3-1986

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EMBA 560

March 10, 1986

Under the Direction of J. Kenneth Matejka

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INTRODUCTION

Is the human being the most important corporate resource or are corporations just paying lip service when they suggest this? The proof comes in what they do, not what they say. The corporate shareholders (especially the employees) know that actions taken or not taken represent the real priorities. How is the human resource handled in the decision-making process?

Commenting on the interface between the human resource and the organization, Crawford H. Greenewalt, Chairman of the Board of E. I. duPont, once said:

> "The difference between the notably successful institution and one whose record is simply run-of-the-mill is seldom very great. It does not consist of brilliant and inspired flashes of genius -- certainly not over a considerable period of time. <u>The difference rather is in the small increment of extra performance diffused over a very large number of individuals at all levels of the organization.</u> Give men the maximum of freedom, the maximum of incentive, and the achievements of the individual will be <u>fused</u> into the accomplishments of the institution." (1)

Despite Greenewalt's advice, many business executives continue to ignore the fact that "you can't push a horse to water, but you can lead him there." Perhaps executives shun this principle because power has distorted their viewpoint and erased the memory of past business experiences as an "Indian" rather than a "Chief." Whatever the cause, a reluctance to provide freedom and maximum incentives is constraining the performance in many companies.

The current organizational status of the human resource has undergone significant changes. Recent technological advances and increased global competition are causing a shift from labor intensive to capital intensive production in the industrialized nations, with an accompanying emphasis on product quality. Concomitantly, (1) the quality of the machinery depends on the human variable in the producing company; and (2) while machines can be sped up to increase the quantity produced, the calibration of that equipment, for example, is left up to the human factor. Since these technological advances are projected to continue, more and more emphasis will be placed on a critical, but altered, human contribution. Therefore, the human factor will become less of a labor cost, but ironically, perhaps just as important in the outcome of the finished product.

An example may help to illustrate this point. A problem experienced by a highly profitable and respected Fortune 100 company came to my attention recently. Equipped with the latest technology in an essential production process, their product quality was declining. The cause of the problem was improper calibration of the machine that produced an essential ingredient in the process. Company focus was on the machines and production requirements, but not properly focused on the critical human element. That is, either: (1) the company had failed to properly motivate the production manager and give him the incentive to ensure that the equipment was properly calibrated; or (2) they had sent conflicting signals about what was an "acceptable" quality. Either way, the human management element was the key.

PURPOSE

The purpose of this paper is to offer historical and current evidence and support for establishing an incentive plan for all salaried employees. The argument will be developed by a review of the literature which examines some expert opinions and by comparing "restrictive" versus "open" incentive schemes. If incentive plans work, then they should apply to all salaried employees, not just the top executives.

A Selected Behavioral Perspective

The increased gains to the corporation as a direct result of a higher motivated work force can heighten the success of the top executives as they maximize the stockholder wealth. F. J. Lunding, Chief Executive Officer of the Jewel Tea Company, said ". . . we do not share our money profits because we can afford to do so; we share them because doing so enables us to afford it." (2) By sharing the money, much more than money is shared -- the company is sharing the caring and increasing the involvement of the employees in the success of the company.

An early insight into the corporate motivational dilemma was provided by Mary Parker Follett, a respected and perceptive observer of the industrial scene during the 1920's.

> "We often tend to think that the executive wishes to maintain standards, wishes to reach a certain quality of production, and that the worker has to be goaded in some way to do this. Again and again, we forget that the worker is often, usually I think, equally interested, that his greatest pleasure in his work comes from the satisfaction of worthwhile accomplishment, of having done the best of which he is capable." (3)

This behavioral insight provides the key to the success of the business. We must find a way to identify this innate desire in employees, nurture and cultivate it, recognize their accomplishments, and reward their efforts. All employees, from the President and Chief Executive Officer to the company janitor, need and want positive stroking. That is, we want to hear, see, feel, and know that "good feeling" that comes from recognition and appreciation of our efforts. However, without such recognition, many employees feel their efforts aren't noticed or appreciated and often contribute less than they could. Merely saying, "that's what you get paid for" is not going to make anyone's day delightful. According to this behavioral premise, companies must: (1) provide the opportunity for accomplishment; and (2) reinforce it by providing significant rewards for greater performance.

Psychologist Herbert Otto, founder and director of the National Center for Exploration of Human Potential, gives the following advice to executives:

> "Your first task is to sensitize yourself, to train yourself to become aware of accomplishments by others. You can be sure that right now you are mostly trained to be sensitive to their deficiencies, slips, and mistakes. Tone down and diminish this tendency you have acquired, this searching awareness of people's problems, their inadequancies, and shortcomings. Begin to look for capacities, abilities, and accomplishments of others, their sound qualities, and their latent strengths or potential." (4)

Otto's advice is to accentuate the positive. Build strength, confidence, and respect. As Tom Peters recently reaffirmed, "label an individual a winner and you'll have someone who acts like a winner." (5)

These comments related to the delicate nature of a "self-concept" and the self-fulfilling behavior that results from management's approach form the basis for a tremendous potential, untapped in many companies and organizations. Many of us experience the end results of the actions of an uncaring management in our daily activities -- the billing clerk who blames "the computer" for the error, the craftsman who takes little pride in his work, the repairman who can't seem to fix the problem, the product made with missing parts or faulty assembly. The positive potential available in most employees could be harnessed and harvested much more effectively if we treated our people like winners, psychologically and monetarily.

The majority of the salaried incentive and motivation literature available today deals with the executive ranks. (6) However, it is difficult for many six-figure income executives to relate or even consider the types of problems or emotions involved with the everyday, average salaried employee. As suggested earlier, the world of perks and powers can easily distort a person's viewpoint. In addition, the pressure and demands on top-level executives can be a convenient excuse for not nurturing, caring, and sharing.

This paper will present and discuss the justification for using state-of-the-art, behaviorally grounded incentive techniques for all salaried employees. I plan to develop a case for greater consideration of this topic using the tremendous success of recent incentive innovations in the workplace and their effect on the companies involved and provide some possible alternatives to the current reward practices. (7)

THE CURRENT PRODUCTIVITY DILEMMA

The United States emerged from World War II with a firm grip on its position as the most productive nation in the world. The productivity growth rate in the private domestic economy, as measured by output per employee per hour, grew at the rate of 3.2 percent per year from 1950 to 1967. Things began to slow down in the late 1960's and early 1970's; and in the seven years from 1973 to 1980, the worst productivity growth occurred. The labor productivity growth rate for the private domestic economy was 0.1 percent per labor hour from 1973 to 1978. (8) Although the United States is still the most productive country on earth, our rate of productivity growth has slowed to a crawl and other countries (most notably, Japan) are gaining on us.

This decline in the rate of productivity growth, coupled with an even more important worldwide perception of declining U.S. quality, is a symptom of many factors, the paramount of which are human problems in the workplace. Certainly the employees' attitude toward their job is a critical factor. Apathy versus meaningfulness is a consistent work issue. Employee behavior should be of concern to any management interested in solving the productivity and quality dilemma.

One of the major conclusions of the 1978 symposium on "Work in America: The Decade Ahead," sponsored by the Work in America Institute, was:

> "In order to reduce productivity problems and improve the quality of worklife in the 1980's, an organization must make better use of its human resources and improve the management of the work force. (9)

In December 1980, William Batten, Chairman of the Board of the New York Stock Exchange and former Chairman of J. C. Penney, reinforced this need for more effective management of the human variable in a major speech, "We must have the policies that create additional, new wealth rather than policies that merely redistribute the existing store of wealth. Operating in the right environment, management and labor jointly determine, to a large extent, the productivity and thus the contribution of the private sector." (10)

These quotes would seem to indicate that the seed of progress has been planted by management's recognition of the importance of improved relationships and untapped employee potential. The critical element is continued concern, improvement, and development of this human potential.

THE GLOBAL MARKETPLACE

The growing global nature of the marketplace today is introducing many new facets and avenues of competition. The difficulty of maintaining a competitive edge on an international scale requires further emphasis on all available tools, especially the human asset. (11) As you cross national boundaries to build plants (foreign workers) or gain new markets (foreign consumers), human culture and values change and understanding the people becomes a key to success.

In addition, the United States has a tremendous opportunity (and, perhaps, responsibility) to influence the world in its solution to the business problems of today. Looking beyond the obvious economic impact of American business, there is a subtler, but yet important impact on the free-world enterprise system. The communist government propangandizes any mistreatment the human element receives in a capitalistic society. For example, when a decision is made to close a U.S. factory, the human element is often treated as a statistic -- in terms of cost per hour, overhead, and effect on the corporate bottom line. This seemingly callous concern for people serves as support for the Marxist government's treatment of the worker.

By: (1) improving the employee's contribution through more effective management techniques; and (2) developing pro-active corporate strategies to minimize impacts of shifting demand on the stability of the company's workforce, businesses can reduce the dramatic effect -- both economically and politically on employees -- of plant and office closings. In fact, corporate-wide employee concern and involvement may be the key to preventing closings by developing strategies to minimize the human impact. As the Japanese have learned from us, it is time to learn from them.

Another lesson we can learn from the art of Japanese management is their use of Quality Control Circles as a behavioral tool to harness employee involvement. These voluntary groups have a unique function -- they share with management the responsibility for locating and solving problems of coordination and productivity. They are a useful method for achieving high quality, improved productivity, and increased employee morale.

The reason I mention the Japanese Q-C circles is their dependence not just on statistical techniques, but the human aspect of their productive aims. The Union of Japanese Scientists and Engineers stated that the fundamental purposes of the quality control circles are: (12)

- "Contribute to the improvement.
- Respect humanity and build a happy, bright workshop which is meaningful to work in.
- Display human capabilities fully and eventually draw out infinite possibilities."

Following the behavioral perspective, the Q-C Circles handbook points out:

> "No matter how much factories are mechanized, so far as there are people still working there, they should be treated as human individuals. But this aspect is seriously neglected these days. Those companies that do not give due consideration to humanity will lose their best people sooner or later. There was ample evidence of this in such countries as the United States in the past twenty years or so. There can be no excuse for disregarding individual personality, slighting a man's ability, regarding people as machinery and discriminating against them.

> . . . People spend much of their lifetime at their working place. It would be much more desirable to work in a pleasant place where humanity is paid due respect and where people feel their work has some real meaning. That is what Q-C Circle aims to achieve. . . A mechanized factory still requires control by a workshop of people. As people are driven by a desire to study more, they acquire an ability far beyond their previous expectations.
>
> It is doubtful whether the mechanism known as meritocracy, a system that rates people based on their current performance and already acquired ability, can draw out their hidden ability." (13)

The essence of the Quality Control Circles is a voluntary setting in which the ideas, observations, insights, and involvement of employees throughout the organization can be fused to the organizational effort for quality and efficiency. But Quality Control Circles are merely a "tool" which must be preceded by a commitment to employee involvement. This "tool" will not work when used as a bandaid treatment for cancer. Jumping on the "fad" bandwagon is doomed to failure unless the top management philosophy is humanistic and concerned for the "respect" of its most valuable resource -- its people.

THE PARTICIPATIVE REVOLUTION

THE TURNING POINT

The year 1980 could be the turning point in "The Participative Decade" -- which began in the early 1970's. The notion of employee involvement began to suddenly be publicly accepted by some American industry and labor leaders quite suddenly as the new thrust for American industrial life.

There are a few events which provide some evidence of management's shift in its emphasis. (14) The Chairman of the Board of AT&T wrote in June, 1980, a strongly worded letter instructing all of the Bell System operating companies to lead their companies in a new participative management style. (15) During the same month, four major unions -- the Communication Workers of America, the International Brotherhood of Electrical Workers, the Steel-workers of America, and the Teamsters International Union -- all signed new collective bargaining agreements, calling for the establishment of joint national labor-management committees to explore new participative structures. (16)

But perhaps the most significant driving force in this new revolution has been the American education explosion. "There is considerable sociological evidence that suggests the higher level of education often brings higher levels of expectations and interest in internal fulfillment." (17) This increases the need for a greater concentration on the internal fulfillment of a company's employees. "An ever increasing number of American businesses are keenly interested in human resource practices that may be able to increase both performance and adaptability by more fully tapping the potential of their workforce. Participation groups are implemented in the belief that they will positively impact organizational performance and employee satisfaction by giving employees the chance to participate in problem solving and decision making." (18) The current American worker has more education, less threat to their security, and is pursuing more psychological needs in their work. A new management approach is essential to satisfy and unleash the potential of the workforce of the 80's.

THE NEW WORK ETHIC

One of the keys to the growth of the industrial U.S. was the work mentality of American workers. As Max Weber identified over sixty years ago in the "Protestant Work Ethic," the driving values of that ethic included belief in working hard and diligently without complaint or question, being respectful of and differential to authority at work, and generally wanting to work. This mentality was strongly influenced by progressive Judeo-Christian teachings during that period, which developed a strong hold on the general population. (19)

What is the current status of the work ethic? Many of us have heard or even said that people "don't work any more the way they used to" or lament with some other description about the deterioration of work quantity and quality today. The reason for much of this seems not to be a rejection of the work ethic, so much as a failure of business to adapt to the new workforce by retaining obsolete methods of controlling, measuring, and rewarding employees. It may well be that workers have been prevented from fulfilling their goals in our current organizations. Their "apathy" is not innate, but a reaction to the limitations of their present work environments.

The more enlightened view of the worker psychology is one that stresses that most people still want to be productive and will -- given the proper incentives and a climate of labor-management trust -- eagerly involve themselves in their jobs. The concepts behind the innovations used (quality circle, "self-managed" work teams) are not new; social cooperation at work predates recorded history. But the adversarial relationship between worker and management has blinded both sides to their mutual interests. (20)

Therefore, by involving the employee in more decisions, providing challenging tasks, and rewarding performance with equitable monetary incentives, job satisfaction will follow!

THE PAYOFF

People behave according to the perceived consequences -- Skinner was right. Given this premise, it is only fair to assume that a chief concern is "what's in it for me?" There are payoffs for both the company and the employees.

For The Company

What does the company gain from worker involvement? The new work ethic does not respond as the Protestant Work Ethic did; that is, the demand for good, hard, and productive work with punishment or discipline as the motivator is no longer the accepted procedure. Work performance must be sought and won, not merely ordered. There must be a carrot -- and this is the value of participation.

The Profit Research Foundation found evidence of superior performance by profit sharing companies as a group. They tended to outperform their nonprofit sharing competitors -- and that profit sharing contributes to these better results. It makes sense that employees, individually and as a team, will more likely strive for excellence -- if they have a direct stake in the results. (21)

The "professional" literature also documents the positive impact participative management has had on organizations <Flory, 1965 (22); Miles, 1975 (23); Frost, 1974 (24); Ouchi, 1981 (25); Meltzer, 1976 (26); Cangemi, 1980 (27); Gellerman, 1963 (28); Maslow, 1974 (29); Ritchie, 1976 (30); Sutermeister, 1976 (31); Scanlan, 1981 (32)>. This style of management leads to greater employee involvement, better communication between worker and management, and greatly improved performance for those companies adopting such an approach.

For The Employee

There are benefits for the people as well. Participation can make the employees feel they finally count in the organization, above and beyond just being a statistic; and thus they may acquire a new allegiance to their job and employer. It can work for unions by stronger allegiance to the union and its leadership as partners with company management. Mitchell Fein stated that:

> "Something else happens in a place of work when the participative ethic walks in the workplace door under one alias or another. You have to see it to understand it. You have to actually walk the shop floor. It is what Fortune calls a gradual 'culture change', or way of working -- from we-they adversarial stances (vertically and horizontally) to sharing, cooperative, win-win new-breed work cultures." (33)

This is a striking difference obvious to the customer, to fellow employees, and to the bottom line. That is, when employees honestly feel they "all work for the same company," there can be a dramatic reduction in wasted motions; such as, the "subtle revenge" that can take place when workers get even with management for a past event, or drag their feet to show their power. These are costly, yet elusive, abuses, but so important in the overall success of a corporation.

The Catch

Those that espouse the participative style of management add a serious caveat. These participative guidelines must weather the economic and political storms corporations face. That is, the corporation must be ethically motivated and be the driving force that creates and sustains the effort on a permanent and long-range basis. Failure to make the commitment will be discovered and the program doomed to failure. The corporation should believe in employee participation for profound ethical reasons -- such as increased human dignity at work and increased potential for human growth. If the company pretends to believe, when the underlying motivation is getting more productivity out of their work force, they will lose. Employees can spot "insincerity" from a mile away.

Dr. Joseph P. Cangemi, speaking at the 1982 Gainsharing Conference, further supported this commitment from management:

> It is important for management to honestly believe employees are a valuable asset and to sincerely demonstrate this by their behavior. Participative management is not a democratic management style. Subordinates do not actually make decisions, but rather they participate in the decision-making process. There are three significant variables that must be present: 1) the manager must demonstrate a genuine interest in the employees and their thoughts; 2) the employees must believe that they can influence the final decisions of their superiors; and 3) a climate of trust is essential to a successful motivational program. (34)

Putting it another way, Herb Otto said, "The element of trust is the basic rule in human relations. When we distrust people, they usually sense our attitude and reciprocate in kind." (35) However, merely trusting someone does not make them trustworthy. Dishonest people will not reform just because they are trusted. The one thing an executive can control is his own behavior. If he is reliable, people will trust him; and unless they are habitually dishonest, they will respond in kind.

The implementation of the participation system is important, but the critical element is a genuine commitment from management. The employees must see this philosophy in practice and understand its application. The creativity and analytical ability of employees is a tremendous asset and must be tapped.

Mitchell Fein supports this view:

> "The secret of how to unloose the motivation genie lies with the workers; only they have the power to rub the magic lamp. Workers will want to do this only when relations between management and labor are such that workers see identification with management and increased productivity as in their best interest." (36)

I have discussed the payoffs, in general, to the corporation and the employees. However, like the United States space program and the multitude of spinoffs and benefits to mankind as a result of it, it is hard to predict the precise payoff. The discoveries possible, the personal growth potential, and the improved efficiencies available by a happy and prosperous employee are only limited by our imagination. Why not plant the seed, nurture it, watch it grow, and harvest its fruit?

MONETARY INCENTIVES AS POTENTIAL REWARDS

INTRODUCTION

The importance of participation and commitment are essential in the participative management style. Although this philosophy is a reward for the employee, it is not enough. The monetary incentive for their new voice in running the company is paramount to them. After all, why should they struggle to improve just to make the top executives wealthier?

INCENTIVES AND MOTIVATION

The thoughts of behavioral scientists, such as Herzberg and Maslow, seem to have been misinterpreted in that they convinced many executives that pay is not all that important to employees and that it can only be a source of discontent. Therefore, oftentimes when executives seek ways to increase motivation and productivity, they tend to forget about pay-system changes and concentrate on more behavioral approaches such as job enrichment, team building, and management training. But research on pay does not support this view. Rather, just the opposite seems to be true. Pay seems to have a strong impact on employee satisfaction and a favorable impact on absenteeism and turnover. In addition, when pay is linked to performance, evidence has shown it also contributes to motivation. A study by E. A. Locke, et al., concluded that money is a more powerful motivator than is generally believed: (37)

> "Our findings may surprise or even shock many social scientists. For the last several decades, idealogical bias has led many of them to deny the effiacy of money as a motivator and to emphasize the potency of participation. The results of the research to date indicate that the opposite viewpoint would have been more accurate." (38)

Many times, executives fail to take a system viewpoint when considering approaches to improve organizational effectiveness. (39) Therefore, they often think it is possible to install programs, such as job enrichment and management by objectives, without a corresponding change in the pay system. This is almost a fatal error, particularly in the complex and interrelated structure of organizations today. Changes made in one area require changes in other areas to maintain the balance and harmony among the many subsystems. Therefore, since pay is so important, almost any important organizational change is likely to require a change in the pay system. To state it another way, since people behave according to the perceived consequence, if you can't change the reward system also, don't expect much behavioral change.

Mitchel Fein discusses a good example of how neglecting pay can be counterproductive in his paper, "Improved Productivity Through Worker Involvement." It espoused that worker involvement programs that have job satisfaction as the prime reward would only be moderately successful. He also believes that those programs which offer financial rewards by sharing productivity improvement with employees through formal productivity sharing plans are far more successful. (40)

Additionally, Fein questioned the approach on two basics:

> "Not rewarding workers for improvements they create is questioned on two grounds: equity and fairness; both are linked in workers' minds. Many companies that try hard for years to develop credibility with their employees may find that workers resent performing work for which they are not compensated."

My own experience has taught me that performance appraisals, office ergometrics, the job pecking order, and titles are important aspects of management. However, "talk is cheap" and the most concrete evidence a boss can present is that of money. It seems to serve as the important evidence of your evaluation of your employees. Although I have found that the ecstasy of a raise diminishes over time as an employee acclimates to it, the memory of the boss's recognition does not. That is, when discussions occur concerning career development or planning, the recognition base built up between the boss and the employee as a result of monetary rewards for good performance is evident. This base is helpful in generating an atmosphere of trust and mutual respect. However, it is important for the boss to be ethically committed as described earlier. If not, a "yes man" response can occur between the boss and the employee. That is, the employee might be afraid to disagree or offer advice and input for fear of reprisal particularly at raise time and therefore will agree with whatever the boss says.

Further support for my observations comes from a behaviorial science study conducted by the Psychological Corporation. They supported the premise that money can be used as a motivator to improve productivity. The study team found that one of the critical ingredients in a system to raise job satisfaction and worker motivation was: "Financial compensation of workers must be linked to their performance and to productivity gains." (41) This study also concluded that when workers' pay is linked to their performance, the motivation to work is raised, productivity is higher, and the workers are more likely to be satisfied.

As these studies have shown, linking pay to performance is an important aspect in the system. My experience concerning inflation adjustments to a company merit plan demonstrates this point. During the rapid inflation experienced in the late 70's and early 80's, the salary ranges which specified the minimum monthly salaries were adjusted in an attempt to reduce the bite of inflation on employees.

Despite the fact that they were not increased as much as inflation, they were indexed based on inflation and adjusted upwards by an average of 8 percent. Over a couple of years this created a demoralizing and demotivating effect on employees. The employees began to view their so-called merit raise, which often only brought them to the minimum salary for their range, as practically nonexistent. That is, they felt the raise had to be given to the employee because the company policy required every employee to be at least at the minimum salary for their classification by the end of each merit year or be terminated. Therefore, they felt that their performance really did not enter in the boss's raise recommendations. Money was not perceived to be directly related to performance.

Because of their perceptions the employees did not feel that the increase was really a reward and were not inspired to improve their performance. The high achievers definitely were aware that their level of performance was superior, yet their reward was not "fair" compared to other employees' efforts and rewards. (42) This created further distrust and encouraged less effort. This, in turn, caused some key employees to seek employment where they would receive financial recognition for their contribution. Finally, the effort required to attain the performance level was not "fair" in relation to the payoff.

The company's merit plan attempted to keep pace with inflation but was ill-conceived and should have been modified after the first year when it became evident that it wasn't accomplishing the intended result of improved employee motivation, performance, and morale.

THE CRITICAL ASPECTS OF INCENTIVE SYSTEMS

THE MEASUREMENT ISSUE

There are many difficulties in designing and implementing an incentive system. Many constraints depend on the nature of the business, the organizational structure, and the political and power concentrations. There are some critical elements common to any good incentive system which must be carefully considered before a plan is designed and implemented.

Albert Einstein postulated the speed of light to be 186,000 miles per second. The units of measurement were critical to his theory. Had he incorrectly used inches, feet, or centimeters, his theory would not have produced the correct solution. The measurement device, as well as the units of measurement, are critical to accurate results in an incentive system. Measurement probably is the most difficult part of designing a successful system, both in finalizing the equitable measurement method and selling it politically within the organization. For example, if the overall trigger for incentive payout is reaching a certain corporate profit level, then on what basis should the money be distributed? Should a profitable plant share in the incentive even if its division as a whole doesn't make a profit or vice versa? Naturally, these are difficult questions to answer particularly when dealing with division operating officers and/or plant managers. They are especially difficult where interdependences and synergy cloud the individual contributions.

It is essential that whatever the measurement criteria that are established, the criteria must be carefully and equitably planned, executed, reviewed, and changed if inequities surface. The following example illustrates what kinds of problems can surface despite the best intentions. It shows that sometimes employees take actions to make themselves look good or that benefit themselves, yet these actions are not always in the best interests of the company.

> "For example, a farm implement manufacturing company's incentive plan specified payment to its sales managers' commissions based on their sales to dealers. During an adverse economic period, the sales managers pressured dealers to make purchases with the provision the company would take back any equipment not sold in six months. Sales rapidly rose, and production management increased output to meet the increased demand. The sales people were paid substantial bonuses for improved performance. In the meantime, the equipment sat in the dealers' showrooms. At the end of the six-month period, the dealers returned substantial quantities of equipment to the manufacturer. The account performance measure -- sales to dealers -- did not represent the more significant performance measure of sale to final purchases. Hence, the commissions were paid even though the equipment was never sold to a final buyer." (43)

There is no universal measurement device, in my opinion. Realistically, it must be tailor-made to fit the corporation, its products, its culture, the corporation's sensitivity to the changes in the marketplace, and the corporate political structure. (This assumes that each of the aspects have been carefully identified.) A good system of measurement should be dynamic, self-evaluating, and easy to alter. Its success depends on its flexibility, a genuine commitment from the corporation's management, and a freely flowing feedback mechanism between management and the employees.

THE QUESTION -- GOAL CONGRUENCE

Given the importance of the judgment criteria, how can you design the proper measurement system and what should be the central purpose of the measurement? The key incentive issue facing corporate planners is how to develop a cost-justified performance evaluation system that captures the relevant performance measure. The essence of the objective is to achieve goal congruence by giving all members of an organization the incentive to perform in the common interest. This occurs when the group acts as a team in pursuit of a mutually agreed-upon and well-defined corporate objective.

An individual employee can attain goal congruence occurs when the employee's personal goals are congruent with the organizational goals. Put another way, when the employees can attain their personal goals by pursuing the corporate goals, congruence exists. My experience indicates that a proper incentive system satisfies many personal needs and serves as a lightning rod for goal congruence. Sharing significantly in the "profit pie" underscores the contribution the individual makes to the corporation. In other words, managers with monetary influence can make a difference. Whether it manifests itself by taking full advantage of the state-of-the-art technology, streamlining department operations, eliminating bureaucratic bottlenecks or reducing staff -- the effect can affect the corporate pocketbook. Once again, however, the critical element flows from the corporate philosophy, commitment, trustworthiness, and goals.

For a manager to pursue a goal, it is important for the manager to perceive that his peers are taking similar approaches. For example, he might be hesitant to cut costs if he feels someone else will just add staff to take up the slack he generated. However, the established political network in a corporation can be mind-boggling and difficult to penetrate. Often-times, the more timely way to effect a corporate culture change is to bring in an outsider with a mission. Void of political debts and influences and equipped with a strong management ability, the outsider can sometimes spark a change in management philosophy.

Although total goal congruence is uncommon, there are cases in which a strong team spirit, activated within an equitable measurement and reward system, suppresses individual desires to act differently. Examples include some military units and athletic teams. In most business settings, however, the personal goals of the various employees and the organizational goals are often in conflict. Employees and employers have different opinions of how much risk employees should take, how hard employees should work, and what is an important aspect of company business. Performance evaluation and incentive systems should be designed to encourage employees to perform because the accomplishment of their goals is congruent with the accomplishment organizational goals. The more congruence that exists, the more successful the performance will be.

My experience has indicated that seemingly automatic reactions and decisions are often dictated by a person's philosophy. Values affect decisions. Suppose a person has a scenario described to them as follows: The bank teller cashes your check for $10 and returns $100 in cash to you; would you keep it and leave the bank? Some people would respond with, "No, I would bring the error to the teller's attention immediately." Others might ask, "Would I be caught?" This example indicates the difference in the value system and decision criteria of the two employees.

Each of us were basically born without values and learned our core beliefs and expectations from our parents, grandparents, friends, and other influence agents. The multitude of learning environments and personalities of employees has a definite impact on an employee's acceptance, rejection, or alteration of the corporation's goals. However, I believe an effective screening, interview, and ongoing performance evaluation system, coupled with a well-defined, well-communicated, and well-practiced set of corporate goals linked with the proper incentive systems for <u>all</u> employees can deliver an unbeatable work force. Just as infants learned from the parents' reaction to their actions, an employee can learn from the corporation and its expectations and reactions. But the corporation must be fair, concerned, and consistent. And, the job is much easier if the organization recruits new employees with values similar to the corporate beliefs.

An example of moderately effective goal congruence might be our education system. Many people have experienced behavorial congruence in their dealings with educational institutions. Examinations, assignments, and the entire grading process are parts of a performance evaluation and incentive system that encourage students to behave in a certain manner. It is important to note that such a system is not mandatory; however, students are told the rules of the system and can perform according to the standards or suffer the consequences. Once again the importance of the design of the system surfaces. The system can encourage the wrong kind of behavior. Individuals choose to attempt the behaviors they see as leading to outcomes that are attractive to them -- in the way that appears to have the best chance of providing positive outcomes. (44) If the goal of education is for students to learn, they might benefit by taking difficult courses. However, if their grades suffer when they do, they would have incentive to take easier courses.

The employer-employee relationship is different from the student-teacher interaction in several ways: (1) most people need a job; (2) education has a strong development goal; and (3) money takes the place of grades. Generally, I have found people desire to maximize their earnings up to the point where they feel comfortable with the level of responsibility. However, by providing them the incentive to perform their particular job to the best of their ability, you encourage them to perform at their highest level of competence and enjoy some additional monetary rewards. Perhaps this would avoid the occurrence of employees accepting promotions above their ability and allow them to function in the most effective place in the company.

To summarize, each member of the organization must have the proper incentive (accomplishment of personal goals) to strive towards the goals of the corporation. A smoothly running, balanced, and efficient machine can provide the opportunity for each to share in it -- both its trials and triumphs. In the process, much can be learned and improved.

WHY IMPLEMENT AN INCENTIVE PLAN

An effective incentive plan can provide several related benefits to a company, revolving around profits and performance. First, incentive plans offer an avenue available to corporations to maximize their profit or wealth. As an example of the effectiveness of incentive plans, the vast majority of sales forces in the United States are on commission plans. Approximately 90 percent of manufacturing companies have executive bonus plans; the median bonus for the three top executives averages 48 percent of their base pay. It is significant that a study of executive compensation of 1,100 companies listed on the New York Stock Exchange found that those companies that had formal executive incentive plans earned on the average over 43 percent more pretax profit than did those companies without incentive plans. (45) Clearly, incentives are a key to performance and profitability.

Realistically, it seems that the best chance of installing an incentive plan that reaches all salaried workers is to structure it so that it does not affect the executive bonus plan. This is a difficult area, but if the top executives felt their share would be reduced due to a new type of incentive plan, there is a much smaller chance of its installation. (The validity of this statement shows the potential conflict between personal and organizational goals, even at the top level.) However, I think this can be overcome with a properly designed incentive system. In fact, the company's improved performance that could result from a group of higher motivated employees could actually increase the top executives' share of the profit pie.

BUSINESS INCENTIVE PLANS FOR ALL EMPLOYEES

There are three main barriers which stand in the way of adopting a more encompassing incentive system. First, the biggest obstacle to implementing an incentive plan for all salaried employees is gaining top management's blessing. The reduction in their share of the profit pie is a painful threat to them and one they will not accept. A company with unionized hourly employees, as well as non-unionized salaried employees, faces the additional obstacle of parity. Management would probably be reluctant to institute such a plan for salaried employees because of the possible insistence of the hourly workforce for an equivalent plan. Furthermore, a corporation installing such a plan would probably do so only for a reduction in current wages and/or future increases. Management would probably be concerned about those years when profits were low or non-existent and the impact of employee morale.

These obstacles are not insurmountable, but do require a careful analysis before jumping on the bandwagon. On the surface, there are several possibilities. Top management can be isolated from the salaried workforce incentive plan. The plan could be offered to hourly and salaried employees as a cash plan without company stock and avoid the voting power block question. A percentage of the incentive plan could be diverted in good years as a buffer against lesser profitable years.

However, the gains offered to the corporation with a fixed wage expense are significant and worthy of careful financial scrutiny.

INNOVATIVE INCENTIVE PLANS FOR SALARIED EMPLOYEES

There are several ways to improve corporate efficiency and effectiveness. The approaches presented for consideration are but the tip of the iceberg. As more and more employees become involved, more ideas will be discussed and many opportunities presented.

GAINSHARING

Gainsharing has been shown to be a powerful vehicle to improving the corporation's effectiveness. It is an organizational reward system that offers people the opportunity to take greater personal responsibility for the success of their organization. Two potential benefits of gainsharing are that it:

- Often leads to greater creativity and commitment.

- Contributes to productivity and profitability.

Gainsharing plans are designed to involve employees in improving productivity through more effective use of labor, capital, and raw materials. The financial gains are shared by the employees and the company, according to a predetermined formula that reflects improved productivity and profitability. The emphasis is on group plans as opposed to individual incentives. (46)

Individual incentives can create problems between fellow employees. Most of us have come in contact at one time or another with sales clerks competing for your business in a retail store. This competition can be disruptive to business and actually drive customers away.

I am continuously amazed at people's reactions to such bureaucracies as the Internal Revenue Service or the Department of Labor. Although I generally agree with the lamentations I hear, I don't concur with their final evaluation. These agencies are nonentities that receive their life from their employees. So rather than join the bandwagon and complain about the government, why not complain about government employees? Only through the employees can the bureaucratic beast we refer to as the government be improved. My point is that the employees are essential to any consideration of effecting changes. Irving Bluestone, the vice president for General Motors, Department of the United Automobile Workers Union, summarized the value of the asset we refer to as our employees:

> ". . . management should cooperate with the worker to find ways to enhance the dignity of labor and to tap the creative resources in each human being in developing a more satisfying worklife." (47)

A recent article in the Richmond Times Dispatch (48) lends support to my argument. "All across the country — from city halls to county courthouses to capitals to federal bureaucracies — governments stymied by rising costs and protesting taxpayers are turning to private businesses to handle government jobs." They are engaging the private firms because of the argument that a private corporation can do the job more cheaply. The profit motive forces private enterprise to find the least expensive way to operate. The government work force, on the other hand, are monopolies mired in politics; and they have little incentive to cut cost or modernize.

A striking example of private versus public competition was evident in one city's approach to performance. Phoenix, Arizona, began requiring that in 1978 city departments bid against private contractors to provide services. Since that time private companies have won 28 and city departments 15. The city saved money not only by having private companies do municipal jobs, but also because they forced the city departments to trim their budgets and to initiate improved management techniques in order to compete. The Phoenix City Manager stated, "When we first went into this, morale among city workers went down. But the Public Works Department was dedicated to getting the work back. Only with the cooperation of the workers could the department find ways to cut costs. When a city department won a contract, morale went up because they proved they could beat private industry." The city has estimated that it saves around $4 million a year. This incentive system is but one example of possible creative solutions to inefficiency.

INTEREST IN GAINSHARING

There are several good reasons for the increasing interest in gainsharing plans. (49) First, soaring labor costs often exceed productivity improvement. This contributes to corporate overhead and to the inflation level on the national scene. Training linked improved management of employees can be a key element in increasing productivity. With proper training and plan design, resistance to the plan is less and probability for success greater. (50)

The cost per unit of goods produced or services provided has sky-rocketed in recent years. The consuming monster, inflation, has fed on the increased prices companies have instituted to maintain their profit margins and corresponding cost-of-living increases dictated in many labor contracts; and so on with continued escalating costs and price increases. The key, therefore, is to increase productivity and break the cycle and raise the employee's standard of living. (51) Ironically, most of the focus on improving productivity seems to be on tangible items such as equipment, schedules, and processes. Even though each of these is important, none has a lasting influence on the willingness of subordinates to perform to the limit of their abilities. That is, the key is in our managerial approach -- what we think, say, and do.

An encouraging sign for managers exploring gainsharing and/or greater employee involvement is a survey by the United States Chamber of Commerce. This study indicated that:

- People want to make a contribution.

- They have skills and ideas that are not being tapped.

- Utilizing this neglected resource can improve productivity, quality of worklife, and the long-term flexibility and viability of an organization. (52)

My focus is on applying incentive plans to all salaried employees. Naturally, the measurement of their productivity becomes harder, particularly for those who have indirect production functions. This difficulty makes the gainsharing approach more appealing with its emphasis on group rewards rather than individual incentive plans.

The Skippy Little Rock Model (53)

One of the most interesting examples of innovative approaches in the United States is the Skippy Peanut Butter, Little Rock, Arkansas, plant. Their experiment and success are detailed. In essence, they have incorporated a lot of the ideas of participation and put them into practice. The November 1982 issue of Productivity described a futuristic approach to the workplace at the Little Rock, Arkansas, Skippy Peanut Butter Plant. The experiment involved approximately one hundred employees who essentially run the plant. There are only three management employees -- a general manager, a human resources manager, and a quality assurance manager. The article quoted a knowledgeable source as saying, "No one has a fixed job. No one has a job description. There are no inspectors, no supervisors. Yet the plant consistently turns out the highest quality products, at lowest costs, of any plant operated by Best Foods."

The three management people act as advisors, but the plant's one hundred employees are responsible for meeting the production targets and goals. The employees are their own supervisors and are thoroughly briefed on every aspect of plant operation. They understand production, costs, demand, and distribution. In addition, they are trained to perform all the duties of supervisors and managers. The employees are paid on a salaried basis rather than an hourly wage. The salaries are highly individualized and based on a worker's knowledge and skills. The employees' expertise levels are objectively tested by rigorous examination techniques. Employees are asked to demonstrate their knowledge of a chemical reaction or state a theory behind the reaction, for example. Therefore, the greater the knowledge and skill base is, the higher the salary.

Upon employment, each employee is presented with the challenge of a ten-year, step-by-step career path, designed to ensure growth in knowledge, experience, and usefulness in the plant. The twelve, step-by-step levels of the career development plan can be pursued at one's own pace. An employee could even linger at any career level based on one's ability or desire. The philosophy is that allowing an employee the opportunity to grow doesn't mean forcing them to grow.

The plant's general manager stated that the plant recognized that something had gone awry in the workplace generally. According to Louis E. Davis, professor of Organizational Sciences at UCLA Graduate School of Management: "What technical experts failed to realize, is that each time they created a new technical environment, simultaneously they created a sterile social environment that scanted human aspirations, ignored basic human needs." According to Davis, a human being's workplace aspirations are as high as his aspirations for his personal life. He relishes achievement, seeks challenge, and desires success.

One expert quoted in the article at an International Conference on Productivity and Quality Improvement said that a lot of workers in the U.S. ". . . begin to look upon the job as merely a means for acquiring a salary -- and they look to family-life, hobbies, golfing, fishing, and other sports to give meaning to their lives." The approach taken in the planning stages was one of "show me why it must be done that way" rather than "it has always been done in the past that way." The resulting program was a great success; and within twenty-four months, the employees were setting production and product quality records.

The plant stresses team spirit and team efforts and rotates team members through assignments at least every six months. In addition, all employees have the right to interview and pass judgment on job applicants.

Despite the success of this venture, one should not rush into adopting their philosophy without understanding thoroughly one's particular product, market, strategy, and competitive business environment. Then, and only then, should a system be designed to help achieve your business goals. UCLA Professor Davis commented that Skippy took a specific workplace setting and satisfied both the human needs and aspirations of the average worker and the efficiency demands of state-of-the-art technology.

As a follow-up, I called Mike Smith, Human Resources manager at the Skippy Plant. He reported that in the eighth year of operation the plant continues to improve upon past successes. The output poundage per hour has steadily increased and is the highest in the company. The state-of-the-art technology utilized in the plant and the accumulation of employee skills combine to produce the highest quality peanut butter of the three Skippy plants. In addition to the salaried employee benefit program, the employees can participate in a stock ownership program and a 401(k) retirement plan with a company match. There is also a gainsharing program which is based on line efficiency, quality, and safety gains. The entire Skippy program is an incentive program designed around a basic motivational factor -- give an employee a real incentive and he will perform a quality job.

The Lincoln Electric Incentive Bonus Plan

Perhaps the oldest and most studied incentive plan for a current U. S. company is the Lincoln Electric model, which started giving bonuses in 1934 and is still going strong. In the last 65 years, Lincoln's average factory pay has climbed a hundredfold to about $21 an hour, including a year-end bonus that effectively doubles base pay. The tradition at Lincoln was begun by James Lincoln, who ran the company for 51 years until his death in 1965, and who believed that the needs of the workers come first and shareholders' rights second. (54) During the 52-year history of Lincoln Electric's incentive bonus, the bonuses have averaged 97.6 percent of an employee's annual earnings. Company management determines the size of the bonus for each worker, based on merit evaluations. The 1985 bonus checks averaged $17,380 per employee for Lincoln's 2,405 employees. This was an allocation of $41.8 million in bonus money. (55)

A major reason for the success of the company began with James Lincoln's belief that a company needs a basic goal that all those connected with the company can understand and achieve. That is, that an employee should be compensated in proportion to his contribution toward the company's success. The compensation was, and is, guaranteed employment and a year-end bonus. (56) Lincoln contends that this is not a system but a philosophy. The company feels that people are its most valuable asset; that they must feel secure, important, challenged, and in control of their destiny. The employees are treated with dignity and respect and are given the responsibility for the success of the company. In return, they expect their fair share of the profits. At Lincoln Electric, employees get their fair share. (57)

The General Motors Saturn Plant Agreement

The United Auto Workers (UAW) and General Motors Corporation entered into a landmark agreement for their new Saturn car complex. This was the leadoff to an article in the Raleigh News and Observer picked up from the Associated Press on July 27, 1985. Although specific details have not been announced, the agreement establishes the UAW as a full partner in decisions from the shop floor to executive levels. "That is a degree of co-determination never before achieved in U.S. collective bargaining," according to UAW President Owen Bieber.

All decisions at the Saturn complex are to be made by consensus, and any of the parties can block a potential decision. The initial group of employees will be protected with permanent job security. In addition, the employees will be paid a salary rather than as hourly employees, performance and attendance bonuses, and profit-sharing payments. The artificial distinctions between workers and management, such as options to purchase GM products, separate cafeterias, and entrances, would be eliminated. The UAW stated that the decision-making process at Saturn would "reflect the importance and value of consensus decisions, full participation of the workers and their union, and the free flow of information within the organization." (58)

As a result of the joint process, "for the first time, workers will know whether we are making a dollar or not." On the shop floor, workers will have "much, much more control" than in conventional auto plants, according to UAW Vice-President, D. F. Ephlin.

Some additional features of the agreement per the UAW staff were:

- In place of the standard rules and penalties for infringing the rules, Saturn will expect members to live up to the principles set down in its mission and philosophy statements. Where members fail to conform to these principles, corrective action will emphasize consultation, guidance, and review, rather than punishment!

- The Saturn agreement is understood to be a living document that either party may seek to modify, and negotiations to that end may be initiated at any time. (59)

These dramatic changes to the traditional management-labor relationship are evidence of General Motors' recognition that the status quo in their automotive plants is due for an overhaul. The essence of this new agreement is employee participation, increased motivation, and a share in the profits as an incentive. I believe changes such as this one will become more and more commonplace, as management tries to restructure and improve its competitive position in the world.

Chick-fil-A (60)

Truett Cathy, founder of the Chick-fil-A fast food chain has earned a reputation as a boss who makes the welfare of his employees his top priority. "I place a lot of importance on people, our chief emphasis is on attracting good people because businesses do not succeed or fail. People do."

Chick-fil-A has a share-the-wealth agreement with the operators of each restaurant and a variety of incentives. There are currently 300 restaurants in the chain which posted sales of more than $150 million in 1984. According to Cathy, "We do things a little differently, but we're trying to meet the needs of our people and make this an enjoyable place to work."

The Chick-fil-A turnover rate is far lower than the industry average. The company receives nearly 1,000 inquiries a month from people interested in operating a Chick-fil-A, mainly attracted by the company's unique joint-venture agreement. A person can sublease the franchise for only $5,000, compared with hundreds of thousands of dollars for other chains. In return, the operator pays the chain a 15 percent service charge and then splits the profits 50-50 with the company. The average salary for the operator is $43,000. Chick-fil-A has awarded more than $2.5 million in college scholarships, at $1,000 apiece to student workers.

CONCLUSION

I have attempted to present a case for dramatic changes in the work environment. Obviously, the employees are a critical element in a business venture. However, a quality product with no buyers, a service with no people to service, or a price too high for a good is useless and will guarantee failure of the business.

My focus is on the employee and the alteration of management's view of them. The purpose is to increase the stockholders' wealth (and all the employees') without a limitation on this increase. It is essential that once the incentive system has been designed and the measurement and distribution method decided upon that there be no cap on how much incentive can be distributed. That is, if a company quadruples its profit, each employee's incentive share should be increased according to the incentive formula; and it should allow for them to share in the increased profit. Changing the incentive formula to keep workers from making too much money has been the demise of many otherwise successful incentive plans. Find what is fair and leave it alone!

A striking example comes to mind concerning incentives. In 1984, state lottery machines swallowed a gross of $5 billion, with an average payout in prizes of 50 percent of the gross receipts. (61) Although I agree that it requires a relatively small investment in time, money, or effort to buy a lottery ticket, look at the determination and incentive people have to purchase a chance. The point is people who are provided an incentive will work harder, organize better, and do their best to reach their goal.

In closing, I would like to pose a question. How many Americans do you think would file and pay their Federal Income Taxes each year if the only penalty was a one dollar fine? Isn't the incentive we have to do things the key to practically all we do?

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