unless we could
lower costs. The supervisor brought this to his team's attention. They responded that they could speed up the assembly if their materials were more consistent. The supervisor listed the difficulties and got Purchasing to straighten out the specs with our vendors. Output increased from 1600 to 1800 pieces per shift and Sales has sought more business and has been promised orders from new customers for next year.

So far, we have covered change in response to problems. We can now look at the last kind of change; which comes in response to opportunities, or when we move toward new goals. Such changes can be called breakthroughs.

3. Breakthroughs

The organization could be moving along nicely with no problems keeping it from meeting its goals, so change would not be necessary. Or, would it be? Even if the marketplace were not beckoning us to raise our sights, our own inner spirit seems to challenge us. I remember one time at an employees meeting some exasperated person asked me how much more improvement I wanted, wasn’t I ever satisfied? My reply was that I would not ask for improvement if he would promise not to ask for improved pay. The human spirit, at least in America, is not content to leave things as they are for long.

The impetus for this kind of change usually starts at a different point in the organization. Problems can be spotted by anyone in the organization; an operator, a financial analyst, a safety supervisor, an engineer, or a secretary can observe and blow the whistle and so start the one kind of change. Breakthroughs are more likely to start with top management or a researcher, or a market analyst. “We think there is this possibility,” they say, or “we should start looking for a new market for this product.” This opening up of new possibilities can begin with anyone in the company, but it is more likely to start in the positions I mentioned.
The job of communicating new goals to the organization is larger and more complex than talking about problems. First, people want to know why. What will it do for me? Their instinctive reaction is likely to be “boondoggle” or “pie in the sky.” So showing how the achievement of the new goal will strengthen the company and enhance jobs is a necessary first step. Then the goals have to be broken down to bite sizes so that all parts of the organization can contribute.

A prime example of this kind of change is happening right now. The Management Team assigned Jim Knister to draw up strategies for each of the product lines. This involved going to various departments and teams in the company to see what they could do, so that at the end of three years each product line would be at a higher level of achievement. The strategies fill a good size notebook. At this point, they are still mostly targets. But the targets have been developed by the departments and teams. They have been developed by the people who have to meet them. They are very specific, which means that people have at least the hint of an idea of how to achieve the targets. Each target has been reconciled with other targets so that they do not conflict and so they will have the resources to meet them. Most of all, the process of developing the strategies has also developed the commitment to carrying them out. So the changes we are looking for are all directed toward a more effective use of the company’s resources, first in lubricating the organization so that communications flow freely, then in getting people to help solve the problems in reaching present goals, and finally to help in securing breakthroughs that we can raise our sights and reach still higher goals.

G. How Does Participation Work?

1. Japanese Experience

A short story is in order. The experience that American companies have in setting up joint ventures or licensing agreements with
Japanese companies can provide a background for understanding these principles. American negotiators often come away from these negotiations thoroughly exasperated, feeling that the Japanese have stalled and stalled in order to get a better deal. A closer look at the proceedings reveals what the Japanese have been doing.

Let's take a hypothetical, but typical, example. Sukiaki Incorporated wants a license for a process from Nuts and Bolts, Inc. N & B will have to furnish equipment and some production parts. Two N & B representatives arrive at Sukiaki headquarters. They are ushered into a formal boardroom and meet the inscrutable Chairman of the Board, several equally inscrutable directors, as well as an assortment of semi-inscrutable top managers. Politeness reigns as they sip tea and exchange compliments. Finally, an impatient American mentions business matters. He proposes a course of action complete with fees and timetables. Some financial questions require the presence of several subordinate Sukiaki finance people. Their presence raises more questions about the financial consequences for Sukiaki, so a still lower contingent arrives. This process continues until there are no further significant financial questions.

Then the process is repeated for marketing, engineering, manufacturing, etc. After several weeks of this, the Japanese are ready for a decision except that the timetable originally proposed for getting under way is much too long. This bothers the Americans a bit but their current experience with the Japanese has confirmed their belief that anything Japanese can do Americans can do faster. So they agree to the much shorter timetable. They shake many hands, crack a few heads as they bow awkwardly, and they return home thanking General McArthur for saving them from the fate of having to live Japanese style. They joyfully announce their success at home and tell everyone to get busy implementing the new agreement.

Question: Which company do you think will move more expeditiously, N & B or Sukiaki? Business journals generally report that the Sukiaki’s most often have to prod the N & B’s and even supply information on what is needed to carry out their agreement.
The Japanese people, down deep in the organization, understand, at the time of signing, what is needed. They have not only had their questions answered, but have had their ideas incorporated into the agreement. This example may be oversimplified and may be slanted in favor of the Japanese procedures, but still it is typical of what experienced American negotiators tell novices who are going to Japan for their first deal.

A recent article in the Economist sums it all up neatly:

_In politics, as in business and everything else, the Japanese system works by making a large number of people spend an immense amount of time in talking and talking until they eventually work out a blurry compromise they can all just about accept; and then carrying out that compromise with immense zeal and efficiency._

_Economist, December 2, 1978, p. 13_

We can now look for principles that can be drawn from this example.

Participation should:

- Anticipate problems
- Inform people of what is needed from them
- Aid understanding of why change is to happen
- Facilitate coordination
- And secure greater acceptance for the process of change
- Speed up execution

2. Subject Matter for Participation

Whenever change must take place, or it is desired that change occur, participation will enable the organization to execute the change more effectively. The change may be the correction of a problem, a change of schedule or specifications, a change in process or equipment, a change in personnel, or a change in customer
or vendor. Change can be minor or major, involving the repair of one machine, or embarking on a whole new product line.

Change can involve a strictly business matter such as a new competitor’s challenge or a behavioral question such as the promotion by a manager of a questionable candidate. When there is no need or desire to change, there are no decisions to be made so no need to solicit participation, except for the continued assumption of responsibility for the quality and quantity of one’s work. (This latter is more a by-product of participation than participation itself.) From this, it can be seen that when work is running smoothly, there is little need for formal participation. People know what is expected and go about doing it.

3. Who Participates in Participation?

In the Japanese case, different functions and different levels of the company took part when their help was needed even when the help might be only a pertinent question rather than an answer. Whoever can improve significantly the process of change should be asked to participate at the appropriate time. The improvement can come in two ways. A person taking part may improve the quality of the decision by suggesting solutions or by cautioning about potential pitfalls. The participation of representatives of groups may be important to the acceptance of the decisions about changes and may be helpful to the execution of the decision.

From this, it can be seen that people may participate to gain understanding of what must be done, to suggest courses of action, to solve problems, to raise questions, or to gain support. Depending on the complexity of the question and the competence of people, the leader must decide who can genuinely contribute to the quality of the planning and acceptance of the plan and its execution. Great care must be exercised not to involve people unnecessarily. Some thought must be given to informing interested people of progress being made when they are not participating.
4. **Who Makes the Decision?**

The more skillful the execution of the process of stating problems and presenting opportunities of eliciting suggestions, of keeping criticism constructive, and of integrating organization goals with individual goals, the less important it is who makes the decision. If the leader keeps the group open to influence and encourages intelligent influence, the decision becomes obvious to the participants. The leader may merely state what is already obvious and in doubtful cases, he may ask for a show of hands or even a secret ballot. In some knotty cases, he may have to say, “We have talked as long as we can without consensus so my decision is this.”

The leader is responsible for creating a climate where the quality of decisions is high, the acceptance is intelligent and genuine, and the execution timely and efficient. He should use participation to the extent that it helps him fulfill his responsibility. The leader is responsible for the quality of the decision and its efficient execution.

5. **Some Questions**

**a. Does Participation Take Too Much Time?** The Japanese example shows it takes much more time in reaching a decision point but that extra time is more than made up in the execution. Our definition says that participation comes “in the suggesting, deciding on, and carrying out of change.” If we look only at suggesting and deciding, participation takes longer than an authoritarian method. If we add the execution then the total process should be shorter. This statement does provoke arguments.

**b. Does Participation Only Occur in Formal Meetings?** Emphatically no. The best work is often done in impromptu get-togethers. It happens almost continuously when the leader creates a climate of openness: openness with information and openness to suggestions.
and criticism. Large and complex problems and planning will likely require formal sessions in addition to the impromptu meetings and open climate.

c. What About Emergencies? Depending on the urgency, there may be no time for meetings but during emergencies accurate information is needed in the whole organization and it has to flow all ways—up, down, and sideways. This is where the open climate really pays off. Information moves faster and more accurately; people are used to handling it; they are used to taking orders from the situation; they understand company objectives; they can adapt their work to the new situation. Since they are in tune with the leader and other teammates, they can change pace rapidly.

This completes the discussion of participation except to reply to two questions that have general interest.

d. A Criticism of Maslow. The first one referred to some work, which criticizes Maslow’s motivational theory and asked if people are not moved by a value system rather than by their needs. I am not sure that a value system would be greatly different from a need system. Where there might be difference is at the higher levels. Our highest value might be virtue or honor and our highest need is self-actualization. Even here, however, there is not as much difference as might appear on the surface. For Maslow, self-actualization means becoming the fullest person one can be. This implies skill development and achievement but also good interpersonal relationships and certainly achieving these things in a virtuous or honorable way. The needs in general parallel our values, understand and translate into a complete compensation program, one that pays off in psychological benefits as well as monetary.

e. A Management Tool? The second question was in the form of an article on work in the British journal, Encounter. The author, in the course of talking about ways of counteracting the “trivialization” of work, which has been both the source of accomplishment and the
source of problems for industrialism, indicates three ways in which the problem has been attacked: participation, job enrichment, and control. He dismisses participation quickly because it is seen by workers as a management tool to jolly workers into doing what management wanted in the first place. I would readily agree that management could pervert the machinery of participation to serve only its ends. We will address that problem more fully under the section on Equity. Under Conditions for Responsibility, I mentioned that as part of any plan for participation there must be a plan showing how the participants will benefit as well as the company. I did not then intend to dismiss the question with that short statement, but promised to deal with it under the heading of Equity. I still hope to keep the promise, and so now I will only say that to the extent that leadership finds ways of identifying the needs or goals of people and of integrating them with company goals to that extent, people will respond to invitations to take a responsible part in the work of the company. If management is not sincere in this process or does it poorly or does not communicate it well to the people, participation will be seen as a trick of the “carrot bastard,” the term one worker had for this type of management. With a condition that management generally shows the people how they will benefit from participation, I believe that Encounter’s criticism largely vanishes.

IV. EQUITY

We have seen that the effort to become market leaders can be greatly enhanced by providing for the full participation of people in the responsible, creative work that market leadership demands. We have also seen that people like this involvement. It would seem then that the two elements give us a workable system. Market leadership results in more profits, diversity in products, a sounder company, and a sense of corporate achievement and people seem to like the kind of activity that leads to all these nice results. Why, then,
do we need to add a section on Equity? The answer is obvious. Most of the direct benefits go to the customer or the company. The people doing the work see this and naturally feel they should have some share in the increase. Too often people have been urged to put their shoulder to the wheel with the promise that “they would be taken care of.” Too often people have ended up with sore shoulders and a feeling that the amount of “taking care” did not measure up to their expectations. They naturally expect some definition of “taking care” or some understanding of what their fair share of improvement will be. This is what our third factor, Equity, is all about. It makes the hard but interesting work seem rational. It helps people see a correlation between company goals and their personal goals. Because there are such quarrels raging in society over prices and wages this question is clouded.

A. A Problem in Economics and Psychology

To set down a coherent system of equity has been a trying job for several reasons. It covers a wide range of activities. In a business these can be from setting pay, to awarding job opportunities, to deciding how much should be paid in dividends, or to establishing quality levels. In most equity decisions there are conflicting interests, perhaps between two employees, or between two departments, between employees and shareholders, and so on. The conflict arises because individuals and groups want more of whatever is under discussion than there is available of it. Further, we are talking about the satisfaction of wants and needs of individuals and groups, and this has a way of stirring the emotions. If we limit this discussion to how equity can be achieved in business, we can simplify our problem a bit.

From this opening, we can see that equity has to do with how people’s expectations are met. We all have needs for goods and services. As we leave childhood, we realize that if these needs are to be met, we have to do something. The ordinary thing is to work. If we
choose to work to produce all our own goods and services, we must limit severely the satisfaction of our wants. Once we learn this, we can start cooperating with others and together produce vastly more than we each could alone. A problem arises. Since different people do different parts of a complex process, how do we decide who gets what out of that process? In practice, each person sets a value on his contribution to the process. This tends to be higher than what others think of that contribution. Meanwhile, people are putting a value on what has been produced by the process; in other words, what they would pay for the bread, shoes, etc. When we add up all the personal valuations that people have made of their own contributions, the total naturally exceeds the value of what was produced. This is a form of the problem that economists refer to as the allocation of scarce resources.

A psychological problem arises at this point. People tend to translate their personal evaluation of their contribution into a right. When it is thought of as a right, it becomes something worth fighting for instead of something to be negotiated. Other people with their lower and consequently “false” valuations become the enemy. What started out as a practical move to join with others in meeting more of our wants is now in danger of becoming a battle. It has changed cooperation into conflict.

The process of solving this economic and psychological problem is what equity is all about. Economics thinks mostly about how to produce effectively; psychology thinks of how people become satisfied. Equity looks to the mutual satisfaction of the people. It seeks to insure that none of those who contributed to the production is unsatisfied. It seeks an acceptable answer to how you divide these scarce resources so that people will be sufficiently satisfied so that they will continue to make their contributions of work, capital, ideas, and management so that we can produce more than we can by solitary effort, and so more fully satisfy our wants. This statement is complicated because the process that equity deals with in business is complicated. Equity cannot be determined by looking only at the interest of one person, one group, or one side.
Too often when people look at a problem they insist on the rights of someone or ones to a certain share without much regard for conflicting rights or whether there is enough to go around. This, as we have seen, heightens the tensions. We then get into quarrels and uncooperative and unproductive behavior. Still there are ways of getting both plenty and equity. If we look at some past attempts, both successful and not, we can formulate a practical approach to plenty and equity. Then we can see how this course has been and is followed at Donnelly Mirrors.

B. The Search for an Equity System

1. From Moral Philosophy

As we have said, people like to look at equity in terms of rights. During the Middle Ages for several centuries there was a concerted search by moral philosophers for equity in terms of “just wage” and “just prices.” It was thought that there was some figure or formula that would settle the question once and for all. The search for an answer seemed to run into a dead end. Prices and wages never seemed to meet any accepted definition of justice. Most of the brainpower was spent figuring out how to divide what was already there. Little thought was available for improving the productivity of the economies, so economies were largely stagnant because there was no incentive or room to grow.

2. Economics

Successors of those moral philosophers in more recent centuries finally went off in a different direction and developed a new way of thinking which gradually became known as economics. Adam Smith is a prime example. They began looking at ways in which prices could be brought down and wages up. They all realized that investment was the key. Saving produces investment, which in turn
makes the production of tools and power sources possible, and so creates lower prices and higher wages.

These ideas plus some other factors that were happening produced some dramatic effects, the industrial revolution among them. Prices of many goods fell rapidly, and some people grew very rich and powerful. Wages, however, did not rise as was expected when productivity rose. In fact, the typical farm or factory worker was considerably worse off, in spite of the fall of some prices. One English social historian believes that until World War I the factory worker in England did not fare as well as the medieval peasant.

3. Laissez Faire

What happened to prevent the worker from sharing in the results of his productivity? I mentioned earlier that there were other factors in the situation besides the economists’ new look. The large estates in England had been converted from grain farming to grazing. This drove thousands of farmhands and tenants off the farms. They flocked to the cities and kept the price of labor down. When that supply dried up and wages started to rise, the employers hired women and children at lower wages. The power in the hands of the new capitalists was grossly abused for shortsighted gains. They corrupted governments, the press, and in many cases educators and churches. Reactions of many kinds followed; voting rights were extended, laws were passed ameliorating the conditions of work, and compulsory education took children out of mines and factories. Unions also sprang up to give laboring people more leverage in the wage market.

The search for the just wage and just price was largely fruitless. The work of the economists was only partially successful. This will prove to be repeated again and again. Equity cannot be found in isolation from all the practical problems of production, motivation, satisfaction, supply, and demand. The early economists did succeed in developing a great increase in the supply of goods with
which to meet people's needs. They did not succeed in finding a way to distribute it to everyone's satisfaction.

They had another success, which we will see, can greatly aid us in evaluating contributions of people and the products they make. If this helps to balance total expectations of people with the total supply of goods, equity is a good bit closer. The success was the encouragement of free markets. These gradually replaced the old fixed price exchanges encouraged by Mercantilist governments. Through free exchanges in free markets, people could see what most others were willing to give or receive for a day's work or a bushel of wheat or a horse. These exchanges had no theoretical basis in equity, still people walked away feeling they had received a fair deal. We can begin to see that equity is as much a feeling as it is a rational judgment. When people saw that five pence was the most anyone would pay for a dozen eggs they tended to say, "I guess that is fair." Consensus or agreement, thus, becomes another ingredient for a practical process of equity, along with freedom and the recognition that equity must be felt as well as thought. Free markets helped but did not cure all the remaining problems. Free markets can become unfree. We have seen that power in the hands of one person or group may be used to increase or decrease the supply of goods to a market to manipulate prices to the group's advantage.

In addition, the power of government can be co-opted by a group to make conditions favorable to the interest of the dominant group. For a century or more, the capitalists were the favored ones. For the past 50 or 60 years there has been a shift of power from capitalists to unions, and more recently toward environmentalists. When power leaves the out-group dissatisfied, there is a withholding of cooperation, and productivity suffers from lack of investment or effort; resentments rise and bide the opportunity for a reversal of power.

Judicious people have tried to solve these power struggles by making the government balance the scales. By thinking in terms of a balance of power, we get back into the nonproductive syndrome of dividing what is there. There may be an armed truce but not the
real cooperation which alone can increase supply and so the possibility of more satisfaction for all.

4. Marx

During the turmoil of the early industrial revolution, two other thinkers studied what could be done to bring some equity into the wage market. One has had a profound influence on all subsequent thinking; the other with a more rational answer to the problem has had little influence. Karl Marx was the former. He reacted to the Nineteenth Century conditions where labor received a subsistence wage and capital received all the surplus value or profit. He said that any surplus value of a production process belonged to the producer. This sounds like an eminently fair idea, but it suffered from the same weakness as the old “just wage” theories. It seems to be a formula for stagnation. It removes any incentive for investment, so that the producer has fewer tools for production, and so is less effective. He produces less than his counterpart does in systems where the investor shares in the surplus with the worker. When the investor is all-powerful, capital is productive but the benefits are not wide spread. When the worker dominates, productivity declines so there are fewer benefits to spread about. So we see again that looking at equity issues by themselves has a tendency to make equity decisions more difficult. In most situations there is not enough to satisfy all the people who claim to be entitled to a share. If we concentrate on dividing that limited “enough” conflict results.

5. Von Thunen

The non-influential thinker that I mentioned was Von Thunen. He attacked this problem head on. He saw and proved mathematically that when the surplus productivity was shared through a pre-established formula, both labor and capital received higher
returns on their inputs. He too reacted to Nineteenth Century condi-
tions and did so before Marx did. In fact had he been listened to, Marx would have had no need to offer his theory. Marx knew Von
Thunen’s work but ridiculed it.
Von Thunen wanted labor to receive more without discourag-
ing capital. His great insight was to see that productivity was not
fixed, that if capital invested well and labor worked effectively
more would be produced. The key to this was an understanding before any change was made as to how improved results will
be shared. Much later, Henry Ford glimpsed this truth when he
raised wages to five dollars a day. He saw that if he was to sell
all the cars he could produce, factory workers had to have the
pay to buy them. Sometime later, another man, Joe Scanlon,
came up with a more comprehensive system for sharing increased
productivity and for creating the cooperation needed to get that
productivity.

C. A Basis for an Equity System

We have obtained a number of clues that point to a set of condi-
tions under which equity may be found. In business, we have seen
that equity issues arise when we try to decide who gets what out
of a business situation. The “what” may be pay, price, dividends,
security, promotion, recognition, or any goods that are in short
supply.

1. Equity can best be reached by studying the whole situation to
see how supply of satisfactions can be increased. This might
be called taking the “holistic” approach.
2. Free markets supply information on what many people at the
time consider to be the worth of a day’s work or the price of
goods.
   a. This helps to reduce the exaggerated evaluation we all have
   of our worth.
b. It also gives us a more realistic evaluation of the prices we can expect to pay

3. This freedom enhances our feeling of equity when agreement is finally reached. Only when we reach free agreements can we feel that the situation is equitable.

4. We do have a notion of what our real worth is in relation to those working around us. This phenomenon is called “felt fair pay.”

5. The timing of agreement can enhance or damage the chances for an equitable solution to a problem. When people finish a job or an exchange and then try to decide who gets what, trouble is at hand. When a price or formula for division is set in the planning of a job or exchange, expectations can be balanced and an effort can be made to raise the total output to satisfy more wants. By deciding at the beginning who is to receive what we eliminate the disruptive practice of translating our desires into rights.

6. Power or coercion, whether physical, political, or psychological, destroys hope of equity. The same is true of deceit or cheating. These have a negative effect on any possibility of equity because they reduce freedom.

7. The same needs of people, which can cause the quarrels over equity, can be used to motivate people to more cooperative and intelligent work so that more needs can be satisfied.

8. All this takes strong leadership.

Equity is the feeling of satisfaction that results from this process. This is a most unphilosophical statement, but it works. There is another dimension to equity which is philosophically more important but which is hard to use practically. We want to treat people equitably because it is ethically or morally right to do so. The problem is what the philosophers discovered long ago that we could not spell out a statement of what is equitable in all occasions. We do better by approaching situations openly and practically in advance negotiations.
D. Equity and the Scanlon Plan

So far, we have tried to trace the history of attempts to secure equity in business and identified eight factors, which seem to make equity feasible by helping people to accept decisions as being fair. We have seen that the Scanlon Plan sets out to establish equity as the third of its three objectives: identity, participation, and equity. In studying our company’s identity, we found that three principles distinguish our activities: Market Leadership, Participation, and Equity. So our question now is how do we actually promote equity in the company, especially through the Scanlon Plan?

The Scanlon Plan deals primarily with relationships between the customers, the employees, and the shareholders; and its treatment of equity is limited to those groups. Equity in relationship to vendors, the public, or the government is covered in the Ethical Guidelines, so will not be treated here.

1. Climate for Equity

First, in adopting the Scanlon Plan any company commits itself to build equity into its system of operating. It shows up indirectly under identity because the company commits itself to serving the customer’s needs rather than merely persuading the customer to buy what the company happens to be able to make. That sets a tone in a company. The other person’s needs are seen as the key to satisfying one’s own needs. Hence, cooperation is set forth as a mode of operating. (Equity can come because of an adversarial relationship, but most probably, it is equity without the plenty that economics seeks. Equity with plenty is gained, as we have seen, more easily through cooperation than through competition.) This commitment to equity shows up directly in the bonus plan, which determines before the fact how improvements will be shared.
2. Scope of Equity

a. Dynamic Equity. As we proceed in this discussion we want to keep in mind that we are thinking of a dynamic equity, not a static one, and we seek equity regarding psychic results as well as monetary. Static equity thinks only of dividing fairly what is there. Dynamic equity is a process of getting enough there to meet expressed needs and then dividing it so that people will feel satisfied with the division.

In a dynamic business environment, this means significant improvement in each share as the years go by. This requires improved output or else any person’s increase comes at the expense of some other person’s share. So when we talk of equity we think, not of a static equity, not of a sharing of poverty, but we are thinking of a process of pooling the needs of the diverse groups which make up a company, making a plan for what improvements must be made to satisfy those needs, and a formula for sharing the results so that when the results are in there will be no quarrel over who gets what.

b. Psychic Equity. The other factor to keep in mind is that there are two basic kinds of results from a company’s work that people want to share: the monetary increment or profits and the psychic increment such as the pride in achievement, a sense of self-control, feelings of responsibility, of belonging, and self-worth. The satisfaction of these psychic needs can be a powerful, motivating force toward market leadership. Opportunities for using responsibility and creativity and for achieving are generally limited for most employees in a company. In our company, the committee structure, the suggestion system, the work teams, the opportunity for promotion, and the company information freely given, all help to give employees opportunities for fulfillment that are uncommon in industry. Employees, then, receive an extra return on the investment of time and talent, the absence of which is a major cause of alienation. The Scanlon Plan, then, enlarges the scope of equity to areas beyond just money, important as that is. In this climate, the
company has been able to adopt policies guaranteeing annual wages and protecting against technological layoff.

c. Monetary Equity. These forms of equitable treatment may, in the end, be the most valuable to people, but when people think of equity, money seems to be uppermost. The Scanlon Plan offers real creativity in regard to monetary equity through its bonus plan. First, Scanlon insisted that the bonus was not a substitute for fair pay. It is a sharing of extra productivity over and above what can be expected from a normal wage. This “normal” output was set as what was happening in the years just prior to our adoption of the plan. This was done by taking the ratio of the total cost of payroll, including fringes, to the sales dollar for the base period as the standard from which to determine the extra productivity and bonuses. Even though changes have been made in the way productivity has been measured, the changes have been related back to the original basis that was agreed on in 1952. The result is a very stable formula by which people can see how the company’s performance will affect their pay.

The term company performance is crucial, because productivity is only partly the result of the efforts of direct production workers. (Another of Scanlon’s insights was that we should not think of “nonproduction” employees. Everyone in the company; executives, managers, technicians, clerical, and factory workers, should either produce directly or assist production indirectly, so all should make productivity increases possible.) In addition to direct production efforts there are three major forces working for productivity: technical excellence, managerial competence or effectiveness, and capital.

Technical know-how creates the equipment, methods, processes, and products that make production possible.
Managerial competence organizes work so that it can be done efficiently. Managerial effectiveness sees to the proper selection of products to develop and make, the right equipment to buy, and the right work to be done by whom.
Capital is the power supplied by shareholders to make all the work above possible.

The bonus formula, then, starts with a basic return for all four of these groups, market salaries for employees whether direct or indirect, and a basic profit for shareholders. Any surplus is divided in proportion to the historic split decided upon at the beginning of the plan. People can tell what they are contributing to the bonus pool by seeing how well they are doing in relation to their part of the annual plan which seeks to create the surplus which can help meet the needs which people express. If they meet or exceed their goals, they are contributing; if they miss, they are depleting the pool.

E. Why is this Equitable?

Since all this information is widely distributed in the company, and since the decision on bringing wages up to market is made by representatives of employees and shareholders, and since there are well functioning mechanisms in the company to deal with the possibility that individuals have been unfairly treated, we can be assured that when employees want to continue their employment and shareholders want to continue holding their shares, they are fairly treated. This does not mean that each got all he or she wanted; that is seldom possible. It means that each got what seemed fair in the light of conditions and in relation to what others got or what could be gotten by taking another opportunity.

F. Some Questions

There are a few persistent questions about the system that should be dealt with. First, the Scanlon Plan is not a welfare system. Few companies have the resources to take care of people who do not contribute to the work of the company. That is the function of
charities or government. Companies can contribute to this by gifts or taxes, but their purpose is to create wealth for those who contribute effort, ideas, or money to the productive process.

A question is often asked why the bonus is not divided equally among all participants. This would perhaps be a valid question if all pay were equal. The judgment of humanity is that different kinds of work are worth different amounts of money. Money, then, is a rough measure of a person's worth or contribution to the company. If pay measures the worth of the basic contribution, it would seem to indicate that pay would measure the extra contribution rewarded by the bonus.

We also hear that at Donnelly Mirrors people work harder than at other companies so that base pay should be highest of all. It is hard to say that we are the hardest working of all people, but even if we are, our base pay should cover the normal effort, and the bonus should cover the extra effort.

Sometimes the discussions leading up to the annual adjustment of pay take on the atmosphere of collective bargaining. This is by no means universal, but to the extent that it does, it is misunderstanding the system of equity. The discussions are intended to check with the market to find out what the general public is saying that various kinds of work are worth. We are seeking the truth about wage levels, not what is the most we can get.

G. Summary on Equity

In summary, then, our approach to equity does not pretend to be the one and only ideal system. It has the principle merit that it has been accepted by many people—employees, managers, and shareholders—over a long period. Our market position indicates that customers also recognize fair treatment. The system of equity looks at the company as a whole so that one group's gain is not at another's expense. It encourages the use of market data to use outside opinion as a check against internal judgments. The process
provides free agreements based on open information. The bonus formula was agreed to long ago and tells us how we are to share productivity improvements, whether they come from an investment of capital in new machines, a good marketing decision, a new process design, a reorganization of work, or from working smarter on a machine. We do not have to argue each time an improvement is made as to who gets what share. All improvements go into one pot and are shared. Through our climate of equity, our policies, and our committee structure; we minimize our reliance on power or coercion. Through planning, we use the needs that people want filled as a motivating force to create the satisfactions they desire. This all demands creative leadership especially among managers, but also by any person in the company who wants to see tomorrow better than today. Absolute equity in conditions of poverty is small solace. No equity with prosperity is degrading. Reasonable equity with prosperity: that is the goal of the Scanlon Plan. It is also its partial (at least) achievement.

V. MARKET LEADERSHIP, PARTICIPATION, AND EQUITY AS A SYSTEM

A quick review of this whole paper shows that we started out to identify those factors that give this company a special character. We identified three interlocking characteristics: Market Leadership, Participation, and Equity. Most companies would also say that at least two and maybe all three of these characterize them. The distinction, then, comes in the interlocking of the three traits. They are not three separate factors, but each one is achieved through the next one.

Market leadership comes from the intelligent work of the whole organization under dynamic managerial leadership. The process of becoming market leaders provides job opportunities and more exciting work, which satisfies many of the psychic needs of people. Market leadership also tends to result in higher profits, which
can satisfy monetary needs. Market leadership is enhanced by participation, and the prospect of equity makes participation reasonable. So each of the three factors is best achieved through the other two factors and at the same time increases them.

We get a sounder market leadership position through the participation that is encouraged by equity. Participation means more when it is directed toward market leadership in a climate of sharing the results. Equity becomes a division of a growing return rather than a sharing of a static or dwindling return, because market leadership and participation increase both the financial and psychic increment of the company.

Does all this sound too good to be true?
Does it presume that humanity is better than it really is?
Does it demand a change of heart by many people?
Are we being presumptuous?
Yes to all four of these questions.

This is risky. The alternative, however, of continuing to let companies and whole economies run downhill, producing shoddy merchandise, wasting resources, and alienating people, has its own more serious set of risks. We take on a tough job when we try to move uphill against this pell-mell rush. The presumption comes in thinking we can do it alone.

We need the goodwill and intelligence of most of the people of the company. We need help from consultants. We must tap into the work of research in the field of human behavior. With all this help, we will still need the help of God, His providence, or grace; however you wish to name it.
CHAPTER 11
The Role of the Chief Executive in Productivity

THE NATURE OF THE PROBLEM OF PRODUCTIVITY

Ordinarily, problems with lack of productivity would be handled expeditiously by the appropriate functions of a company and would not call for the special attention of the Chief Executive. Today we see the problem in a new light. Executives see that many causes of the problem lie outside of the company, such as in government regulations. Furthermore, the problem is so acute and as widespread as to threaten national and international economies, jeopardizing the free enterprise system and, with that, political freedom. It is only natural then, that the Chief Executive Officer should feel the responsibility for taking appropriate action. But what action?

When we look at the influences which are suggested as causes of lower productivity, it appears that the avenues for CEO activity would be limited. These influences appear to cluster into five groups: 1) government regulations, 2) taxes, inflation, and other disincentives to investment, 3) high energy costs, 4) lack of innovation, and 5) employee indifference. I would tend to put employee indifference first. Indeed, I believe that if we use our full capabilities in reducing this problem, we will be better able to deal with numbers one, two, and four. Number 3, high-energy costs, may really be something that we must adjust to, rather than cure, in that
previous energy costs were artificially low. (Today’s are artificial also, but probably not much above what a free market would support.) In the course of this chapter, I hope to indicate that the CEO holds the key to changing employees from being indifferent to being responsible and creative. To do this we will look for a definition of productivity suitable for the needs of the CEO; then identify the forces working against productivity, look for their origin, discuss models for offsetting these forces and why they seem to work, and finally, how the CEO can implement such a course of action. This fundamental treatment seems necessary because the problems are so deeply ingrained in our systems of management and in society, that a good understanding of the causal factors is necessary before we can understand what to do about them.

One definition of Productivity is, “Output per man-hour, quality considered.” Such a definition is, in my opinion, much too narrow for the purposes of a Chief Executive. This is not productivity, but only one measure of productivity. Under this definition, we could make increases in output per man-hour through the work of added engineers and other specialists, but the output per hour of total effort would decrease, while showing that the output per direct hour improved. To correct this, we could specify that “man-hour” covers all work in the company, whether managerial or specialist, whether indirect or direct production effort. This would help, but still would not sufficiently define what should engage the attention of the Chief Executive. The definition ignores other factors of production, such as capital. It does not consider depletion of the resources used. For instance, are productivity gains made at the expense of prematurely incapacitating the producing people, or by not maintaining equipment? These later phenomena are common means of “improving” productivity.

What should be challenging the Chief Executive is how to make the organization more effective in using all of its resources, human, physical, and financial. When we get to the level of the Chief Executive, we find his attention focused, as it should be, much more on the company as a system operating within larger systems such as an
industry or national and international economies, as well as various societies from the very local to nations on several continents. The CEO has to consider the many inputs and outputs to and from the system of which he is the head. Shareholders, customers, suppliers, employees, unions, and governments make inputs to the system and expect something in return. The CEO's responsibility is to work out a plan for utilizing these varying inputs in such a way that more value comes out than goes in, and then distributing this output so that the various groups willingly continue making their inputs. This is a rather abstract way of describing the role of the CEO, but a little reflection will reveal that this is necessary if a company is to continue to prosper.

This discussion illustrates how productivity is a rather narrow concept when viewed from the CEO's chair. A better term would be organizational effectiveness. This has been defined as, “the extent to which an organization, as a social system, maximizes its output without incapacitating its means and resources, and without placing undue strain on its members.” While we will continue to use the term productivity in this chapter, we are looking at this broader definition since this is the assignment of the CEO. While his efforts must result in product going out the door, he must also work toward profits, job satisfactions, innovation, and a host of other benefits.

It might put the problem into perspective to list some of the major forces at work pushing toward or against more productivity.

TOWARD———IMPROVED PRODUCTIVITY———AGAINST

| Innovation | Government |
| Automation | OSHA |
| Technology | Environment |
| Telecommunications | Energy Conservation |
| |
| |
| Taxes |
| High Interest |
| Union Action |
| Resistance to change |
This is a very lopsided list, although I did not deliberately make it so. At least, a reading of business literature would cause one to think that this is the way business leaders see the situation. We see more problems than helps at hand. Moreover, the “against” list contains many forces that an individual company cannot do much about. We cannot stop government regulation or inflation. Even if we were to give in to the demands of activist groups, the mood is such that we would likely be faced with a completely new set of demands.

The one area where we might have some effect is in dealing with our employees and any unions they may have. Now I recognize that this, too, looks like an intractable problem that seems to be getting worse instead of better. I do not believe it is intractable. I believe we have models for dealing with it. I believe that there are examples of definite change in the attitudes and work habits of employees in some companies, and there are examples of good union-management collaboration in improving productivity, even where a bad relationship had existed. I also recognize how hopeless this situation seems to managers. We seem to be in a state of
The world seems to be going socialist, even in the West. We seem to be fighting a rear-guard action, merely delaying the day of disaster. In spite of this prevailing gloomy view, there are, as we shall see, several types of activity in use, which show that a change is possible.

The type that has the most history and research is the Scanlon Plan. It has been in use since the mid-Thirties, and periodically attracts public attention. As long ago as 1952, Life Magazine, then in its heyday, pointed out the need for management and labor to put their mutual interest to work and the Scanlon Plan could be a useful tool to that end. Life referred to this voluntary cooperation as “freedom's secret weapon.” “Freedom's secret weapon” is a way of galvanizing an organization into action to make work more meaningful and productive. Such a promise should at least give us a ray of sunshine in the gloom. We can see that if enough companies find this mutuality, we will change not only the working climate in our own companies, but in the larger environment in which our companies operate.

If we are to be effective in changing the climate within our companies and the world in which our companies operate, I believe we have to get a clearer perspective on why many solid American citizens behave irresponsibly in their daily work and why government, which could not live in the style to which it has become accustomed without business, still appears so hostile to it. As business managers, we are in the midst of a struggle, and such a climate is not conducive to clear thinking regarding the intentions of our opponents. It is vital for us to take some time to understand how this struggle came to be.

I will look at governments first, because I believe that employee attitudes are partly a reflection of the problem that we have with government. The primary problem with governments is with the Federal government, so I will restrict my comments to that. We see the great rise of government regulation of, and hostility toward, business begin with the New Deal in 1933. This period completely upset traditional thinking patterns. During the Twenties, business
and the Republican Party were very much in the saddle. Republican philosophy called for a strong central government, but the Twenties saw a government merely doing the bidding of business. The Democrats were traditionally for State Rights, which meant a weak Federal Government, but this is not what Roosevelt instituted when he took office in 1933.

Roosevelt came into power promising to balance the budget and so forth, but because the banking system was in great disarray and closed in much of the country, Roosevelt took the drastic step of closing all banks, making a crash audit of the major ones, and reopening, in a few days, those with a chance for survival. This was a bold first step toward government assistance to business but also control of it; and having taken that step, he decided not to turn back. The National Recovery Administration was begun to revive manufacturing and merchandising. The Home Owner’s Loan Corporation and other acronymic agencies sprang up to rescue sector after sector of American economic life. Now how could a Democratic president get away with such a shift in philosophy? This was indeed a strong central government, and there were cries from unconverted States’ Righter’s. A case can be made that he was forced to do so because of the desperate plight of this country. There was fear of revolution. Even World War I veterans, who formed the Bonus Expeditionary Force, added to the fears by marching on Washington. With this sort of activity in the news, most people sympathetically listened to the Fireside Chats as FDR explained, step-by-step, how government was going to get things moving, first of all, and then to control the malfeasance of big business, which had caused all the problems by going wild in speculative excess, bringing on the Crash of 1929 and the ensuing Great Depression.

By 1936, his electoral support was so overwhelming that Jim Farley could quip, “As Maine goes, so goes Vermont.” Not everyone liked this shift in emphasis, from reviving business to controlling it. There was still resistance and it grew. Roosevelt protected his position by cementing a relationship with the unions, which is still largely intact. The Wagner Labor Relations Act was the cement.
Labor became the ally of big government, and gained a strong voice in how to regulate big business. Since business was largely unrepentant for the sins of the Twenties, it opposed the new laws and fought regulatory commissions all the way to the Supreme Court, earning the personal enmity of the government and the unions. Because of this, government and unions became harsher in their treatment of business. Business, naturally, fought back harder. If there ever had been a possibility for business to say, “We were wrong in the Twenties, and we are going to start policing ourselves,” that chance was gone. In this hostile climate, business was preoccupied and so overlooked new problems where their leadership could have helped: for example, in race relations, pollution, and product safety. As the problems worsened, business became part of the problem instead of the solution, and now it has a new load of unacknowledged guilt, plus more punitive laws and more public animosity.

This account of the origin of our present situation is one-sided, in that it seems to place all the blame with business. The only justification was that business was the major leadership force in society up to 1929 or thereabouts. Others reacted to it. I believe that this narration, while neither complete nor balanced, generally describes how we got to be the scapegoat of society. This analysis doesn’t make our position any happier, but it does make it somewhat understandable. It may give some clues as to how to change the situation. It should help us understand that feelings are so deep-seated, we cannot expect much public acceptance. Even when we do something genuinely good, not many people will stand up and cheer.

From the account of how the struggle arose between business and government, together with the unions, we can see that employees will have grown up with the struggle and will have heard all sorts of accusations against business before becoming employed. They will be suspicious of us. In addition, the problem of how we manage people, should be reviewed.

It is worth putting ourselves in the place of the production worker to see how his job is presented to him. Say he is a young
man who has been self-employed in a gas station, but decides he can make more money in a factory. He is somewhat self-reliant and wants to get ahead. He is instructed in what to do, and learns very quickly because of his experience with machinery and tools. After a couple of days on the job, he has a bright idea for an improvement on the fixture that holds his work. At home that night, he puts the idea into metal and next morning, arrives at work a little early so the new fixture will be ready for the start of the shift. Lo and behold, it works! Parts come popping out about 15 percent faster than usual. He runs out of parts and calls for more. The lugger’s only comment is, “What are you doing? Eating those parts?” Mid-afternoon, a scheduler notices the extra production. His comment, “You’re going to get me all screwed-up producing more than the others.” Then a safety engineer says, “What the Hell have you got on your machine?” Our man proudly tells him. But the response is, “That is a safety violation and I will get a millwright to take it off.” The man replies that he can take it off himself, but that this is really safer than the old way. At this point, the supervisor comes along and smells a safety citation and a union grievance, so he orders the offending fixture removed and dresses our hero down in front of the crowd now looking on. When, do you suppose that company will have another suggestion from our ambitious young man?

This example calls attention to the fact that the climate within industry may not be conducive to the exercise of responsibility and initiative. Granted, the behavior of the young man was disruptive. There is a need for appropriate procedures. People can’t just make changes indiscriminately. The treatment, however, which we imagined him receiving, was not necessary. He could have been congratulated at every step of the way, and then advised about appropriate ways of carrying out his ideas. We get a glimpse in this story of what needs to be done within a company if we want to encourage responsible action. Each of the people in the story has an important function, which is supposed to serve the production func-
tion. The actual manner of operating, however, tends to stifle creativity and responsibility. Our young man has been effectively isolated from any real relationship to his work. He has become an adjunct to the machine. He perceives that people seem to be concerned with following procedures, and not with the end result of the production effort.

The situation that our young man found himself in may be extreme, but it reflects the climate that has developed under traditional management. At one time, people generally would have felt the young man got what he had coming. Today, we know that that is not the way to manage people. Still, that is what happens all too often. This climate developed gradually in the factory system. As factories became larger and processes more complex, there was more need for standardization. As more controls were added, people felt less responsible for their work, which, in turn, brought on more control. People then tried to beat the system and this brought on punishment, which was resisted by unions. A frightful amount of time is now spent in trying to settle how much work will be done for what wages, and who can do the work. Each side uses tricks and loopholes for every little advantage it can get. Little time or energy is left for improving productivity.

So far, we have been looking mostly at what happens on the factory floor, and this is where the problem became noticeable first, but it has spread. Sociologists refer to the attitude of the worker as a symptom of alienation. People feel estranged from the organization where they work. As work becomes more specialized, people have a hard time seeing that their work achieves anything. A clerk can say, “All I did today was type 100 invoices.” These invoices may be the source of thousands of dollars of income for the company and this money will support many jobs, but if this isn't perceived, the invoices are meaningless pieces of paper to the typist. The pervasiveness of this problem is testified to by a New York psychiatrist, who claims his practice is largely treating executives for the same sort of alienation, as a result of the meaningless work they do.
MODELS FOR DEALING WITH
PRODUCTIVITY PROBLEMS

We had a hint that a Scanlon Plan could do something about these problems, but are there other models and what is a “Scanlon Plan”? The experience of Japan comes quickly to mind. The Japanese have developed very large, but apparently very effective organizations. They have had victory after victory in the marketplace. Stories from Japan indicate a very different mode of operating than is the custom in the United States. The whole Organization Development movement was beginning to be heard and the Japanese listened, I think, a bit better than we did. Books suggesting ways of making organizations more productive, like *The Managerial Grid*, were quickly translated into Japanese. I don’t know how much this influenced the results in Japan, but they had the information.

There are innovative companies in America that do not follow traditional patterns. William Ouchi has called these companies Type Z, and points out the similarity to highly productive Japanese companies. The Quality of Work Life programs, here in America, are also achieving improved relations between companies and their employees, together with unions. The Organization Development people have worked out methods of dealing with this problem. For example, a few years ago, executives from a far eastern refinery, belonging to one of the Seven Sisters, visited our company to exchange experiences on Organization Development. They told of an extremely stressful bargaining session they had had. They determined to establish a better relationship with their union. Organization Development people from their headquarters came and worked out a joint program, first to get each side to understand the motivations of the other, then what their expectations were. Gradually, trust developed. The next wage negotiations were embarrassingly smooth. After ratification, the union astounded management by asking if company Organization Development people could help the union with an internal problem. So bad friction can be lubricated.
My own experience has been in using the Scanlon Plan in our company since 1952. The structure of the Scanlon Plan is so simple that one has difficulty seeing how it can achieve much. It is the process of installing a plan that can, if done properly, transform a company from being a virtual cockpit to being a purposeful, cooperative enterprise. While the suggestions made in this chapter will reflect this experience, the principles used will apply to other plans such as Type Z, Quality of Working Life, the Managerial Grid, Organization Development, and Quality Circles. The Scanlon Plan has been used in many types of companies for a long time. Many of the leaders in Organization Development recognize, in their writings, how the plan is congruent with the best thinking in the field. These efforts are about ways of changing attitudes and work habits, so that energies are expended in support of company objectives, because people see this is the way to achieve their own objectives. In general, we can say that these plans are forms of participative management.

In a Scanlon Plan, each department has a committee, usually called the Production Committee, which is charged with communicating information on department goals and problems to others in the department and asking for suggestions on how to meet or solve them. Depending on the size of the company, one or more upper layers of committees are chosen to coordinate the work of lower committees. The top committee has been called the Screening Committee.

Then there is a bonus. Scanlon bonuses have been based on a wide variety of production measures, all the way from tons of material produced to profit sharing. They apply uniformly to everyone in a company or division as a percentage of pay. The formula agreed upon is usually for improvement, in the measure chosen, from a period of, for example, five years prior to the start of the plan. The formula should be such that it can be stable over a long period. It is paid monthly.

Whether we chose the Scanlon Plan or some other form of participation, these committees and the bonus are not sufficient of themselves to account for the changes affected by a Scanlon Plan. I mentioned earlier that the process of installation must effect a
change in attitudes and behavior that will allow the committees and bonus to function.

THEORETICAL BASIS OF MODELS

To gain a thorough understanding of the change required in both the actions of the CEO and the response from the organization, we should take a quick look at three important pieces of theoretical work. These writings attempt to explain the attitudes of managers toward worker behavior, what motivates people to act, and finally, how this information can be brought to bear on the problem of initiating an action program, which would improve productivity through the innate abilities and needs of the people producing.

The first of these is the work of Douglas McGregor. By observing effective and less-effective managers at work in several large companies, he found the effective managers had different assumptions regarding the attitude toward work of their subordinates than those of the less-effective managers. The assumptions of the less-effective managers, he called Theory X. It is easily recognized in the treatment our young man received when he worked on his bright idea. If you were to ask a group of people how the manager should act to improve that situation, the answer would be something like 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

1. The average person has an inherent dislike of work.
2. People must be coerced, controlled, directed, and threatened to perform adequately.
3. People prefer to be directed and avoid responsibility.
THEORY Y

1. Work is as natural to people as play or rest.
2. People will exercise self-direction and self-control in the service of objectives to which they are committed.
3. Commitment to goals is a function of the rewards associated with their achievement.
4. Under favorable conditions, people learn to seek responsibility.
5. Imagination, creativity, and ingenuity are widely distributed in the work force.
6. In business, generally, the intellectual potential of people is only partially used.

There appears to be general agreement that Theory X leads to alienation and its attendant problems, and Theory Y yields better results. Incidentally, McGregor 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 that must be met in a specified order. The first are the basic physical needs of food, shelter, and clothing. When these are 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 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.

All this sounds, at first, a bit ethereal, but Maslow was down to earth. He insisted that the higher needs are 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 needs as a motivating factor has ended up with business losing the affiliation of their employees and paying extra wages without asking anything in return. The appropriate procedure, assuming Maslow makes sense, would be to survey peoples’ 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. That business too often overlooks motivation, participation, and appropriate managerial behavior, as keys to better productivity, is witnessed by a brochure recently put out by a giant corporation, entitled U.S. Productivity—What Can Be Done to Improve It? The brochure points out how taxes and regulations hurt productivity, and states that, “Technology, work flow, product standardization, and human resources are the four areas for improving productivity.” But what do they have to say about human resources? They will train them. There is no thought given to motivation or creating a climate in which they can work effectively, or that the present situation is the result of how we have managed our businesses.

The third theoretical effort is that of Dr. Carl Frost, formerly of Michigan State University, and a one-time associate of Joseph Scanlon at Massachusetts Institute of Technology. He has spent over thirty years studying, teaching, and consulting on Scanlon Plans, and has developed a framework for understanding the essentials of the Scanlon Plan. Dr. Frost theorized that, if we want to modify the system to minimize alienation and increase productivity and job satisfaction through the Scanlon Plan, three factors are necessary conditions: Identity, Participation, and Equity.

Indeed, any plan to deal with productivity, by improving the climate for work, would entail these factors in some way. The three
considerations are related. They each depend on the other two for their full realization. Identity is a clear statement of the way in which the company hopes to organize itself to serve its customers. To accomplish this goal, the company needs the full use of its human resources as well as its financial, technical, and marketing resources. This marshalling of human resources is achieved through Participation. People can be led, rather easily, to more responsible and creative action toward company goals when there are threats to the organization. Under normal circumstances, more skill would be needed to gain cooperation. Even then, cooperation would not last long if all the benefits of the extra performance were to be shared by customers and shareholders only. To avoid this, the company needs to develop a comprehensive system of Equity. By comprehensive, I mean that three main groups, shareholders, customers, and employees, must be considered in establishing what is equitable. The three groups must be treated in such a way that they will willingly continue to make the inputs of capital, markets, and work so that more can be gained for all three groups. Identity and Participation can provide added benefits. There must be a plan for sharing this extra if the process of producing the extra is to continue. This is what we mean by a comprehensive system of equity.

INSTALLATION OF A PRODUCTIVITY PLAN

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 stressed 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.” Also, if people realize that their welfare is subordinate to profits, they naturally have to consider themselves as not part of the enterprise. This attitude is not confined to blue-collar people.

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.

Establishing a corporate identity would seem like eminent good sense in any business, and I am sure it is often done. The big question is, what does the leader do with the statement of identity or purpose? If he expects people to be indifferent and irresponsible, he can hold the information among his key people. If he expects people to be capable of using ingenuity and imagination in working toward high goals, he will want to propagate the Identity Statement widely, encouraging department heads to take the lead from it, interpret, and expand it for their people. This is a way of giving direction to the whole organization, of galvanizing it for action. If people do show an interest, and if the leadership really is interested in these stated purposes, it will want to encourage the full use of all its resources, financial, technical, and human, in meeting these
objectives. The full use of finances and technology is pretty standard operating procedure, but the marshalling of human resources is seldom encouraged. The failure to go this next step is a prime cause of the alienation that comes up so often in this chapter. To make Identity operational, we will want to be serious about encouraging Participation which is our second consideration.

Merely decreeing that participation is wanted will not automatically do away with the lethargy that is bothering our companies, our economy, and life in general. Old habits are hard to overcome. There are too 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. However, it is not enough only for top leaders to decide; the decision process must also lead to an understanding of, and answer such questions as:

- Does participation destroy authority?
- How will decisions be made?
- What will be the role of authority?
- In what areas should participation be encouraged?

This is an imposing group of questions. They don’t answer themselves. The honesty and thoroughness with which they are addressed will measure the probability of success. This process will go a long way to preparing the organization for change.

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.

This process should have led to a consensus in the organization that there is a need to change, and to an understanding of what things must change if company goals are to be pursued with full
vigor. A Steering Committee is the typical vehicle to move toward the next stage, which would be a formal planning of the structures needed to make participation feasible. The Production and Screening Committees might need restructuring for the needs peculiar to each company.

While this is going on, 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 also helps. In our organization, 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 necessary. Upper management needs the training, as do other levels. 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.

Even though the final plan for participation may not yet be formulated by the Steering Committee, we are seeing much participation being exercised in the organization through the process of deciding and getting started. This process is our first chance to see participation at work. It usually provides exciting and gratifying results. It provides a clear signal that a change is happening, that all shots are no longer called from on high.

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. The example of the oil refinery shows that improvement is possible, but great insight into the prob-
lem and equal skill is required. 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 that 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 also from the whole world. Furthermore, competition can arise from other products since one type of product can displace other types, as today’s electronics are displacing countless mechanical devices. 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.

With managers more or less trained, a plan developed by the Steering Committee, and any unions having agreed to cooperate, we can begin to involve the whole organization in a series of meetings which will explain what is being proposed in the company. These meetings should culminate in a secret vote, yes or no. It is not sufficient to get a simple majority or even a two-thirds majority. For a change of this magnitude, we need the wholehearted support of people. Ninety percent or even ninety-five percent of the votes are usually required to carry us through the inevitable misunderstandings and backsliding that occur as we proceed.

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 prob-
lem 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 cooperative workforce, are
great enough to justify the managerial effort required.

The big difference in this effort from more conventional ap-
proaches is that we are looking for an organizational change more
than a patching up, a clarification of company goals and the mar-
shaling 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. While
I am labeling this a fundamental shift, I have some difficulty mak-
ing the shift apparent. It often appears to be a chicken and egg argu-
ment. When we say that the work is more important than the pay,
the answer comes quickly that people really work for the pay. This
relationship between work and pay must be clarified if we want to
understand the process.

For example, what is the purpose of the medical profession? A
ready answer might be to cure illnesses, or at least, to help the
patient be as comfortable as possible if the cure cannot be affected
at once. Surely, the focus is on the well-being of the patient. If we
ask, “Why does a person undertake this work?” we would hope the
answer is because he or she wants to help people be healthy. This
must be a factor in the choice of many people when they enter the
profession. There is, however, a strong suspicion abroad in the land
that it is not the only factor. The profession is also generally well
paid, and this fact appears to be something of a magnet to the pro-
fession. Indeed, there are repeated studies that point to the phe-
nomenon of surgeons being so anxious to help people that they
perform 10 to 30 percent more operations than people need. This
could be brushed off as being purely a difference in diagnosis, which
still has a bit of art to it. But there is a haunting question, “If the
surgeons were on salary and not on fee, would the diagnosis be the
same?” Committees of doctors are themselves raising this same kind
of question when they examine statistically, the purposes and results
of operations. The only case I want to make here is that pay seems to affect the judgment of some doctors in some cases, not all doctors and not all cases.

If this can occur in so vital a profession as medicine, what about the case of more prosaic work, such as making parts for automobiles? Do people enter this or similar occupations out of dedication to serving the public, or out of a desire to make money? The answer would probably come through much more clearly than in medicine, which it is to make money. Indeed, people all the way up to top managers feel quite ready to leave industry “A” and move to industry “Z” if they can make more money. The work is not that important.

This indifference to the end product of work and focus on the money to be earned should not surprise us. The leaders of industry and, indeed, their leading theoreticians, the economists, insist that profit is the purpose of business. It would seem quite reasonable, then, for the employees to look upon money as the prime purpose for their work. This emphasis on money is, as we have seen earlier, the cause of a great deal of the mischief that exists in the world of work today. I would like to stress this point.

If our main focus is on the pay that our work brings in, why should we not focus on ways to get more pay for less work? The ultimate being very high pay for no work at all, and many people have achieved this. Healthy people who live on unemployment benefits or who feign illness and get worker’s compensation are one type of example. At the other end of the scale, we have people who are paid handsomely for not competing, or ineffective executives who are given jobs with high pay and few duties to get them out of the way.

As a business manager, I am taught to make judgments, not on the basis of the welfare of the employees, whose loyalty I expect, nor the needs of the customers, whom I say I serve, nor out of respect for natural resources or the society which make my business possible, but on the basis of what will give my company the largest profit provided, of course, that I share in that profit. From this, it would seem that there is an imbalance in business regarding what we say about money.
This does not say or imply that profits or money should not be important, but they should be a result of work well done. We hope the surgeon will decide to operate only on the basis that the patient needs the surgery, not because the fee will buy the surgeon a set of golf clubs or the success will enhance his reputation. So also, if work in industry is to be interesting, challenging, or satisfying, the output of the industry as a whole should be something that can attract our interest, challenge our abilities, or satisfy our needs to feel worthwhile. My job should appear to me as a significant contribution to these company purposes. If we can switch our main emphasis to the work to be done, then we can galvanize the organization into action. It will seem reasonable to ask people to dedicate more of their attention and skills to the work. To ask for more care and dedication, only that the company can make more money, is not a compelling argument. To say that we need this or that extra effort from you so we can get this new customer, or increase our business from that old customer, has a little more rationale. To let people know that we are changing this operation so product “A” can be safer for the customer or last longer, can elicit a positive response. John Ruskin came close to summing up this notion in saying, “The highest reward for man’s work is not what he gets for it, but what he becomes by it.” Unfortunately, when we hire people or when we look for work ourselves, this is, too often, not in the front of our minds.

There is another saying whose source I do not know, which also sums up my point so far, bringing us down to earth and introducing my final thought. The saying goes, “Unless the work means more than the pay, it will never pay more.” This opens up the idea that good work will or should pay more, and it starts to balance the emphasis on good work with a reward or payoff of some sort. We do, after all, work to live. 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.
We are now at the point in our discussion where we look at the rewards for our work. If a person, who has dedicated himself or herself to doing the work better, to taking more responsibility, to being creative and then see only the company prosper as a result of these efforts, that person might reasonably sit back and wonder if the whole pitch had been a con game. 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. We usually find it safer to inquire about price before we say we will buy. Similarly, we like to know what we will be paid before we do a job. 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 totaling 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. We 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. If this agreement is hammered out early in the process of moving the company into a participative mode of operation, the question of equity becomes less traumatic and less divisive. People can get on with the work without wondering whether they will be fairly treated in the end.
In other words, this prior agreement has been a major move in developing a feeling of trust in the organization. Trust makes a world of difference, since both the managers and the managed have been operating in a mode without trust, or even with positive distrust. Requests from either side have been scrutinized for hidden objectives. Before we can substitute wholehearted cooperation, this climate must be changed. In fact, there can be no agreement to begin the process of participation unless some measure of trust is first established. The bonus formula is a major contribution to this building of trust.

The elimination of arguments and the establishment of trust are two benefits of settling the bonus formula ahead of time. There is, however, one problem with this, namely there is a tendency for everyone to look forever after on the bonus as the motivator of all further activities. If this is allowed to happen, we undo all the early work of encouraging a focus on the work itself as the important consideration. In our company, we go to considerable efforts to keep this priority straight. Again, let me say that bonuses and pay are not incidental considerations when we go about work, but we must try to keep our focus on the work first. Unless the work means more than the pay, it should never pay more.

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 safety needs through insurance and pensions. 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 very act of communicating to the company what leadership believes the company’s purpose to be will signal people that leadership regards them in a new light. They are not hands or hirelings, but people, important for the company’s success. They can
begin to feel that they have some membership in the company, and the company itself has taken on more value to them because its purpose is better understood.

As ideas for improving operations are solicited in the participation process, there will be opportunities for recognizing good work. The changed attitudes of people toward their work will help them make better use of their skills and motivate higher performance, creating more opportunities for advancement.

Finally, the whole experience of serving the genuine needs of people through participation, to 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 this psychic increment.

This is still not the whole story because if the process of participation means a genuine change in attitude toward people, the people will be seen to be less expendable. There will be a desire to find ways of improving job security for people. Human resource accounting, for instance, would have greater meaning for a company that really believes its people are important. In our company, for example, we have adopted a policy protecting people whose jobs are eliminated by technology. This policy, far from slowing change, tends to foster it because people do not fear the results of new technology.

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 give 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.
In this sketch of the executive’s role in what can be done to improve the climate for work and its productivity, we have suggested that the symptoms of alienation and indifferent work result, at least partially, from the continued use of Theory X assumptions. If we want to change this situation, we should attempt to operate our business systems with the assumptions of Theory Y. The Scanlon Plan was suggested by McGregor as an effective way of doing this, but there are other good plans. This entails a clear statement by leaders as to the purpose of the company, or how it intends to earn its profit by serving its customers and how it relates to its employees and shareholders. This set of goals can best be achieved if all human resources can be drawn upon, making use of their intelligence, cooperation, and responsibility in the furtherance of them. To this end, a structure for participation must be established. To make the whole process rational, a system of equity is established to let people see that their added efforts will be fairly rewarded. We have seen that the goals of identity are achieved through participation and encourage people to assume the added responsibility and creativity called for. Equity makes it rational to assume these added tasks and has the added dimension of identity and participation, because they provide a psychic as well as monetary profit.

Early in this chapter, 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 could be. As Life suggested, 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 arrival of the major innovations more welcome. 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.

NOTES


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CHAPTER 12

Speech Delivered at Hope College

Institutions can, and too often do, develop a life of their own that has little to do with the welfare of the people that the institution was intended to serve.

They may become inept, out of date, rigid, or self-centered.

I would like to enlarge on this thought for a few moments and then offer a process that might be useful to you in preventing such a condition coming to pass at Hope College.

Since the 1960s, the public has become increasingly critical of our institutions whether governmental, business, religious, or educational. Some good work is going on to overcome the faults that have been criticized. The task is by no means complete. Much of it has been directed toward reforming the other fellow. Government has been quite ready to reform business, and now business has arrayed its forces to reform government. This kind of reform is really only a stopgap; the best reform has to be internally directed.

Organizations can become, as I said, inept. For example, we need only look on the business pages of almost any day’s paper. Banks have taken on unduly risky loans. Manufacturers have let their products become obsolete, poorly made, or dangerous.

Institutions can become out-of-date. Our whole Social Security system, including retirement and unemployment benefits, was put together hurriedly during the Depression as a rescue operation. We have never really rethought its purpose, its effect on society, nor its cost, but we wonder about whether it is becoming an unsupportable burden on those who must pay for it.
As an example of rigidity, I can cite a personal and recent experience. I accompanied a man who suddenly developed severe abdominal pains to the emergency room of the hospital. The pains were diagnosed as a kidney stone. He was given a painkiller and then transferred to the hospital itself after the family doctor was notified. For some reason the doctor gave no orders for an hour and a half. In the meantime, the painkiller wore off, and the pain came back in full force. Nobody could do anything, not even give a glass of ice water. I asked the emergency room doctor to take over again, but that was forbidden. We had just decided to discharge the family doctor and find another when the orders finally arrived. That institution is rigid.

The self-centeredness of organizations can be illustrated by the world of business. Corporations have a responsibility to bring together the resources of shareholders and employees, through a plan to serve their customers, in such a way that the three groups will benefit and want to continue their relations with the company. Unfortunately, too much effort has gone into serving one group of employees—the top managers—so that customers are buying more and more abroad, shareholders prefer the money market securities to company stock, and employees become increasingly indifferent. This self-centeredness is a major problem for America.

I haven't asked education to supply any of our horrible examples because I believe you can detect any shortcomings there better than I can. Every organization and institution is in need of constant self-renewal, and you are here to look at your college with that need in mind.

As a prelude to offering some suggestions on how to proceed, I would like to remind you that we could come at our work from different and often opposite approaches. This is true in any kind of activity or work. We can seek standardization or freedom, bureaucracy or creativity, order or disorder.

At any time, one side or other of these pairs may need stressing. After a period of creativity, a bureaucracy may be in disarray. We will need order; we have to tidy things up or get on with the show. On
The Human Treatment of Human Beings

The other hand, prolonged emphasis on order, system, and standardization can lead to sterility and obsolescence. Some people like the order side of the list; others like the creative side. Each side tends not to appreciate the other side and looks on the other’s efforts as, at best, a necessary evil. Fortunately there are “switch-hitters,” people who see the need for both standardization and creativity, for we need both. Bureaucracy is one of humankind’s great inventions. It brings creativity from the realm of concept to the world of practice. It distributes and perpetuates the brilliant solutions of others. It should and can be the ally of creativity, but the two can oppose each other. Bureaucracy can hang on to creative solutions to what are no longer problems, and creativity can demand action on solutions to problems that are not yet on the horizon. The trick in any organization is to get an appropriate balance between standardization and freedom, bureaucracy and creativity, order and disorder.

One business consultant stresses the need for systems to enable us to get on with our work and, at the same time, to look for break-throughs that will carry us to a higher level of performance.

Another orientation toward work has to do with the time horizon. We can approach our problems from a long-term or short-term position. Someone has said that long-term planning is intended to distract us from short-term disaster. It is true that many follies are committed in the name of long-term planning, but America desperately needs to lengthen its view in approaching the future. Our institutions have too many walls. We need to be more willing to look out further, to take more risks, to sacrifice something now for the sake of the future.

A final orientation toward the work of an institution has to do with reconciling its role in serving its constituents with preserving itself. As Robert Greenleaf has pointed out, organizations are intended to serve. If they do not serve, they should cease to be. At the same time, an organization cannot serve if it does not exist. Some effort must be given to keeping the organization healthy enough to fulfill its mission, assuming, of course, that is has a mission and will carry it out if it survives.
In all of these orientations toward the work or goals of organizations, there is opposition or tension so there is need for balance or integration. We need both bureaucracy and creativity. We must look both long-term and short-term. We have to exist if we are going to serve.

Why can’t we keep both opposites in harmony if we need them? I believe your David Myer has provided us some guidance in his book, The Inflated Self. In one word, we prefer our welfare to that of others. We are proud and envious, again putting ourselves and our ideas ahead of others. We are slothful; we take the easy way when the hard way would be better. These all work against our accepting the tension that is necessary if we are to balance other people’s orientations, needs, and ideas with our own.

Does this mean we are helpless? By no means, but it should help us to understand our failure to reach perfection. It should do something for our modesty. It should make us more tolerant of the weakness of others when we realize that we, too, may be somewhat short of perfection.

There is one bit of data that gives us a clue as to how to proceed in this matter of making our organizations responsive to the needs of their constituents, which is another way of saying helping them to carry out their purposes. The data is that people will exercise self-direction and self-control in the service of objectives to which they are committed. This is one of the statements making up Douglas McGregor’s Theory Y, which is one of the touchstones of Organizational Theory. It would appear, then, that the goals we establish must be such that they will elicit commitment from the people who are to make the goals happen. In a college, that would mean that the faculty and staff would have to derive satisfaction from meeting these goals. At the same time, the goals must be such that they attract students and the support of the parents of students. The benefactors of the college must also see their worth if they are to continue their support. It is no small task to devise goals that genuinely give satisfaction to all these constituencies.
I believe that can be done by following the work of two of McGregor’s associates. Joseph Scanlon had independently developed a plan for reorganizing industrial companies to make them more effective. This plan was seen to be so consonant with Theory Y that McGregor invited Scanlon to MIT. There a young student, Carl Frost, worked with both men, and later, came to Michigan State to carry on their work here. He suggests a three-step process of organizational renewal by developing goals and carrying them out with the full cooperation of all of the constituencies of the organization. This work has been done mostly within the context of industry, but the first step, which is what is pertinent to us today, seems to have validity for all organizations.

The three steps are identity, which is a clear and concise statement of what the organization is all about; then participation, which is a structure for gaining the intelligent help of all the organization; and finally, equity or the process of distributing the benefits of the work to those involved in such a way that they will willingly continue their work. Since we are talking today about purposes and plans, we can limit our discussion to the first point, namely, identity.

Corporate identity is analogous to individual identity. It describes what the organization is all about and how it differentiates itself from other similar organizations. This is not an easy concept of which to get a hold. It has to be general enough to last through minor changes in circumstance. It must balance a diversity of needs and stimulate commitment. It must lead to action. It must be specific enough so that people can take direction from it.

This is a task for the top leadership of the organization. It requires insight, vision, creativity, honesty, and clarity. The leaders may consult and get other kinds of help, but the statement must bear their stamp and carry their vision for the organization.

Once that statement of identity is in place, several other steps can follow from it. A mandate can be developed which states what ought to result over the long-term from the fact we are the organization described in our identity statement. How many and what
kind of students should we attract? What should result from their education? What are the by-products that we should expect from this process? The mandate can be rather specific and quantitative. It provides us with a broad measure against which we can decide whether or not we take our identity seriously.

Frost next recommends that mission statements be developed for the total organization and for major departments or functions. Mission statements are more specific than the identity. They are closer to action statements. They specify programs to be undertaken or targets to be aimed at which will be appropriate to our identity and which will enable us to meet the expectations of our mandate.

It is at this point that we enter the more familiar ground of goal setting and plan making. Here we get down to nuts and bolts as we say. We look for detailed targets, specific steps to be taken, budgets to be met, and timetables for completion.

The advantage of the earlier steps of defining identity, mandate, and mission is that we have a sounder framework in which we can set goals and plan. Goals are less likely to be someone’s whim. We have greater commitment to our goals because we believe in our identity, we are challenged by our mandate and mission. We see how the goals set for us fit with the larger purpose of the organization. We also see how our personal life goals can be partially realized through meeting the goals of the organizations.

The process from identity through plans should end up with two strong benefits for the organization. The plans should be of higher caliber because they flow from the well-articulated statement of purpose or identity. Further, there should be strong commitment to achieving the goals, to making the plans happen, because we can see the source of the value of the goals. We can see more clearly that we have a college to believe in, and we can see how our efforts enhance the probability of the college fulfilling its identity.

Does this process answer all our problems with organizations? Hardly. Organizations are made up of people, and people still have their old cussedness. This process merely builds on McGregor’s statement that people do respond positively to worthwhile goals.
The process provides a framework for developing worthwhile goals that may attract us out of our sloth and self-centeredness into actions that are rewarding to others as well as ourselves.

We still have to seek balances between system and creativity, between the long-term and the short, between the organization and the constituents it serves, between the interests of the various constituencies themselves.

There is a caution I would suggest. If this process is used in your college, it will, in all likelihood, cause change, and change can be disruptive. It can cause unexpected results, and some of these can be harmful. None of us is wise enough to foresee all the results of our actions, so we need some way of dealing with unexpected surprises. We may want to brush up appeal procedures or appoint an ombudsman or provide some other way to monitor the process so that we don’t inflict damage unintentionally.

The other side is that organizations cannot go on without examining how close they are to fulfilling their purpose and reexamining the purposes themselves. The criticism, which began in the 60, came from liberal thinking. Today the conservatives are joining in. Criticism is sharper. We are finding that when organizations are seen to be failing to reach their goals, they are marked for extinction. There seems to be little patience for stopping to reexamine what is wrong or even whether the goals are important. The mood seems to be that if you do not meet your goals, you and your goals must go.

Fortunately, Hope College is not in danger at this point, but while you are healthy is the best time to think about preserving your health. There is a tendency for organizations to run downhill. It takes strong and wise leadership and much cooperation to work against gravity. All I have offered you today is a tool which might assist you in avoiding a problem or which might help you rise to a new level of excellence.
CHAPTER 13
Shaping the Future: The Role of Leadership

This meeting is billed as a Leadership Seminar and my assignment is to talk about shaping the Future. If we hope to shape the future, we will have to exert a high level of leadership so there is a close connection between my task and the general purpose of the seminar. The notion of leadership is almost as nebulous as the future so it would not hurt to let you know what is in my head when I talk of leadership before getting into shaping the future.

A definition that I hear quite often in business circles is that, “A leader is the person whom the followers perceived as best able to get them where they want to go.” This definition has several good features. It separates leadership and any position of authority. The role of leader is rather conferred on a person by the followers. It implies that the authority figure has to earn the right to be called a leader. The definition also indicates that the leader is a helper or facilitator who is aiding the followers toward their goal. So far so good, but the definition is silent on the possible value of the goal that people want to reach.

The Quality of Goals

It seems to me that genuine leaders are very concerned about the definition of goals and helping people to choose life-enhancing goals rather than enslaving or debasing goals or even mediocre ones.
It would seem that this is especially true for the educational leader if we hark back to the idea that education is a process of leading us out of our old selves into something that has been known as the “New man” and which should now more properly be thought of as the “New Person.”

It seems then that our definition of leader ought to include something about the leader’s role in helping the would-be followers to choose suitable goals. We might then think of a leader as the person who is recognized by the followers as best able to help the followers choose and attain worthwhile goals, or life-enhancing goals or authentic goals.

A slight parenthesis is in order before we look at how the leader can go about shaping the future. We are all chief executives of one sort or another and unfortunately, the demands placed on the time and energies of CEO’s leave little time for leadership. We are constantly confronted with problems relating to keeping our organizations going, or even afloat, so we are pressed to find opportunities for thinking about whether we are moving or even desiring to move in an appropriate direction. This is bothersome to any CEO who aspires to leadership. Your presence here is an indication that you sense the role conflict and want to do something about it.

While I recognize your interest in the future, I want to keep stressing the need to define what are appropriate goals for the future. I would like to offer you one short quotation that indicates how far off the mark, not just a college, but a whole system of education can get in a matter of fundamental interest to it. It does not take a deep understanding of the Prophets to learn that they were quite interested in arousing the people of their days to a pursuit of justice and peace. Jesus also persuaded his followers of the importance of justice and peace so much so that “Pax” or “Peace” became a common Christian greeting as “Shalom” was for Jews. Still, Christians have pursued war as a major activity even between Christian nations or within a single Christian nation.

Clergymen have been in the forefront of those sanctioning wars. In spite of the fact that there had been, for 1,500 years, a system for
judging the morality of war, the first time Christians were able to declare, with some agreement, that a War was wrong and should be stopped was the Viet Nam War.

The preponderance of religious leaders and followers alike through all those centuries did little more than tut-tut over the ever-increasing violence of war. I believe that there were only six Germans who, on religious grounds, formally refused to fight in Hitler’s war. In general, their clergymen tried to get them to change their decisions.

Today, in our country and elsewhere, there are formal peace movements, some religious, but many secular. Where did the leadership come from? From church leaders? From educators? A little from both, but a clearer answer comes from my quote which is from a book entitled War and Peace. The book surveys the development of the greater support that peace has today. One of the authors examined the change among Catholic Americans. He referred often to the role of Dorothy Day and the tiny Catholic Worker Movement she led. He concluded, “The small Catholic Worker group has probably affected Catholic moral judgments on recent wars more than the sum total of all our parochial schools, colleges, universities, and seminaries. This is appalling.” (War and Peace, p. 196)

I don’t doubt the truth of the statement and I agree that it is appalling, but the point for now is that a whole system of education, as well as individual colleges, can be derelict in the matter of helping their followers to define appropriate goals for themselves. This is why I think leaders have to spend a good bit of time and brainpower in determining what kind of future we want before we start shaping it.

Again, I recognize that we are under pressure to get on with the show because the press of business. Anyway, our students know what they want which is what their future employers want from them. Our job is to serve their needs is it not? Yes and no. Our first job is to help them understand their needs. I am reminded of a little story in the introduction to what is often referred to as the
Dutch Catechism. During the Dark Ages, in the year 627 to be precise, a monk, Paulinus, called on King Edwin in Northern England to tell him and his nobles about Christ. Some wanted to throw Paulinus out so they could get on with their feasting but one noble stood up and reminded the assemblage of the little bird which had flown in their hall from the cold, fluttered about for a few moments and flew out of the opposite side into the cold and dark. “We are like the bird,” he said, “coming from we know not where, staying a bit and again going off where we know not. If this man can tell us something of the unknown, we should listen.” We all like to get on with the feast and it is the real and seldom found leader who makes us realize that there is more to life than feasting. This, I see, as an important part of any future we plan.

Life Goals with Vocational Education

I am assuming that liberal arts colleges are under increasing pressure to move from traditional curricula in the direction of more vocational training. In spite of this rising demand for vocational training, education must offer people something richer. There is, I hope, more to life than a job, especially today when more and more people think of work merely as a means of getting money. The desire is less for a career than for a chance to get money. If I must work to get it, okay, but if I can get it without work so much the better. The notion of all this effort going into getting money and so little thought going into what we do with it is largely responsible for the banality of our consumer society. Educators are fostering this when we let the demand for vocational training replace real education.

All is not lost, however, if we think of vocation in somewhat broader terms. To what are we called? To a job at IBM or to that, plus a life as spouse and parent plus a membership in a free society which needs constant vigilance plus membership in a world society which needs more justice and freedom plus the challenge of
making an authentic person of this sniveling brat that I am and a final plus, if we have that spark called faith, a call to turn these other challenges into the act of loving God.

**Can We Afford Quality Goals?**

About this time you may be wondering what kind of “controlled substance” I am smoking, sniffing, or main lining. I admit that such callings are not what most people think of when they start looking for education in aid of vocation. Still, we ignore these callings beyond the job at great peril to ourselves and our personal future as well as that nebulous future that we want to shape. I do hope to get down to some suggestions that might turn out to be useful to you, not only in the drudgery of keeping the organization moving, but also in the more exhilarating task of moving it in an appropriate direction.

A problem we will face if we try to move society toward richer goals is whether or not students will follow our lead. If we can draw on their latent motivations, we may have an easier task because they will move of their own accord and in an appropriate direction. The most practical guide that I know of in the field of motivation is the work of Abraham Maslow. He says, as you probably know, that people act, whether in learning, or working, or in life generally, to fill a set of needs that have to be met in a rather fixed order. If we are frustrated at any level, we seem unable to skip that level and move on to the next. Instead, we tend to strive for an excess satisfaction of an earlier need.

The needs are felt in this order: 1) the physiological needs such as food, shelter, and clothing; 2) the safety needs, as protection from accident, disease, and loss of income; 3) love needs for friends, spouse, children, and workmates; 4) esteem needs that is self-respect, respect from others, and recognition for one’s achievements; and 5) self-actualization needs, i.e., what we can become, we must become.
It is possible to change the nature of work organizations by recognizing these five sets of needs and building relationships and rewards to satisfy them. It would also seem that education would profit from looking at its task in the light of these needs.

We can see that vocational training, narrowly defined, tends to prepare a person to satisfy the first two levels of need: physiological and safety. Is there anything about our college education that prepares us to love and be loved? I think there is, but somewhat peripherally. Campus life leads to friendships, to a sense of belonging to a worthwhile group and, increasingly, to romantic love. These, however, seem to be opportunities that college can offer rather than any formal part of the program. For instance, we do not deny a degree to a person who made no friends. For esteem needs, we do have dean’s lists and athletic letters and so on, which give esteem to the elite but is there any help for the average or below average student to leave college feeling I’m okay? Finally, and most important, is the need for self-actualization. Do our students, overall, develop a concept of what they can become in life? Do they have a sort of map with mileposts so they can see progress on the way through life? Are heroes or saints or noble, but not necessarily famous people, offered to them as models? Some of this is part of any good college program.

The question is whether or not the program is broad enough or deep enough so that our graduates feel consciously that they are on the way to making something good of themselves. As we move toward vocational subjects, the traditional courses, which helped in these questions, are short-changed.

A Program for Quality Goals

Now just as our taste in food can progress from fried perch to broiled whitefish to sole almandine, so too can our love needs develop and deepen through the years and our expectations for recognition and esteem may mature and our self actualization may
reach levels we had not dreamed of. Our needs and their satisfaction may go through several cycles in the course of a lifetime. One of the practical suggestions that I have for you is for a college to develop a five or ten-year renewal program for graduates to remind them of past goals, give courage to the backslider, and brighten visions for those who have progressed. Just as many people take refreshers in professional training, which tends to meet the physiological and safety needs, people could have refreshers for meeting the higher needs as well.

The programs could be part of a week on campus, or closed circuit TV, videotape or even old-fashioned correspondence courses. The development of such programs is amenable to good marketing techniques with which you have all had successes. I would not be surprised if many of you have experimented with programs directed at helping to broaden and deepen the life goals of graduates. I dare say they have not met with resounding success. Marketing strategies in education are more likely to work where they are directed at meeting the expressed needs of our clients than when we try to stretch people. What I would like to see is some way for colleges to have a lifelong program for students and alumni. We should have more of a tie than just football and money, important as they are.

A Problem in the Use of Marketing Techniques

This inadequacy of marketing is not peculiar to education. We have a startling example from business right here in Michigan. The car companies have had a long record of astounding success in marketing cars. Their marketing departments have been dominant factors in their organizations. Alfred Sloan is considered the textbook example for marketing but Alfred Sloan is dead. He has been rather slavishly followed and financial success resulted, but even Sloan had a flaw in his system. He did bring America cheap and reliable transportation. He also set wheels in motion to enrich his market by
appealing to many base motives: a desire to display power and to outdo the neighbors. Gradually the marketers relied on these factors and began to overlook the basic customer needs for safety, operating economy, and price. The thrust was to furnish cars that would yield profits. This meant a flood of accessories because profits were higher on accessories. It worked for a long time, but the value shift of the sixties and high-energy costs plus inflation finally left the car companies with unwanted cars. If it had not been for government requirements for improved gas mileage, the car companies would be today about two years further behind in the program of meeting consumer’s needs than they are now. This indicates that traditional marketing may be successful for a time but it toys with disaster when it overlooks the genuine customer needs.

Marketers tend to plan strategies in one of two ways: One is to find out what people currently want and fill the need. The other is to think of what people would want if it were available and invent the product to stimulate the need. I am suggesting that we, in education at least, should go a step beyond these two strategies and help people discover their true needs and then develop ways of meeting those needs. This is somewhat beyond the scope of what we call marketing so perhaps we should think of marketing as merely a tool to help us once we have determined what shape we want for our future.

Societal Needs

So far, I have talked of the need for leadership in shaping the future and of the role of the leader in enlarging and refining the goals of the followers. I have suggested that, in education, we can move the desire for vocational training into something richer by thinking of our vocation as a call to authenticity as well as financial security. I have suggested that Maslow’s motivational theory might provide a framework for organizing such a thrust into the future. Once that was decided, marketing could help us devise programs. Again, there
was a reminder that we cannot rely on ordinary marketing methods to set our goals. The emphasis so far has been on the self-development of the individual, which is a major step toward a future with a respectable shape. There remains though, a question of the shape of society because society is more than an agglomeration of individuals even though they were all highly authentic.

This is a place where academia has a big responsibility and I am not sure how it can be addressed. I believe that scholars are not totally the disinterested observers of life that one hears about when we speak of academic freedom. My experience with colleges goes back to the 1920’s, though barely. In that early period, the respectable stance for a professor was something not unlike Republicanism. Only a few years later, it became academically acceptable to talk in communist terms. After the war, something like the New Deal philosophy colored the way education was presented. I suppose that in a few years neo-conservatism will have a greater voice. These swings in taste result from academic freedom and are better than having one point of view dominant forever. To the extent that my description is true, however, education has allowed itself to be co-opted by politics. We need something more from education if our future is to be in better shape than the past. Philosophical liberalism and conservatism are legitimate academic outlooks but they very easily become confused when political partisans use the same labels. Philosophical liberals espouse the notion that people are perfectible. Education and free institutions are the means to perfection. Philosophical conservatives have a dimmer view of human nature, but free markets and other free institutions, such as the press, can control humankind’s tendency to cheat.

When these ideas take action in the world of politics you might expect that the liberal would feel a minimal need for laws because education will keep man respectable. However, in the United States, liberals are notorious for passing laws and academic followers have aided the process. But then the New Deal and subsequent liberals were really not philosophical liberals. Roosevelt gave the movement the name “liberal” as a public relations term to describe more
freedom of opportunity for the underdog. What about conservatives? Do their political counterparts run to Congress regularly for laws to control the inherent chicanery of humanity? Well not exactly. They are now in heaven by having the power to dismantle laws that liberals had passed.

It seems to me that we have a muddle in American politics, at least partly because academics have not been genuinely critical of the political process and they have not helped their clients develop the critical skills to see through political pretensions and partisan rhetoric. Individual academics have been intelligently critical but, by and large, academe has followed fads.

I recognize that academics are human, they have prejudices, and they are, at times, self-serving. Somehow, though, the institution, because of its mission, should find a way of keeping these tendencies in bounds. I believe that if our future is to have a more human shape academics as a group must look on their freedom as given to them as a responsibility to criticize society and government and not merely as an opportunity to voice their own points of view. In general, they would serve society better by bucking trends rather than striving for “relevancy.”

I have had enough experience with education to know that there are practical problems in the way of doing this. One of them is money. Neither governments nor wealthy donors are fond of giving to institutions that are not “right thinking.” One suggestion I have that might help in this matter is that a history of more disinterested and forthright criticism could show the colleges to be an important stabilizing influence in society. If criticism and support was impartial, now aiding one side on an issue and now the other, as appropriate, people could support the colleges even when they take unpopular stands.

We tend to support the court system even when a judge rules against us. Another suggestion would be to run seminars for business leaders to help them understand and accept this role for colleges as the guardians of our thought processes. They might then be more tolerant of the liberating aspect of education.
So what am I trying to say? I believe that colleges have a role to play in exposing sloppy thinking and to bad practices in society, partly because their position in society should give them objectivity, but mostly because if the task is well done, it will provide a marvelous learning experience for their students.

Conclusion

From all I have been saying it would appear that I have a poor estimation of what colleges are doing. I really believe education is achieving much. I get unhappy when I think of what people and society still need and what can be done to help. Colleges are achieving a great deal under trying circumstances but society’s needs are great.

Critics of life today say that banality is its hallmark. Organizations tend to foster and institutionalize this banality. Colleges should be a major force in countering this. Churches should also. I think we need more maturity in our graduates. We need, at least, an elite with a vision of authenticity and a plan for striving for that goal. We need a society that fosters authenticity in people so that they can move society in the direction of justice and peace.

If I have said anything tonight it is that, the first step in shaping the future is to determine what the shape is to be. Only then should we start the molding process.
CHAPTER 14

Strategies and Tactics Leading to Employment Security

We live in an insecure world so, when we speak of employment security in a free economy, we are talking, at best, of improving employment security, not of making it absolute. No one person, group, or organization can do the job alone. The individual employee has a prime responsibility, as does the employer. If the employee is a union member, the union also must help. These three cannot do a great job if the economy is bad. The economy is the result of people working for their own interests within a framework established by the government. It is impossible to cover all of these influences in one talk, so I will limit myself to talking about what business people can do to improve employment security for their employees. I will refer to employees, unions, and the government only in relation to the cooperation business will have to seek from them if it is to make a real contribution to employment security.

Now, if a business of any size is going to achieve a major goal of any kind, it acts within a framework of policy. It establishes a strategy and adopts appropriate tactics. It can then assign goals to various people or departments. Before a company establishes policy, somebody must see a need and there is our first hurdle. Unfortunately, employment security for employees generally does not seem to be high on the list of priorities of business leaders.
PRESENT ATTITUDES

The concept paper for the Employment Security policy study points out that, even though some attempts and some successes have been made by some companies, “American employers, by and large, believe that employment security is either counterproductive (based on their interpretation of civil service tenure) or a costly frill.”

“These notions have long been with us,” Richard Strout recently quoted Andrew Mellon’s recipe for curing the Great Depression, “liquidate labor, liquidate stocks, liquidate the farmer, liquidate real estate people, work harder, live a more moral life. Values will be adjusted and enterprising people will pick up the wrecks from less competent people.” Does this have a familiar ring? It is an old idea but it still lurks in the subconscious of the business community and surfaces from time to time as needed. If this seems unduly harsh, you might check by asking a businessperson what person or department in his company is responsible for improving employment security. A follow up could be to ask what is the company policy on employment security, and what programs carry out the policy.

The reality is that we, in 1982 and 1983, had lain off so many people the running total was 11,500,000, not counting those whose unemployment benefits had run out or who had dropped out of the work force. Many more than 11,500,000 people had been affected by long or short-term bouts of joblessness. Now, I believe that most employers do not relish laying people off. Still, if we really felt the pain lay-offs cause, we would not wait until recession was upon us before thinking about the bad results of lay-offs and how to prevent them. We just don’t seem to feel that supplying jobs is part of our responsibility.

I can illustrate this from an occurrence in our company. A few years ago, we were putting together a plan for the next year that called for a healthy increase in sales—say 20%. We had listed equipment needed, new inventory levels, additional line of credit, and some key positions to be filled. Almost as an afterthought, I asked, “What would you think of adding a goal to hire 15% more peo-
ple?” After some moments of stony silence someone asked, “Why would we want to do that?” I answered that the indications in our labor plan were that we were going to hire at least that many people so why not let our employees know that we considered job creation as part of our goals? The reaction was still negative. I cite this merely to show how far from our thinking is a role in creating jobs, let alone creating employment security.

It seems that before business people will adopt employment security as a goal, they need a change of outlook, a change of attitude. I would like to start with some reasons for a change of attitude and what attitudes might be more productive for the company and its various constituencies, namely, employees, shareholders, managers and customers. We could then look briefly at what might be appropriate goals for employment security and talk about policies that hurt or help the attainment of these goals. At that point, strategies and tactics become appropriate and useful.

It might be well to insert a few words about our company, Donnelly Corporation, because I do not pretend to have all the answers in place for employment security. We have tried and had some success, but both the oil embargo of 1973 and 1974 and the recent prolonged recession overwhelmed our efforts. Up until the '79 to '83 period, we had gone four years without a layoff, which involved people with five year’s seniority. During these past few years, we first affected five-year people in September of 1979. Except for one, these were called back within a few months. We have had no five-year employee laid off since, except those few who have taken a voluntary layoff. In 1964, we began a program of protecting employees against technological layoff. We have had a S.U.B. since 1975. I can say we have struggled with the problem for a long time and are beginning to see a framework for tackling the problem.

Let us look at attitudes. The concept paper for this research project listed seven very practical benefits to employers, if we can stabilize employment. Almost all of the benefits can be measured in dollars, and very significant numbers of dollars.
BENEFITS TO EMPLOYERS

1. Maintenance of productivity because of higher morale and preservation of employee skills.
2. Retention of skilled workers.
3. Reduction or elimination of the large costs associated with layoffs, particularly where “bumping” occurs, for example, distorted production scheduling, delayed start-ups when recession ends, retraining of bumped employees.
4. Greater flexibility in deploying human resources to keep operations going.
5. Savings in employer costs associated with severance pay, early-retirement incentives, and other layoff schemes requiring substantial financing.
6. Avoidance of post-recession costs of hiring and training new workers to replace those who found other jobs during layoff.
7. Reinforcing group loyalties and strengthening employee loyalty to the firm.

From: “Employment Security In A Free Economy”
Work in America Institute, November, 1982

Leaving aside the pain to laid-off employees, why don’t we plan better to avoid the money costs to the company that lay-offs incur? Here are some suggestions:

AVOIDING LAYOFFS

1. We don’t really know how much lay-offs cost the company. We have seldom quantified the costs outlined in the concepts paper.
2. We are under pressure to maintain profits in the short run and cutting payroll is a quick way to reduce costs now. Since the secondary costs of doing this are either not measured or do not show up until later, they do not affect our decision to lay-off people.
3. We don’t really believe the next recession is going to affect our company.
4. Most important of the possible reasons, is that we do not operate from a good theory of motivation.

APPROPRIATE ATTITUDES

All of these reasons are offered to explain why we do not work harder and smarter to avoid the direct and indirect costs of layoffs. To correct this situation would involve a change in our attitude toward the people who work for us, and then an appropriate change in the way we organize work and manage our enterprise. If we really look at our people in terms of their potential, according to McGregor’s Theory Y, we could see a vast and untapped reservoir of responsibility, cooperation, initiative, and creativity. Properly organized, this reservoir can make our companies stronger and more competitive. Quality of Working Life programs are showing this to be true. As a result, we should be less affected by cycles and better able to afford employment security. The trick, then, is to change the attitude and make appropriate changes in organization and motivation strategy.

What can help businesspersons adopt a more wholesome attitude toward their people and toward employment security? The awareness that employment security can be the key to a stronger company could help. Also, if controllers were to count the real costs, short-term and long, of layoffs, managers would be able to dream up alternate strategies. Perhaps a little soul-searching would also help. If we have, in the back of our minds, the notion that the threat of layoffs keep people on their toes and that real layoffs restore the work ethic, do we also feel that layoffs for us would be just as beneficial? If golden parachutes were good for executives, what kind of parachute would be good for the others working in the company? Reflecting on such questions can help, but an in-depth look at what layoffs do to people, immediately and as the months drag on,
should compel us to want to change the way we operate. The financial costs to the country, the company, and the employees are enormous, but the human costs in fear, in the collapse of family plans, in loss of self-worth, in the consequent bitterness and despair, in divorces and suicides, all these costs are immeasurable, but the mere thought of them should make us feel the need to change.

We might find it easier to change if two things were clearly known. First, the costs we just spoke of in dollars and human terms. I will not treat this item because controllers should be able to get the data. Second, what can we do about it? What course of action could lead to a healthier company and so to better employment security? “Better” is used advisedly because nothing that the great majority of companies can do will give total or immediate job security for all its employees. By starting now, we can be in a much better condition to handle the next recession. I believe that the framework for such an action plan is being formulated out of the work of a number of social scientists, such as McGregor, Maslow, Likert, and Frost.

The model aims to raise the level of performance of the company so that it can afford, among other things, a greater measure of employment security for its employees. It centers attention on serving the customer; it calls on all employees to help in this; and it treats the questions of motivation and equity in a systematic way so that it reinforces the behavior that is necessary to make the company stronger and better able to afford security or whatever else is needed. This all stems from the realization that the rewards for work in business hinge on the company’s success in serving the customer.

We can now try to expand this outline into an action plan with three steps.

THREE STEPS TO A STRONGER COMPANY

1. Define clearly market strategy and communicate this to the whole company.
2. Invite the participation of the whole company in executing the strategy. Organize to make participation more effective.
3. Show people concretely how this achievement will benefit them by meeting more of their needs in a company-wide equity system.

**STEP ONE**

First, we deal with what we will do about customers. We carefully define a section of the market where we will be able to excel. This entails looking at our skills and other resources, either in hand, available or within our ability to develop. Then we plan how these resources can be brought to serve the customer. We then commit ourselves to serving our customers so well that they will rely on us in bad times and good. To earn this trust from our customers, we have to become a strong competitor, which makes it more likely that we will have jobs when recession comes. The focus, however, is not so much on outsmarting competitors as on serving our customers. We work to get them to rely on us, to turn to us. We try to look ahead to their future needs, not just their current ones. Many good companies follow such a program. I review it because it leads to the next step, which is not used widely in American business, although its use is increasing.

What follows from our commitment to serving our customers excellently, is the realization that if our commitment is serious, we need the active support of all the people in the company. Many companies are already making moves in this direction in the form of Quality of Working Life and Quality Circles. So far, most of this work is being done on the production floor and as pilot studies. We need to carry the work to all departments and make it part of a total program. A special problem occurs when we go from the shop floor to the, so-called, knowledge workers. These groups feel above such busy work. “We are,” they think, “working very efficiently at all times. If we appear otherwise, it is because we are thinking.”
Maybe so, but why then is there all the alienation and stress in these areas?

**STEP TWO**

The second step involves communicating the decisions of step one to the whole organization, together with the invitation to help carry out the decisions. Depending on the size of the company, different ways of organizing people for this effort will be needed. It is necessary for the manager of each division, department, section, etc., to break down the corporate program into objectives for his/her area. Then appropriate channels must be set up to get these objectives to all the members of the sections and to provide for the feedback of problems and possible solutions from his/her employees. The company must spell out that it wants responsible, creative, and cooperative work from its people and why it does. Finally, it must let people know regularly what the total effort achieves.

**STEP THREE**

We get to our third step when we ask why people should suddenly start working more cooperatively, more responsibly and more intelligently. There are several reasons. People tend to respond enthusiastically to challenging goals and to awareness that their effort is needed and appreciated. The new working arrangement is more satisfying. The “nine-to-five” syndrome becomes less severe. People normally respond to the challenge that their security depends on a new way of working. (Believe me; all jobs in the nation will be on the line in the next few years—even the CEO’s.)

If, as we would expect, all this effort results in overcoming immediate threats to the company and the company goes on to prosper it would not be unusual to find that the people would feel that maybe they should reap some share of the improve results. Indeed,
they would be something other than human if they did not. We said earlier that by serving the customer, we would strengthen the company and better ourselves. How does this better us?

This is where real leadership comes in. We have to anticipate the fact that our plan for market leadership and employee participation in this effort should lead to better results, and that these results should be shared, not only with customers and shareholders, but also with employees. Employees are investing more of their skills and effort, so they should receive more of the results. We should look ahead to what employees want in return. If employment security is one of the items, then we should be trying to work out a plan that factors this into the total compensation picture. Indeed, we should really think in terms of equity instead of compensation only. We ought also to broaden our view a bit more to think of psychic equity as well as monetary. A good theory of what motivates people would help. Maslow's need hierarchy can be useful. It points out how high on the list of people's needs security is. It also encourages us to look at recognition and a feeling of being a part of the total company effort as important motivators that need to be met in the equity plan. A good understanding of equity, and a plan for achieving it, is the cement that holds market leadership or customer service and employee participation together.

Two points should be made here. Equity also ties together all the constituencies, and it is management's task to communicate this fact to the company and to show how tilting much toward either group hurts total performance and, in the long run, hurts all parties. We must not only be fair to employees but also to shareholders. We want both sets of people to continue willingly their investments in the company. Management's job is to understand what is fair and let each group know the importance of keeping the other interested in the welfare of the company by realizing that they are fairly treated. Our job of being productive is made harder by the fact that shareholders and employees do not see themselves as partners in the business. Our job is to run the business in such a way that people
know ahead of time that they will share equitably if the company prospers, and then we must organize to make it prosper.

This three-step program of customer service, employee participation, and system wide equity should make the company stronger, and a strong company is basic to any plan for employment security. Still, it must seem that this plan is a little involved just to get employment security as a sort of by-product of all this effort.

Perhaps I should recapitulate. Lay-offs are the result of an unhealthy attitude, which leads to an unhealthy way of managing. People are seen as expendable. As a result, they see little advantage to doing more than is required. They see no obvious connection between better work and better security. They then think of stringing out work, of resisting work improvements and finally turn to unions to protect them. The unions are limited in what they can achieve because management rejects their “interference” in the managing of the business. A stand off results. Now, if management adopts an attitude consonant with Theory Y, then the way is open to a new system of managing, better overall results follow, and employment security can be a result.

GOALS

Let’s assume, then, that management is committed to a new level of performance involving a stronger market position, employee participation in the effort and a system-wide equity that perpetuates the effort. What kind of goals would be appropriate for the company? Employee surveys could help us see what is wanted. Consultation with any unions involved is necessary and desirable. A study of costs and benefits of various proposals is essential. A time schedule would be important since it will probably be necessary to phase in a plan over a period of years as the effort pays off. A survey of what other companies have done, or are trying, will give some ideas.

We then need some general understandings on what we seek in the way of employment security. Is it job security? By that, we mean
holding my present job or an equivalent one in this company. Or will employment security be acceptable? This would mean the possibility of something equivalent in another business if nothing is available here. The employer then would be responsible for finding the work. Or, are we willing to settle for unemployment compensation? I believe that in the context of this study we are looking for something better than that in the long run, important as it is in today’s world.

There are other questions about our goals. Are we looking to cover all employees or is a seniority cutoff of some sort acceptable? Three months, six, a year, three years? Are we looking only at cyclical unemployment? Technological? Product obsolescence? What about seasonal work? Model changeover? Catastrophic shutdowns from fire or flood? How do we deal with the old notion that too much security makes us complacent?

I believe that these questions indicate that there will have to be a wide range of goals, depending upon the kind of industry and the strength of the company. I suspect that, for a long time to come, we will have unemployment insurance benefits as part of our security program. I also believe that there will be a role for government retraining, relocation, and jobs programs when there are major industry dislocations or severe recessions.

With these questions in mind, we can think of how some company goals might read:

1. We will now guarantee all people with five years seniority 2,000 hours of work a year.
2. We are adopting a business plan, which, if achieved, will allow us to extend this to three-year people at the end of two years. In the meantime, three-year people will be guaranteed 1,840 hours a year.
3. We will revise our performance review program so that it will reflect how well a person is performing to lessen the possibility of giving a performance discharge in place of a lay-off for lack of work.
4. We will develop cross-training plans and deferred maintenance programs so that if regular work is short, people in covered positions can be transferred to other work.
5. We will develop a plan this year so that we can schedule easing out of obsolete products and plants at a time when the covered employees can be given jobs in new and expanding lines.

These are not at all “model goals.” Some companies can do more, some less. They merely suggest the sort of goals that might be useful and they show how some of the questions listed earlier might be dealt with. Some of these goals would involve cost. Nearly all of them would, on the other hand, make the company stronger.

**POLICIES**

If goals are to be met, they have to be supported by appropriate policies, strategies, tactics, and plans. We can look first at how policy affects goals. We can look at policies that might hurt employment security, then at policies that might be needed to support such a goal.

The greater the emphasis that policies place on short-term (one year or less) profits, the greater chance of lay-offs. Policies might be directed toward setting performance goals on three-year running averages or performance against an annual goal, which varies with the position of the year in a business cycle.

Perhaps the greatest policy problem we have, in relation to employment security, is the total absence of policies, which encourage those actions, which make employment security possible. If you look at models for company policies on personnel issues, they are often absent and I have never seen one on employment security.

Policies setting forth what customers we intend to serve and how to serve them set a tone for the company and give people action clues. They have to be more specific than the slogans we see on TV, “Progress is our most important product,” etc.
We need a policy that spells out what we expect from employees: responsibility, creativity, and cooperation up, down, and sideways. Then a companion policy, requiring managers to encourage and make possible such behavior.

A policy should be in place to get people the information needed to work, as they should.

We should also spell out what we mean by equity, that our return depends on results and not just going through motions, that there is no equity for me alone or my group alone, equity has to be for all the company people, employees, and shareholders. Equity is not absolute. It depends partly on what is there to be shared.

If we think employment security is important, our policies should say so and show that security is never absolute, it is not a gift from the company. If it comes, it is earned.

We might experiment with a policy that requires managers to monitor, in a realistic way, the company’s competitive position not just vis-à-vis our obvious competitors, but vis-à-vis the potential competitors in other countries or those who are trying to enter our market with new technologies, etc. Such a policy should consider that our wages might be unrealistic in relation to other countries. We have allowed whole industries to be overwhelmed by these factors. We are now trying to react when it may be too late for some.

I will risk a little by suggesting an unorthodox policy. Since it is obvious that no company can guarantee all its people employment security under all circumstances, we will have to rely on government action quite frequently. If this is so, how about a policy that the company will encourage appropriate legislation to cover the cases or circumstances that business can’t take care of. This would indicate that employment security is important to us. It could have another big advantage. It could let us work for legislation that is less wasteful than our present unemployment insurance or jobs programs. Insurance pays people who cannot find work. Some ingenuity might find ways that the money could be used for gainful employment.
STRATEGIES, TACTICS, PLANS

We can now look at strategies for reaching our goals and implementing our policies. So far, I have tried to indicate that real employment security can only come from a company that is strong and whose strength comes from management’s program to enlist shareholders and employees in a cooperative effort to serve the customer. Employment security would be one of the benefits that employees might seek as a reward for this effort. According to my thinking, employment security is only a part of this effort, even though in times of stress we may feel it is the most important problem facing us.

A first strategy must come from management in the form of a definition of how the company wants to concentrate on certain markets so that it can genuinely serve those markets in an excellent way.

The next strategy is to enlist the full support of all groups of employees, unionized, white collar, technical, sales, and managerial in serving the customer in the defined way.

A third strategy is to study the needs of employees that the company is able to meet and develop a plan to meet certain of these needs as the company increases its strength.

A strategy that should accompany this is to work toward an understanding that if we want to move gradually from unemployment compensation to employment security, we have to demonstrate to people that we want employment security, that we can gradually increase it, but that new types of government programs will be needed to supplement company programs. We have to become worthy of trust and can do this by working on programs that will lead to employment security. We need to help people understand that employment security:

- comes from a strong company,
- is earned and not a gift,
- is not a protection against poor job performance,
• is better than unemployment insurance,
• can be designed to increase company strength,
• can make the whole economy more productive.

When we get specific about strategies for meeting employment security goals, we ought to look at the different causes of job loss. A major need in most businesses is for efficiency, which often calls for automation and robotics. We also want work simplification and improved yields to come from employee suggestions. Now if we want cooperation in all this, employees must see that the results do not threaten their jobs. A strategy then is needed to protect people whose jobs would be eliminated. Donnelly Corporation has had such a plan as I mentioned earlier, since 1964. The plan offers people whose job has been eliminated for any reason related to increased efficiency up to a year in which to find comparable work in our company or another. If they take a lower paying job during the year, they get their former pay. They may have time off with pay to look for other work.

Cyclical unemployment is harder to deal with. The three-step program we have discussed should lessen the effects of recession on the company. Beyond that, a strategy should lead marketing people to factor employment security into their plans. Some adjustment in timing of new product introduction and of obsolete product phase-out can reduce swings in production, and so in employment. Production scheduling can help in a similar way by better planning of inventory levels. These are only rough ideas. The discussions that result from the three-step program should offer many possible strategies suitable to each company. Appropriate tactics and plans would follow naturally from these strategies.

So far, I have spoken primarily of what managers must do. I believe that if they take the lead, unions will also have to rethink their strategies. Indeed, some already are. Their cooperation in Quality of Work Life programs is a big step. In response to company efforts, they can think of changing work rules that may have protected jobs temporarily under the old way of doing business but
which gradually sap a company’s or an industry’s strength. A longer-range view of wage levels will be important. It is obvious that the United States has lost much of its dominance in manufacturing. We will have to work harder and smarter to earn our money from now on. Some jobs may already be overpriced. If an industry or a company genuinely offers a cooperative approach to a union, the union will have a major task in adjusting its adversarial approach to a more cooperative one without losing its reason for being. (A little aside may give a clue. Joe Scanlon, who pioneered in management employee cooperation in what is known as the Scanlon Plan, felt that the Plan could not be successful unless a union represented the employees. In practice, however, participation plans have worked well in both non-union and union companies.)

This paper has tried to show that employment security can best be dealt with if managers will accept the challenge that lay-offs and unemployment are seriously hurtful to the people involved, that lay-offs are costly to the company and are a drag on the whole economy. A better chance of gaining more employment security can come from a system that seeks to improve company effectiveness by:

1. Sharpening the company’s objectives for serving the customer better,
2. Eliciting managerial and employee cooperation in achieving objectives, and
3. Perpetuating this effort by an equity system that strives to meet the needs of all the company’s constituencies. High among the need that employees have is employment security.

Benefits to Employers

1. Higher morale maintains productivity
2. Retention of skilled workers
3. Saves costs related to layoffs and bumping
4. Greater flexibility in deploying human resources.
5. Saves costs for severance pay, early-retirement incentives, etc.
6. Avoid post-recession costs of hiring and training new workers
7. Reinforces loyalties to workgroup and firm

Avoiding Layoffs

1. We don’t know how much layoffs cost the company
2. Pressure exists for short-term profits
3. We don’t believe the next recession is going to affect our company
4. We don’t operate from a good theory of motivation

Three Steps to a Stronger Company

1. Define clearly market strategy and communicate this to the whole company.
2. Invite the participation of the whole company in executing the strategy. Organize to make participation more effective.
3. Show people concretely how this achievement will benefit them by meeting more of their needs in a company-wide equity system.

Possible Employment Security Goals

1. Guarantee all employees with five years seniority 2,000 hours of work a year.
2. Our business plan, if achieved, will allow us to extend this to three-year people in two years.
3. Revise our performance review program to reflect how well a person is performing to lessen possible performance discharge in place of a layoff.
4. Develop cross-training plans and deferred maintenance programs for employees facing layoff.
5. Develop plans to schedule easing out of obsolete products/plants when covered employees can be given jobs in new areas.

**Employment Security**

- Comes from a strong company,
- Is earned and not a gift,
- Is not a protection against poor job performance,
- Is better than unemployment insurance,
- Can be designed to increase company strength,
- Can make the whole economy more productive.
CHAPTER 15
Are Business and Liberal Arts a Mutually Beneficial Symbiosis?

The term symbiosis means a living together of two or more different kinds of organisms. The arrangement may or may not be mutually beneficial. Parasites are an example. They are, of course, commonplace in nature, but they are not usually of mutual benefit. We confer a benefit on mosquitoes, but we would be hard-pressed to name a benefit they confer on us. Other kinds of symbiosis are genuinely of mutual benefit, such as the tickbird of Africa that lives on the ticks it finds between the teeth of crocodiles. The crocodiles permit this intrusion because they have no other means of picking their teeth.

There is no doubt that liberal arts schools benefit from their living with business. Your presence here today is a small recognition of the help you give year after year. Is there a reciprocal benefit that can make the relationship genuinely mutual? I think there is. It may appear to be as one-sided as the old Aesop fable of the lion and the mouse. Could lions laugh, Aesop’s lion must have had a good chuckle over the mouse’s promise to save him. The mouse did save the lion and made a good balance of the deal. That in a way is what I have in mind. The idea came to me in a rather roundabout way during the months since Dr. Hruby asked me to talk to you on the relationship between business and liberal arts schools. While my wife and I were visiting the Tate Gallery in London, I noticed that a lecture was about to begin on a subject something like Art and progressive Politics. Somehow, I thought the lecturer might have
something pertinent to say, but he really didn’t. His talk was more on art and psychoanalysis. Anyway, I spoke to him after the talk to see if he might have some reading to suggest on my subject. His reply was rather curt, “I don’t see how arts can help the bottom line of business.” He had shown during his talk that he had more than just leanings toward Marxism, so I thought I ought to clarify my point by saying that free enterprise differed from Communism in many ways, but especially in that Communism was a total system—political, economic, social, philosophic, and even quasi-religious, whereas free enterprise was purely economic. It was often associated with democracy, but can operate wherever a government allows a relatively free market. It can coexist with Christianity, but also with Judaism, the Moslem religion, Hinduism, and Buddhism. The thing that puzzled me was that free enterprise seemed to need certain values that it did not generate. The lecturer agreed, but did not indicate that he wanted to pursue the matter. So I went back to the pictures.

When we returned home, I mentioned the question to my son who had studied economics in graduate school. His immediate reply was that Daniel Bell discussed this at some length and concluded that Capitalism was a system that depended upon values such as self-discipline, delayed gratification, and restraint, but that it tends to destroy the very values it needs. For example, business imposes its disciplines on the people it hires and this gradually lets self-discipline fade away from lack of exercise. Bell cites the development of the installment plan as the single most damaging factor in the destruction of delayed gratification. It has become unnecessary to save in order to enjoy luxury, or some facsimile of it. The bumper sticker “We are driving our children’s inheritance” typifies this attitude. Debt, both private and public, mounted and savings rates dropped. The savings rate of about 7% was one of our most stable economic indicators over a long period. It is now between 5% and 5.5%. “Restraint,” the third of Bell’s values needed by free enterprise, can be seen daily to be under serious attack in many ways, most notably in MasterCard ads. “MasterCard I’m
“bored,” is followed immediately by visions of the bored man on the Riviera with young women at either side as they race through the waters away from boredom.

These visions may stimulate sales of surplus production, but they also destroy the work ethic that makes the production possible. This is not just the voice of Cassandra calling doom, but it is here and now. We now have to import our luxuries since we are losing our competitive edge. Americans save at about 1/3 the rate that the Japanese do. Savings, of course, provide the capital that fuels productivity.

Bell also speaks of contradictions between free enterprise and our culture. The culture is supposedly classless, and it values independent action, but business tends to become bureaucratic as soon as it becomes large, which we all want to do. With bureaucracy come layers or classes of managers, each with its perks. Also, the people at work find instructions, rules, and control so there goes independent action. Now there are attempts being made to soften these contradictions, but they are coming because we need to regain a competitive edge not because we saw a problem for our people and tried to solve it.

All these problems have not come because we business people are abnormally stupid or hard-hearted. A lot of it comes because we don’t have in front of us the notion that free enterprise is purely an economic system that needs a government, a culture, a system of values, and educational system to support it. Business has no language to tell a manager to cultivate these values. The corporate form of organization accentuates the problem. In France, the corporation is called an S.A., societe anonyme, or an anonymous society. This name clarifies the problem by pointing out that the corporate name does not long maintain the idea that persons, John Doe and Sons, are behind the name. The names GM, PPG, and Citibank convey no feeling of responsibility to the employees or managers. Even top management has to feel remote from the ultimate consumer. We may sincerely adopt a policy such as “Quality is Job 1,” but if we also adopt a budget that makes such a program impossible, we will destroy our program without realizing how. The NASA investigation
is a shocking example of how this worked in the space program. There was a quality program, but also budget cuts. In spite of cuts in staff, two corporate engineers saw a danger and warned of it. Not only were they ignored, they have been demoted for their efforts.

The system of management that has grown up in the modern corporation is not any one person’s, or even a small group’s responsibility. One thing led to another, and soon we all seem trapped into accepting practices that we might not like, but could see no way of changing. To change would make us uncompetitive.

This notion of competition is so central to the way free enterprise works that it tends to overshadow all other considerations. I have no thought of saying that competition is not important, only that it is not all-important. A few years ago, one would have been laughed at for suggesting that wage negotiations might become a cooperative exercise between labor and management. Today, with the threat of foreign competition, some companies are finding that they can work with their unions in a cooperative way to preserve both company and jobs. Had we worked long ago to develop trust and shared goals with our people, we might have a healthier economy today. After all, this is what the Japanese did. It does work in America, but it requires a new way of looking at managing.

Recently I was talking with the head of the management school at Notre Dame about what liberal arts can do for business and he pointed out that a good manager needs human skills, technical skills, and conceptual skills. Business training concentrates on the various technical skills such as finance, marketing, and systems. Today there is also some effort devoted to human skills, but little is done for conceptual skills, which deal with such things as strategy, values, social responsibility, and integration of risks and rewards. In this area of conceptual skills, liberal arts can make a real contribution. Liberal arts can also sharpen both human skills and technical skills. The mouse can help the lion work free of his bonds.

Liberal arts can help because it is as much a process as it is a branch of knowledge. Liberal arts include languages, history, philosophy, literature, and abstract science. These develop intellec-
tual ability and judgment. The process of liberal arts is what is most significant for us, since it encourages us to understand what is being said, to relate this to other knowledge, and to judge whether or not the statement is true and/or helpful. Conversely, the process helps us to make clear and unambiguous statements with due regard for the people we are addressing.

The process develops in what seems to be a rather haphazard way, but it works. Someone may write a paper or a group may read a book. Someone then comments on the paper or the book. Others respond to the first comments. Then there are responses to the responses. Clarifications are made; criticisms are modified, until finally most people may say, “we agree,” but a few may still say, “you have not understood our point but we will bring it up on another occasion.” The end result should be that everyone has listened carefully, thought seriously, reflected, shifted position if necessary, and finally made a judgment.

This process might be clumsy in ordinary business decisions, but minds trained in it will be more alert to what is at issue or should be at issue in various proposals and can quickly get to the real issue and get it processed.

This process helps one to relate a present activity to its long-term consequences. For example, which is better for the long run, more inspectors or training to help operators do the job right the first time? The critical process can point to a deeper level of meaning in some action as when an executive is awarded a golden parachute while a thousand other people merely get early retirement. A board should be able to see the kind of message this action sends to the organization.

Now, I think liberal arts have a possible twofold benefit for business. It can help make the world safe for business, by helping business make itself safe for the world. Secondly, it can enrich the life of the individual businessperson by putting a better balance into her/his life.

The first area presumes that business has a problem of survival. I believe it does and the threat comes from many sides. We
have largely alienated our work force through thoughtless practices. The existence of unions is due largely to historic practices, which we have never disowned. The public is forever talking of rip-offs by businesses, some real, some imagined, but covering such subjects as shoddy merchandise, pricing, unsatisfactory adjustments, and pollution. Much of the intellectual world has adopted something of a Marxist look at things, particularly economic things. There seems to be a prejudice among many academics that socialism, in spite of its failures, is really a more decent system than capitalism. Government in America seems, on balance, to be suspicious of business, as does the clergy of the country. Now business seems to be in no imminent danger from these critics, but it is risky to let this hostility fester. I think of an early experience when I started work. A man twice my age came to me and asked how I was going to vote. After I told him, I asked why he had asked me. He explained sheepishly that his father had told him long ago to always find out how the boss was going to vote and do the opposite.

Much of this hostility need not have arisen. Some comes from our failure to realize our dependence on the culture we are attached to. Some because we see business as a thing apart which owes nothing to outside interests, even though in the next breath we may be quite generous. Finally, we have instinctively opposed critics, even those who were sincere and ready to work with us, but who now appear vindictive because they asked for government help when we did not listen. We really need critics, not scolds, but genuine critics. We seldom get good, hard-hitting criticism from our people.

How can liberal arts help a company become more at home in our society and lessen the frictions that have developed around it? It would help to have a CEO with good liberal arts training. Were he or she to ask the right questions of management, much trouble could be avoided. Had someone high up in management asked if everything was OK for the launch of Enterprise, he would likely have been told “A-OK.” Had he gone a step further and asked, “If this launch fails, what is most likely to have caused it?” Then
some data might have come up so that a closer look could have been given, averting disaster.

If the CEO recognizes a lack in himself, he might invite someone from a local college or even from a distant one to join his board, a person of broad learning with critical skills and sound judgment, not necessarily with business experience. There are already such people on some boards who have been invited to look at actions that affect minorities and the environment. What I would propose in that case is to broaden the scope of their interest to all actions that can have adverse effects on individuals or groups. They could also be alert to possibilities of better programs that might cost less and have better results, supporting, for example, health maintenance as a benefit to employees with a net reduction in time lost and medical posts. They might alert management to looking to Third World countries when expansion is needed. An occasional question as to why executives have to work such long hours, could lead to better delegation, greater chances for the growth of subordinates, and fewer heart attacks.

A longer-term way of getting these promptings and questions is to make sure a portion of bright liberal arts graduates are included in entry-level hiring so that they can work their way through the system.

The kind of help I am suggesting can, if encouraged or listened to, reduce frictions with the public, giving the company a better standing while also setting an example for other businesses. A big bonus would be that executives and employees could have a new sense of achievement and acceptance in knowing that improvements were happening voluntarily, without government coercion.

What do the liberal arts offer the individual? Maturity or authenticity are goals that everyone should seek, especially our leaders. It is hard to admire a person whose sole interest is business. Such a business leader is deprived and probably most of the people reporting to him or her suffer in the same way. Liberal arts can open many windows for the workaholic, windows that lead to genuine
maturity. They can also help one to the ultimate step toward authenticity, which is an adult approach to religion.

How can this be accomplished by busy people? There are many ways, but one I would like to propose draws on something Aquinas has already achieved, that is the Emeritus College. This program is aimed mostly at retirees and brings a wealth of pleasure, achievement, and fullness to people who may already be genuinely mature. It would seem that programs could be adapted for active and busy executives. It might be a sort of great books program that could be done mostly at home with a monthly discussion led by a good professor.

The participants would have fun with the challenges of such a program. Fine minds could become even sharper. Wise minds could be enriched and broadened at the same time they are enriching and broadening other minds in the group. From my exposure to a few Emeritus courses, I would look forward to chewing over good books with fellow executives.

I would be less than honest if I left you with the idea that reading and talking about a few books is going to change the world. A course or two, such as I mentioned, might ignite a fire which you could keep going, or it might rekindle a smoldering fire; still it might take longer, but once the fire is going you will want to nurture it because if you really absorb the process, you will find you are embarked on a life-long experience of developing a richer intellectual, moral, and religious life which can enable you to be active in the development of mankind rather than in its decline. Such a goal is what life is about. A business career is quite compatible with such a goal. It just takes a decision to get going.
CHAPTER 16

Learn of Me

Our T-group has progressed
in desultory fashion
from person to person,
from trait to trait,
question after question.
My questions were right there
in the forefront.
Hard they bit and deep.
Though “penetrating” was the term
I had in mind.
Not so, for others.
For them my questions just bit deep and hard.

But now there is a lull
Eyes are turning
away from Burt
and toward me.
Tongues, sharpened, are at the ready,
ready with questions for him
who was in the forefront
who thought himself worthy—
worthy to cast . . .
but let’s not be too self-effacing
not now when the prisoner’s box is ready
for me
for I will need my wits about me
to parry those unfair probes.

But why be defensive at all?
Did I not ask for this feedback on myself?
Am I not ready
for that self revealing insight—
that magic
which will release
my hidden powers?
Or am I?
Is this, perhaps, how the woman feels
when her hour is come?
Will there be cause for joy
in the new me,
or will the birth bring forth
a misshapen, misbegotten thing
a worm and no man.

Soon we shall know
for tongues are moving.
They have found their target.
“Why do you ask such questions?”
“You puzzle us!”
“We would like to know more about you.”
“What makes you tick?”
“Why do you ask such confusing questions?”

A silence.
I can now defend myself.
“This T-group has no terror
for me.
I have read the books
and quizzed the experts.
All I want to know is how—
how to make you as smart
as I.
See
even my grammar follows the rules.”
More questions.
More answers.
But then a question of a different sort.

A question that bites deep and hard but with a difference.
What difference?
I don’t know.
Perhaps a note
of kindliness?
of truth-seeking?
I don’t know but there is a difference.
The question comes softly
without guile
and from our trainer.
“Are you as ready to be
moved by us
as you expect us
to be moved by you?”

That is an easy question.
“Of course,” comes my answer,
“Of course not,
and the reason is simple.
My position is right,
well thought out,
carefully arrived at
and fully documented.”
“And ours is not?”
“I did not say that
and besides
is not my position

yours.
You are a behavioral scientist
You must know…”

Silence.
This does not, somehow,
seem a fair reply.
And then there was
that kindliness
that truth-seeking.
Am I being kindly?
Do I seek the truth?
Should I really be open
when I am right?
I must think on this.

I do and as the hours go by,
I see new lights.
Perhaps they are old lights
but if so
they are cleansed and recharged
for they illumine corners of my mind
I had not seen before.
I see the path by which I came
to believe the things I do
about men and work.
That path was long
and tedious
with back slidings
and false leads
and much help.
Are these men different from me?
Can they shed old habits
with no wrench?
Does their mental set
mean nothing to them?

I begin to see.
And as I look
something else I see
written in ancient letters on the wall,
letters I had seen before
but then they were blurred
and without meaning.
Now, I see them clearly in the new light
and in them all those hard questions
find their answer,
giving me my magic insight.
“Learn of me,” they say,
“Learn of me
For I am gentle and humble of heart.”
CHAPTER 17

The Ruminations of an Ambivalent Believer

I am man—all man for
at last I can say, “God is dead.”
Really dead—finally dead
dead without chance of resurrection.
Now I am master.
I can say this now
because even God’s friends agree.
Priests, ministers, rabbis
all have pronounced the obsequies.
And why?
Because the evidence is in.
True, obits have been premature before
but this time we have covered all the bases,
tied all loose ends,
gone step by step
from A to Izzard.
Nothing flashy,
nothing spectacular,
methodically we have dismantled
the very pillar and ground
that sustained his throne
or, to be precise,
that sustained the idea of him
or more precisely still
the illusion of him.
His followers said
he was a God of truth
but truth has been the cause
of his demise.
Science has released the truth
and in so doing,
has spread abundance
on mankind.
So there is no God
and we have no need for God.
We do not need
a sham opiate for the people
when we can blow their minds
at lesser cost.
Galileo, the morningstar
Of the long proceedings
convinced us that God's little world
was not the center.
So truth began shrinking
that mighty notion
until, in our day,
it has vanished into the nothingness
from which it came.
Darwin, the voyager,
pushed man and life and
all its categories, species
phyla, and kingdoms
back into the slime
from which they came
and with them the God who brought them forth.

Yet that notion lingered
and would have lingered still
had not Marx, the liberator,
showed how the notion
had been used
to drug mankind
or at least thereof a major portion
and that portion did not like their lot
and so rejected God.
But the smaller, though stronger, segment
nourished still the idea
keeping it alive
for it was not so bad a thought,
they said,
if it might hold the masses in control.
But this control
exacted from the masters its own price
of self control
which was annoying
for those potentates
to say the least.

So even this portion of mankind
was relieved
to hear from
Freud, the studier of dreams,
that God was but a dream
of long dead
tyrant sires
whose tryanny outlived them
in our dreams and fears
and kept us from those joys
we thought forbidden—

Then men in legions
came on to prove
by their discoveries and experiments
that these four men were right.
Evidence on evidence
piled up:
atoms splitting and reforming
double helix and the pill,
hearts replanted in stranger’s body
brains washed and remade,
world left behind in that
first giant step
toward taking man to galaxies
whose mystery and magnificence
makes the forgotten God of earth
seem small and unimportant.

So I am man, man alone
man alive
and I will shake this universe
as I have shaken my world
and I will take this universe
and make it mine.

These four and their multitude of helpers
have freed me.
Their truth has freed me
from a truth so small and miserable
I wonder how I could have been enslaved.

I look about me to seek and to enjoy the fruits of my release.
Where first?
Ah, yes there is that ancient and forbidden fruit
that mythmakers say caught Adam in his trap.
It is a luscious fruit
and found now in abundance,
instantly available
and wondrously displayed.
I can taste it, yes feast on it
where'er I wish
without fear for now or ever after.
Why wait?
I need not, save for a moment,
a little act of courtesy
and then I will be off,
free at last.
That act of courtesy?
Oh, I ought to tell my wife
so she, too, will be liberated
and can go her way
enjoying what and whom she fancies.

Do I see a shadow on her face
at my glad tidings?
No matter, she will soon be happy—
no doubt it was but a thought
about our children—
Oh yes, our children—
how thoughtless of me—
they too are liberated
from old laws and inhibitions.
No doubt our daughters will
be constrained a bit
by youthful dreams of love and romance.
But they will yet arise
and give themselves with unreserved delight.
And our son—
I can only say
"what a time to be a youth!"

But, for now, enough of sex
because even sex brings surfeit
and for some more quickly than they wish.
What else does freedom offer?
There are so many things
we now can do that were forbidden
by a vengeful God.
Think of those little children,
offspring of thalidomide,
malformed and crippled,
without arms or legs.
Had God died sooner
their mothers could have
snuffed out their spark of life
before it saw the day.
But—thank God, God is dead,
and their mothers, without shame
and with impunity
may kill the poor things now.

Then there are those other poor things,
the poor who, as God was wont to say,
would be with us till end of days.
There is no need for them to suffer
in their poverty.
We have so many things that we now can do.
We could set them in our spacious fields
to cultivate the crops of hemp and poppies.
With these fruits of their labor
they can reach Ellysian fields
and on then to oblivion.
And if this does not cure their problem
we have another, shorter and more direct
pathway to oblivion for these unfortunate,
taught to us by Hitler
or was it Himmler?
No matter, it is efficient
and need give us no qualm
for it is far less messy than napalm.
Did I say napalm?
How strange a fruit
to come from that
revolution of the learned
that has set man
in a new Eden
with food and warmth
with ease of movement
and with leisure
undreamt of heretofore.
Napalm, fruit of progress!
Napalm, fruit of learning!
Is this what all our freedom
has lead us to?
Children broiled
children baked
children roasted to our taste?

You, perceptive reader
that you are,
detect a note of satire?

Well, it is there and
so intended
though the feeling
came upon me
more slowly and more subtly
than my words
would indicate.
It came
as my admiration
for the four
changed to puzzlement
from disorder
that their truth has wrought.
Somehow this taste of first fruits
of my liberty
becomes more bitter,
as I bite
and I am puzzled.

Still the four have told the truth
or told it as best they knew
and told it at no little cost
in disrespect and worse
especially at the hands
of those who say
their God is truth.
And that is not all that puzzles me:

These same believers say
their God is God of love,
who cares for all his creatures
sparrows as well as people
whites and blacks
rich and poor.
Indeed they say he cares
most for the poor
and would have us all
be poor or helpers to the poor.

Still when I look about me
I hear men say
“be on my side
I have truth and I have love”,
but there are no sides today.
Men who praise truth
suppress the seekers of new truth.
Men whose doctrine is peace
preach war.
Men dedicated to bettering man's lot
make weapons of war.
Men whose God is love
have narrow, bitter little
hearts where no love
can flourish.
There are exceptions
or we would lose our minds.
Men there are who preach and practice
with consistency and strength.
But we can draw a list
from science or religion
and make it good or bad:
Pope Pius or Pope John
the maker of the H bomb or the maker of penicillin.
George Wallace or Martin Luther King
Cardinal McIntyre or Fr. Groppi
Joseph Stalin or Dorothy Day.
Each of us can form a list
as long or short as he may wish
and ask himself this question:
On which side of these most crucial points
are they who move in concert
with the living God?
On which side are
they who follow science?
Is there a pattern?
Is there a something that moves a
man to good?
Can we even agree on what is good?
Does God make a difference?
Or is he, after all, still dead?
Is there a clue found perhaps
in Porgie's words
“All those talkin’ bout Heaven ain’t goin’ there.”
Is there a Spirit of God
and does he really blow where he lists
without respect
to country, race, or creed?
I am puzzled
but after many years
of listening and of thinking
it seems to me that something
makes a difference.
There is a world of spirit.

Some men are evil
or are mostly so;
some men are good
for reasons that they do not know;
others think that they are good
but by some warpage of the mind
or coldness of the heart
their goodness turns to harm
no matter how they try.
Then there are the good
who do not judge themselves
but follow goodness in
a true, unerring course
and light the world
for us to see and
follow after.
John, for instance,
or Martin Luther King
and Albert Schweitzer
along with Gandhi, More
and Martin Buber.
Does this mean
I have surrendered
where joy of freedom has been tasted.
Do I reject those men of science
and all the good and truth
that they have wrought
though filled with tares their work
I readily admit.
Is there some way to be
free in God and
humble in science?
Is God, after all, God of the universe
not of a tiny world?
Does science only fear
a God bound tightly
in pre-scientific thoughts?
In a word,
has Teilhard
shown a way
for man to be
at one with God
and universe?

I do believe so.
I believe in God
who is imminent
but transcends
this universe.
I believe this God
has touched man
in many ways
and many times
most of all he has touched man
in the person of Jesus
who has touched Peter—
and the heir of Peter—
has, alas, lost touch.

I pray and work and hope
the rupture be
a passing one,
soon healed,
as breaks have been before.
So I follow Peter’s heir
as best I can
sometimes wandering
but always hoping
he will once more
become a leader of us sheep
though I would prefer
for myself
a different role,
one more consonant
with my image
of a man.
This other role need be
no usurpation
nor rebellious thing.
Christ spoke to shepherds
and to fisher folk
in terms
they understood.
Paul changed the images
for Ephesians, Romans,
and Corinthians
and drew them after him—
after himself and Christ.
If Peter's heir
could only understand
how much we want
to follow him
but we are modern men
with different needs
and different words
and hopes that
come from different
ways of life.
If only he will
cease his quest
for sheep and lambs,
a multitude of men
from every land
already moving
who seek
and need
a man
with touch divine
to make communion
and community
of their common journey—
these men will follow him.

Meanwhile we make our common cause
with men
of great diversity
in race, in creed,
in political belief,
with men of science,
with common men,
with all men whose interest
is their fellow man
without distinction
because they believe,
as I believe,
that there is a goodness
in and around
and through and over
this universe.

This goodness we call
by many names
or by no name at all.
We believe that it makes
a difference
when we seek this goodness
in all our acts.
We believe
but have not strength or will
to act out our faith
so we stumble
in our efforts.
We believe
yet our beliefs are not completely one
so we grope
toward differing goals.

Yet we strive
and this striving
makes a difference.
What that difference
really means depends,
for now,
upon the ground of our belief.
Is it on God, or man,
the universe or
something more abstract
and tenuous? No matter
“It will be reputed to us as justice.”

So we strive
and serve our fellow man.
We are citizens of this world—
touched,
in some mysterious way,
by that finger
that touched Adam
at the dawning day,
citizens of this world
and of the other
we say with Thomas More
“We are the King’s good servants
but God’s first.”

Has my wandering rumination
brought all my doubts to culmination?
Or was it merely camouflage
of windy words and persiflage?
Reader, some doubts have been resolved
others are much more involved.
The first have answers of brilliant perspicuity.
The others I keep in happy ambiguity.
ABOUT JOHN FENLON DONNELLY

— Three Perspectives —

1. From his Obituary

*Industrial Leader Dies*

John F. Donnelly, 74, died Sunday, June 8, 1986 of a heart attack. He was Chairman of the Board of Donnelly Corporation founded by his father, B. P. Donnelly. He was active in a number of trade, civic and church organizations, past president of the National Council of Catholic Men, Holland Chamber of Commerce, Holland Hospital Board, Holland Rotary Club, Midwest Chapter of the Scanlon Plan Associates and the Mirror Manufactures Association.

Donnelly served as director for Michigan Catholic Conference, Herman Miller of Zeeland, Union Bank and Trust Company of Grand Rapids, Aquinas College of Grand Rapids, and the Irish American Research Foundation. He served as a member of the Governor’s Commission on Morals and Ethics in State Affairs and of the Human Relations Commission of Holland.

Donnelly studied chemical engineering at Notre Dame University and completed his B.S. degree at Catholic University of America. He also had a Bachelor of Arts degree from St. Mary's Seminary, Baltimore. He was the 1967 recipient of the Aquinas Award from Aquinas College, received an honorary doctor of letters degree from Hope College in 1981 and an honorary degree from Aquinas College in 1982.
He frequently lectured on management and organizational themes and was a nationally known figure for his commitment to participative management. He emphasized that “people are important” and that “participation” is fundamentally the human way to treat humans.

2. In Memoriam, by John B. Donnelly Jr., June 1986

Each of us who has known my Dad, John, has our own special memories of what kind of person he was. In trying to describe him to others, words such as firm, patient, committed, hard working, humble, a perfectionist, skeptical of conventional wisdom, witty, and faithful come to my mind. I am sure that many of us could cite numerous examples to demonstrate how he possessed each of these and many other outstanding characteristics. But John should be remembered for far more than just a collection of characteristics, regardless of how admirable they are. The powerful thing about John was not who he was but, instead, the impact he had and will continue to have on such a wide variety of people.

John was very fond of puzzles. Each night after work, he would monopolize the newspaper until the cryptogram was solved. A puzzle that we see is—what does an Irish production worker, a Grand Rapids social worker, a Holland housewife, a Michigan State psychologist and a priest in Israel have in common?

We could make the puzzle far more complicated by adding many other people to it, but I think it is sufficiently intriguing for us to stop here to ask, what is the common link? The link is, of course, the interactions that all of these people have had with John and the legacy he will leave with them.

What is that legacy? John is widely known as a businessman. However, while all too many managers give only perfunctory lip service to the importance of people, John demonstrated his firm commitment that people in all walks of life have great potential if they are given adequate coaching and the right opportunity.
John stressed that people could only achieve their full potential if they were effectively working with each other. For him, business was not competition, but teamwork. While he was hard working and persistent, he abhorred the adjective “aggressive” because he felt it did not connote teamwork.

John’s vision of business is not an easy one to achieve, but he had great confidence in our ability to do so. If we ran into a roadblock in pursuit of the vision of teamwork and human potential, he would always have an encouraging word and another idea for how to reach that goal.

John’s most important legacy to the business world is his long-term impact on the Donnelly Corporation. He was very proud of what the many teams at Donnelly have accomplished since his retirement. He was very happy that so many people at Donnelly, and in a growing number of businesses, share his vision and are carrying his legacy forward.

Another group of people who had strong interaction with John was his wide circle of friends outside Donnelly. He had an intense drive for the pursuit of knowledge. His interests were far reaching from history, to nature, to people. His special pursuit was to try to comprehend the purpose of life and God. “While John had occasional differences of opinion with official church positions, his belief in the importance of religion and his unwavering faith in God were always evident.

John’s eclectic interests can be seen in his library. His extracurricular reading was far a field from his occupation. The section devoted to business in his library is small. Instead, philosophy, theology, politics, and history dominate.

His wide-ranging interests led him into contact with many people who share his interests. These contact led to many life-long friendships. John and his friends were able to grow significantly through their friendships. John’s legacy here will be the continued growth of all his many friends.

Last but by no means least important to John was his family. John took great interest in his children and their spouses
throughout his life. His guidance was not always agreed with, but was always valued. He showed great interest in all the varied interests of his children and was always eager to find out how they were doing.

John certainly had a special relationship with his wife. They greatly enjoyed doing so many things together, whether it be traveling, reading aloud to each other, or discussing world events.

John also had a close relationship with many of his cousins, nieces, and nephews. He showed great interest in their growth and well-being and was proud of their many accomplishments.

John will be sorely missed by his own and the extended Donnelly family, but I suspect that his legacy there will be a family that is even more tightly knit in the future.

It is not often that a philosophy is successfully put into practice and, on top of that, with that practice growing to outlive the philosopher. John was always striving to bring out the best in people and he was tremendously successful in so many ways. The reaction of people to his premature death is another example of the positive impact he had on others. The outpouring of support we have seen from so many people is an outstanding example of people putting forth their best, and we greatly appreciate that.

Now is the time to say more than good-bye or to not say good-bye at all. Instead, I want to say thank you, Dad, for all the ways you helped me and so many other people grow. Your legacy will be the future efforts of all the people you so greatly influenced as they strive to grow and achieve with others. You went far beyond the call of any duty. Your work here is finished. Your legacy and spirit are alive and well and in the hands of many good people. You can rest in peace.

[This next remembrance by Susan Donnelly was original written for a Donnelly family history.—The Editor's]
How do you capture a parent on a piece of paper? Dad was many things to many people. We all knew a piece of him, nothing more. Perhaps the best approach, after some general reflections about his life, is to let him speak for himself.

As I sit writing this in Beijing, it occurs to me that, more than anyone in the family, Dad would have relished this China experience, in all its madness. He was a curious, questioning person. Whether freezing in the Michigan countryside on a search for Hailey’s Comet or tramping across the Irish Barren to hear the dawn chorus he was ready to experience and to learn. But he sought more than answers—indeed for him there were always more questions than answers. What he sought was more elusive: understanding.

So, whether as a bird watcher, shell collector, gardener, reader, writer, tinkerer (the list goes on) his approach was the same. Nothing was done in half measure. This tended to lead the family down some rather strange paths. There was, for instance, his Architecture Phase. While this did include a memorable trip to Europe, it also meant visiting every church that had ever been built in Italy. It is nothing short of a miracle that any of us remain even tenuously connected to any church after that experience. This was followed or preceded by his Civil War Phase. Countless dinner conversations of generals and battles. More trips. This time to battlefields, endless, empty battlefields. Then on to the next phase. Some we connected with, others left us less enthusiastic.

The glue that held all these interests and concerns together was his faith; an evolving, questioning, struggling, deeply felt faith in God. This too could take a multitude of forms. One of the least appreciated from our point of view was a Christmas Eve tradition—of uncertain origin—that oyster stew and only oyster stew (not one of the world’s great culinary achievements) was the menu of choice. To this day, none of us can look at a bowl of it. But this was also the man who saw the sacramental nature of the family gathering for
dinner and expended much effort to draw us together from our various parts of the globe to break bread.

It was the spiritual side of his religion that mattered most to him. He has spoken to others of his grandmother and said: “Her outstanding trait, perhaps the source of her cheerfulness, was an abiding faith in God. Indeed she appeared to live with Christ as a constant companion.” Of his father he said; “Like his mother, he seemed to have God unobtrusively near.”

These same statements could be said of Dad.

Shortly before he died, he spoke to a friend of his own ambivalence around faith coupled with a desire to enter into deeper prayer and reflection. He saw his generation of believers, including him, as very faithful, tending to keep doubts, and searching in the private realm. In some ways, he envied his children in the openness of their questioning.

Regardless of what piece of dad you knew best, his whole was shaped by his faith, a profoundly felt experience of the presence of Christ made all the more remarkable for surviving the doubts and questioning of a restless mind.
The Scanlon Leadership Network is “where the best ideas come together” to create worthwhile employment, goods, services, and investments. The nonprofit Network is composed of three interrelated organizations: the Scanlon Leadership Network, the Scanlon Foundation, and the Scanlon Consultancy.

The parent organization is the Scanlon Leadership Network. Founded in 1964 by Herman Miller and the Donnelly Corporation, members range from small family businesses to large multinational corporations. Called “the best kept secret in Business” by business writers, the Network has helped five organizations become among the top 50 places to work in America.

The Network provides integrated products and services designed to help create cultures of excellence. Network members share Scanlon related best practices and training programs. The Network’s unique focus on all levels of an organization supports top leaders and front-line employees through training programs, assessments and surveys, conferences, tours, workshops, and retreats. The Network maintains the world’s largest knowledge base of Scanlon Plans, and Scanlon related training programs. The Network seeks progressive organizations interested in joining the Network. The Network website is www.scanlonleader.org.

About the Scanlon Foundation

The Scanlon Foundation was created in 2002 to support the public mission of the Scanlon Leadership Network. The Foundation
conducts Scanlon related research, develops Scanlon related books and publications, and seeks to raise public awareness of Scanlon thought and practices. The Foundation offers individual memberships for those who wish to support its ongoing work and mission. Tax-deductible donations can be made to the Foundation. The Scanlon Foundation website is www.scanlonfoundation.org.

About the Scanlon Consultancy

The Scanlon Consultancy provides consultants and coaches who work with leaders and organizations interested in practicing the Scanlon EPIC Principles. Scanlon Consultants/Coaches are screened and approved by the Network. They are experts in Scanlon, EPIC Leadership, Group Compensation Systems, Culture Change, Labor Management Cooperation, Lean Systems, Strategic Planning/ Hoshin Policy Deployment, Suggestion Systems, and Assessment. Scanlon Consultants can be reached at 517-332-8927, or at www.scanlonleader.org.
About the Editors

Paul Davis served as President of the Scanlon Leadership Network from 1993 until 2008. A frequent speaker on Scanlon and Leadership Paul has been an invitational speaker for the European Foundation, the Academy of Management, the Conference Board, The Japanese External Trade Organization, the American Society for Training and Development, The Ecology of Work Conferences, The Greenleaf Center Conference and Dyad Development of South Africa.

He has worked with Scanlon Network members throughout North America consulting/training/ and developing Scanlon programs and services. He created the Scanlon 101 and Scanlon Best Practices Programs. He created the E.P.I.C. Culture Inventory™ and the Scanlon Roadmap learning map. He assisted in the development of the Network’s Listening Program, the Lean Sim Machine™, and Hoshin Quick Start™ and the Innovation Simulation™. He was lead consultant in the development of Scanlon Plans at Watermark Credit Union and United Building Centers.


Spears is also a writer and editor and has published hundreds of articles, essays, newsletters, books and other publications on servant-leadership. Dozens of newspapers and journals have interviewed him, including *Fortune*, *the Indianapolis Business Journal*, *the Philadelphia Inquirer*, *the Washington Post*, and *Advancing Philanthropy*. A 2004 television broadcast interview of Spears by Stone Philips on NBC’s *Dateline* was seen by ten million viewers.

Larry is the creator and editor of eleven books on servant-leadership:

- *Servant Leadership: Heart, Mind, Spirit* (with Shann Ferch, forthcoming)
- *Scanlon EPIC Leadership* (with Paul Davis, 2008, Scanlon Foundation)
• *Focus on Leadership: Servant-Leadership in the 21st Century* (with Michele Lawrence, 2002, John Wiley & Sons)
• *The Power of Servant Leadership* (1998, Berrett-Koehler)
• *Seeker and Servant* (with Anne Fraker, 1996, Jossey-Bass)
• *On Becoming a Servant Leader* (with Don Frick, 1996, Jossey-Bass)

He is also a contributing author to the above books and others, including:

• *Cutting Edge: Leadership 2000* (2000, University of Maryland)

Larry is Series Editor of the forthcoming *Servant-Leadership Essay Series*, and he serves as the Senior Advisory Editor for *The International Journal of Servant Leadership* (2005–Present). He also teaches an online graduate course in Servant-Leadership for Gonzaga University.

Spears is also a frequent speaker on servant-leadership. The titles of some of his addresses include “Servant-Leadership and the Honoring of Excellence,” “Servant-Leadership and Business,” and “Robert K. Greenleaf’s Influence on Trusteeship.” Among his recent keynote presentations are addresses to the Servant-Leadership Research Roundtable, the Louisiana Office of Mental Health, Gonzaga University, the Greenleaf Center, and Indiana Campus Compact. Since 1990, Larry has given two hundred keynote addresses on servant-leadership on four continents, a dozen countries, and
forty states. Larry has been called today’s foremost authority on
servant-leadership. He knew Robert Greenleaf and first encoun-
tered Greenleaf’s writings on servant-leadership in the early 1980s
while working at *Friends Journal*. Following Greenleaf’s death in
1990, Larry examined Greenleaf’s personal papers and discovered
dozens of unpublished essays, written over a fifty-year period. Many
of these essays were later collected and published in 1996 in two vol-
umes (*On Becoming a Servant-Leader*, and *Seeker and Servant*).

Among several honors, Spears was the recipient of the 2004
*Dare-to-Lead Award* given by the International Leadership Net-
work. Larry has thirty years of experience in organizational lead-
ership, entrepreneurial development, non-profit management, and
grant writing, having envisioned and authored 30 successful grant
projects totaling several million dollars. The Spears Center for
Servant-Leadership is a 501 © (3) non-profit charitable organiza-
tion. It is committed to enhancing the global understanding and
practices of servant-leadership. Larry is a Fellow of the World Busi-
ness Academy.

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