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"People" Factory in Profitability

Ralph M. De Biasi

In setting goals at the top and sending down crash orders to achieve them or else, management often loses more than it can hope to gain through employee resentment at not being consulted —

THE "PEOPLE" FACTOR IN PROFITABILITY

by Ralph M. DeBiasi
Leviton Manufacturing Co., Inc.

ABOUT 5% of the people work, 10% of the people think they work, and the other 85% would rather die than work. . . . I think there is a definite need for more pressure, people have to be needled. . . . Man is inherently lazy, and if we could only increase the pressure I think the budget system would be more effective."

"There are hundreds of workers who don't have the capacity to do things other than what they are doing. They might be able to develop some capacities, although I think there are many who couldn't even if they wanted to; because they don't have the desire."

Have I shocked you? I hope not.

Did it sound familiar? It should have.

These are all quotations from surveys Chris Argyris reported on in his classic study of *The Impact of Budgets on People,* New York Controllership Foundation, 1952, which reflect behavioral assumptions implicit in the structure of most present day accounting systems.

The view which holds that people are ordinarily lazy, inefficient, and wasteful; that if money is available it is to be spent; and that work is an unpleasant task that people will avoid whenever possible, reflects a management philosophy prevalent in the early 1900s and one that is still dominant to this day.[1]

The emphasis of this philosophy is on economic gain for the enterprise, on economic incentives for the individual, and on economically oriented decision-making processes. We continue, with minor modification, to use an organization theory which is concerned with men primarily as adjuncts to machines, to be taught and economically motivated to maximize productivity through increased efficiency.[2]

To implement this philosophy, accounting techniques are established which help management to

[1] Caplan, Edwin H., *Management Accounting and Behavioral Science,* Reading, Mass., Addison-Wesley Publishing Co., 1971.

[2] Toan, Arthur B., Jr., "Does Accountancy's View of Human Behavior Meet Today's Needs," *Price Waterhouse Review,* Summer-Autumn, 1971, also "Is Accounting Geared to Today's Needs?" *Management Adviser,* November-December, 1971.

Working conditions, fringe benefits, etc., are essential but not motivators of people. The real motivators are responsibility, achievement, the work itself, and advancement. These are the key to improving worker performance and productivity. The management of human resources should have the same, if not greater, priority as the management of other business assets.

plan, coordinate, and control, so as to achieve the maximum profits. The resulting accounting system serves as the control device so that management is able to identify and correct the undesirable performance of those so-called "lazy workers."

Interestingly enough, it is a pretty good description of most business accounting systems today. The behavioral assumptions inherent in these systems have endured for a long time. But today, they are —and rightfully so—being questioned, doubted, and challenged in many areas.

The world of the 1970s in which we find ourselves, is far removed from what it was 50 or 60 years ago. Technological change, economic change, changes in the structure of the family, and changes in education have all had a profound effect on attitudes, thought, and approach to life.[3]

Fundamental changes in values, particularly among our younger workers, (veterans and minority workers, if you will), are having a strong influence on managerial behavior and the underlying assumptions on which traditional accounting has rested for so many years.

Shift toward autonomy

In the business setting, directional changes can be seen toward more autonomy for the individual, wider participation in planning and decision making, greater dependence upon individual judgment, and more widespread recognition of the potential power of non-managers to help (or thwart) business in the realization of its goals.

We are moving away from the sanctity of management rights and organizational policies and procedures. To achieve the economic goals of management (on a long-run as well as short-run basis) it is necessary to recognize what motivates people. Failure to do so will adversely affect the long-run contributions people can make, which are so important to any company.

Now, what do I mean by this? If the system emphasizes short-term profits and cost savings, if the system does not offer motivation, then the attainment of the higher priority of long-term profit contribution is jeopardized or even impossible.

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Are traditional theories true?

At this stage we can begin to see that serious doubt exists as to whether the economic and organizational theories underlying our accounting systems properly or fully describe the forces which motivate both managers and employees.

Diverting for a moment, I recall reading some figures recently which showed how poorly the U.S. has been doing in the international race to increase productivity. During the last decade, the U.S. increase in output per man-hour was the lowest among all of the developed nations of the free world—less than one-third of what the Japanese accomplished.

Although it is understandable that the newly developing nations should make rapid gains in productivity, still there is a nagging doubt that our productivity is increasing as much as it could. I can't help but think there is some relationship between lagging productivity and the "people" problem. We can

[3] Lee, James A., "Behavioral Theory vs. Reality," *Harvard Business Review*, March-April, 1971.

[4] Hertzberg, Frederick, Bernard Mausneo, and Barbara Snyderman, *The Motivation to Work*, New York, John Wiley & Sons, 1959.

make rules and regulations, and set forth all kinds of plans and procedures, but it means little if we have neglected our human resources and lost their productive interest. We, as managers, must share some of the responsibility for seeing the U.S. go from No. 1 in productivity to No. 10.

Industry's attitude skeptical

What we are really dealing with is human behavior. And, unfortunately, since the field of behavioral science as related to business has been exploratory at best, we are left with more questions than answers.

As an example, management accounting is not in a position to assign values to human assets and measure changes in them over periods of time.

Although we can still appreciate the plight of the manager who attempts to build high morale and motivation, to increase productivity, and who is hamstrung by the short-run orientation of accounting indexes, can we help?

Management, on occasion, has taken a dim view on the subject of human relations. I am sure at one time or other you have all heard management respond to pleas for consideration of human behavior with such terms as . . . "not useful . . . too fuzzy . . . theoretical . . . soft . . . not operational"[5] particularly when attempts are made to incorporate the human equation into profit planning.

However, in all fairness, industry in recent years has shown a willingness to experiment—even though many such experiments fail or offer questionable results—and its attitudes are changing as far as "fuzzy, theoretical, and soft" are concerned.

You may well ask, "What part can I play in this period of change?" Very little if you accept the view that managerial behavior change is primarily a function of cultural change. To me it is evident that, as managers, it is our responsibility and that it will not happen until we properly assume the obligation to bring about the change.

If we agree these changes are desirable, are we going to say they will come about as cultural changes and sit back and wait for them to happen? Or are we going to take an active role and make it happen?

In this connection, let us examine some of the issues we will face in taking on the challenge. You will find as we deal with the issues raised that there are no clear cut paths to the correct solution.

First, let us consider the "people factor" in profitability.

While a lot has been said and written about the ideal approach to profit planning—with participation at the lowest possible level of responsibility and the need for built-in feedback to monitor and control performance—my experience is that in actuality most profit plans are set by committee (this is true whether for sales, operations, administration, or even corporate profits); *not* by the line supervisors and foremen expected to carry out the plan, but by the top managers and owners of the business most desirous of the results (and who stand to gain the most), whether the goals set to achieve these results are reasonable or not. We don't admit this, but I think it's a fact of life.

Frankly, I am not convinced this is altogether bad, and not the most practical approach, and (within the context of reality), provided the

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RALPH M. DE BIASI is vice president of finance of Leviton Manufacturing Co., Inc., a producer of electrical wiring devices. He is a member of the National Association of Accountants and the American Institute of Corporate Comptrollers. Mr. De Biasi received his baccalaureate from St. John's University and attended New York University's Graduate School of Business.

[5] Lee, James A., *op. cit.* Also David R. Hampton, Charles E. Summer, and Rose A. Weber, *Organizational Behavior and the Practice of Management,* Glenview, Ill., Scott Fresman and Company, p. 5. See also Conference Board, *Studies in Personnel Policy,* No. 216, 1969.

profit planning is realistic and set constructively to "help" the line supervisor and his people achieve their goals—not to "police" their activities or legally bind them. It is my experience that at this level they are sincerely seeking assistance that we rarely give them.

This is where I'd like to get into what I call "humanizing" the profit-planning process to make life easier and more productive for all echelons of management. While my information is derived from experience in privately held corporations, it is equally applicable, I feel, to publicly held corporations and businesses.

We must ask, "Are the goals realistic? Or will they merely tend to create stress and pressure?"

In the drive to force through very real and important goals it is easy to lose sight of the fact we need "people" to get the job done. And sometimes we become so committed that we are blind and deaf to these same people when they voice doubts or raise objections about being able to meet the goals within the time scheduled.

I am not talking now of the line supervisor or foremen who will always find ways and reasons why "it can't be done" but the man who honestly questions the plan—rightly or wrongly—and has the guts, experience, and loyalty to speak out (because it takes all three). Again, I must emphasize, he is the man who honestly questions the plan.

"Trickle-down" directives

Such situations are usually the result of a chain reaction that starts at the top and is bucked down through successive layers of management until it trickles down to the foreman and his assistant. The president tells the v.p. who calls in the manager who passes it on to the supervisor who assigns it to the foreman—and there it terminates. Usually accompanied by the "all-stops-out" cry that, "We don't care how you do it but it's got to be done. Your people can do it. Sell them on it!"

The result is a build-up of stresses throughout the chain of command in direct proportion to the importance of the end result. All of which lands without recourse, on the manager, supervisor, or foreman, not the workers who have a union to protect them from retribution or blame if the plan fails.

This might be particularly applicable as a result of a response to an emergency competitive situation or drastic change in market conditions which calls for a sudden revision of budgets and goals.

What happens when such situations don't follow the textbook? A lot of companies talk a good game about "participation at the lowest level" but play a bad game or none at all.

How many of us work for companies in which the lowest level of management responsibility enters into every budget action—and here I'm talking about the foreman who gets the job done—to set objectives when planning budgets that affect his operation? Not too many, I would venture to say, based on the stories I've heard.

What it means then is that it is up to you, or one of your people, to make sure the channels of communication are open. And that when a seemingly impossible task is seen as such by the people expected to get the job done—justifiably or not—that you investigate their concerns.

A chain reaction starts when a goal originates at the top and is then bucked down through successive layers of management without adequate time for discussions or reactions on the way.

Let me give an example of a situation that developed at my company. We were up against a competitor who suddenly started selling a consumer product at a much lower price than ours. He was beginning to make serious inroads into a market we traditionally dominated. This was definitely having an adverse effect on our sales volume.

While our product was of a much more rugged design, and of superior quality, it was actually overdesigned for the market. So we assigned engineering the job of coming up with a simpler low-cost unit without reducing reliability or product life, within a parameter of a 30 per cent cost savings; concurrently advising manufacturing that it had to be in full production by the end of the year.

Like many "crash" programs, this one collapsed. We finally ended up with our product at the price quoted—but several months later than scheduled. And we almost lost our engineering and manufacturing supervisors (who had been with us for years) in the process.

Why? Because the timetable we set was unrealistic and the supervisors were subject to interdepartmental pressures at an uneven level. We were not smart enough to see what was happening. In addition, we underestimated the manufacturing design problem and overestimated the urgency—because the competitor could not deliver.

The story has a happy ending because it turned out we increased our share of the market thanks to the new design, but that doesn't alter the fact that we made a management mistake in planning and we abused our human resources.

How do you conceive of your role in planning profits?

Is it one of control or support? Is your staff looked upon as the "watchdog of the company?" Are there conflicts in goal setting within your organization? Do your budget men believe they are almost solely responsible for cost reductions, that they alone are expected to seek and find opportunities for cost savings? Have line managers abdicated part of their authority to you or have you usurped part of the line authority from them?

These questions are rhetorical. For, in the final analysis, you must test your ideas against the specific nature and objectives of your company. The leadership styles, autocratic, democratic, or some combination thereof, affect attitudes throughout the organization. The type of industry you're in, and the particular jobs it requires, and the personality of the managers are significant.

I do not expect that there are ready answers to these questions. But they do point out that the attitude and approach brought to the job has a significant impact on the people who will be attempting to realize the company's goals. Of course, your attitudes and approach all conform to a large extent to what your management expects from you.

In conclusion, it would appear to me that profit planning has an impact on the behavior of people, and that people's behavior affects the effectiveness of such plans. What the effects of these relations are is not always clear. Changing attitudes toward the concept of man and his relation to work brought about by changes in technology, affluence, family structure, and education are influencing the way an organization functions.

The simplistic views of the past upon which much of accounting theory rests are giving way to the recognition that in a modern complex society there is no single universal goal, such as profit maximization, that a company can claim for its own. We cannot be oblivious to this change. We must accept the challenge of the present and search for the answers which have meaning for us even if it means discarding ideas that have served us well in the past.

It has been said that control is not in the books of account but in the minds of men. If we can solve the people problem, the other problems will be easy.

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