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**Managing Human Resources
for Productivity Growth**

by William C. Freund

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MANAGING HUMAN RESOURCES FOR PRODUCTIVITY GROWTH

William C. Freund
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INTRODUCTION

Among the great challenges facing the American economic system is to improve its rate of productivity growth during the decade of the 1980s. The reason is simple: Productivity growth provides the engine for economic progress, for greater real growth, for more job opportunities in the long run, and for containing the pressures of inflation.

Unfortunately, the decade past saw productivity growth dwindle in the U. S. and the result was a loss of competitiveness in domestic and world markets. The term "stagflation" was coined to describe the dual conditions of stagnating real growth and mounting inflation.

The public at large, and policymakers on both sides of the political fence, have become concerned with ways of encouraging a faster rate of productivity growth. Most of the prescriptions being offered, however, deal with ways in which the Federal government can promote savings and capital formation by easing taxes and regulatory restrictions.

The thrust of this article is that management itself can do a great deal to supplement government efforts to increase productivity growth. A firm's most important asset is human capital, and how the firm manages workers and work has a great impact on its productivity growth. The thesis of this broad article is that the "quality of work life approach," now spreading through American industry like wildfire, contains both dangers and promises. But the payoff could be a significant improvement in management-labor relations, in employee morale, in problem-solving at the factory floor, in raising the quality of products, and in making the U. S. more productive and competitive worldwide.

This article, which is also being published in the Journal of Accounting, Auditing and Finance (Summer, 1981), was prepared by Dr. William C. Freund, Professor of Economics at Pace University's Lubin Graduate School of Business, under the sponsorship of the Henry George Research Program in Business, Economics and Taxation. The aim of Henry George was to maximize progress and wealth. The better management of human resources is likely to have that result. An economic system will be most successful when it maximizes incentives and capabilities.

From Obscurity to Emergency

After years of neglecting the subject of productivity growth, the American public and government are beginning to recognize its importance in maintaining a healthy economy.

Not too long ago, productivity was viewed primarily as an economists' abstraction, with little relevance to the real world of work and leisure. But when U. S. productivity growth slid, the economists' abstraction became a real-life problem. The nation's standard of living stagnated and inflation gradually accelerated into double digit territory.

The seemingly mysterious notion of productivity growth proved to be easily mastered. Output per work-hour is, after all, not a difficult concept. Nor is it difficult to understand the repercussions of waning productivity growth. Produce more per person and average consumption and saving can increase. Produce the same per person in one year as the next and the standard of living will stop growing.

If productivity levels off while wages continue to rise, the effect will inevitably be higher inflation since there will be no more real output per worker to distribute. Indeed, any attempt to raise average wages by more than average productivity growth will only wind up the spiral of inflation. Wages rising faster than productivity beget inflation, which in turn, triggers further wage increases.*

*For detailed discussions of this process and the U.S. productivity problem in general, the reader is referred to four recent publications available from the New York Stock Exchange's Office of Economic Research, 11 Wall Street, New York, New York 10005:

- Reaching a Higher Standard of Living, January, 1979;
- Building a Better Future: Economic Choices for the 1980s, December, 1979;
- Productivity and Inflation, April, 1980;
- U. S. Economic Performance in a Global Perspective, February, 1981.

At last the public is learning to appreciate the fundamental and indispensable role of productivity growth in fostering non-inflationary growth of our economy. And because productivity improvement has faltered seriously in the U. S., various groups have pointed to what government can and should do to create a climate more favorable to productivity growth. Their recommendations usually include: tax reductions targeted to encourage saving and capital formation; liberalization of depreciation rules; tax incentives for R&D expenditures; and easing of regulations which burden production and impede productive investments.

Undoubtedly government policies have contributed to America's dismal productivity trend, and government should reverse some of its harmful rules and policies. But fostering productivity growth goes beyond government policies. Fortunately, business is now examining itself to see what it can do to manage its own resources more efficiently.

Learning from Japan

To a considerable extent, business' introspection has been stimulated by the extraordinary productivity growth of the Japanese economy. Japanese goods have become super-competitive the world over in terms of both price and quality; so American business is asking itself what it can learn from the Japanese. The answer is: a lot.

While the U. S. can and should learn from Japan (and Germany and any other country with high productivity growth), it is always dangerous to try to imitate others blindly. For example, Japanese business has had considerable success in managing its human resources. But the Japanese (as well as any other) worker is a unique product of a social, political, institutional, and cultural milieu. The U. S. can adapt Japanese ways but to try to adopt them in their entirety is to invite disaster.

Japanese companies do not view labor as merely another input to production. In turn, the typical Japanese worker views his company as an extended family. He shares the company's values, beliefs and goals. He recognizes a mutuality of interests in promoting a profitable, competitive enterprise which can provide stable and well-paying employment both now and in the future.

Reflecting these shared values is a mutual recognition of obligations of both management and labor. The Japanese corporation must involve its employees in decision making at all levels. The "Chinese wall" which so often separates the foreman from other shop employees in the American factory does not exist in Japan. Undoubtedly, this reflects a homogeneous society which has long stressed consensus building, cooperation, and discipline. Corporate decisions are built from the bottom up with the active cooperation and participation of those affected. This has not been the "American way." Here the line between management and labor is often sharply drawn, fostering adversarial rather than cooperative relationships. Efforts are now underway to promote Japanese-style cooperation and consultation as a new prototype for American labor-management relations.*

When individual firms as well as entire industries such as autos and steel are faced with crises, workers realize that a poor quality product selling at a relatively high price cannot compete; and lost markets equal lost jobs. Thus, customer dissatisfaction becomes a concern not only of stockholders and managers, but of workers as well.

Common concern over their own economic futures has led to a growing realization by both management and labor that their fates are intertwined. This realization has cracked the "Chinese wall" separating management and labor and inspired a search for a more cooperative relationship.

*Among recent books fostering this approach are:

Ouchi, William G., Theory Z: How American Business Can Meet the Japanese Challenge. Reading, Mass.: Addison-Wesley, 1981.

Pascale, Richard Tanner and Athos, Anthony G., The Art of Japanese Management: Applications for American Executives. New York: Simon & Schuster, 1981.

Vogel, Ezra F., Japan as No. 1: Lessons for America. Cambridge: Harvard University Press, 1979.

Improving the Quality of Work Life

If the groping toward a new labor/management relationship is to transform a fundamentally adversarial culture to one of partnership, both business and labor will have to yield some real power. Trade unions are understandably suspicious that a new approach to labor-management relations may reduce the role of unions and ultimately worsen working conditions. That is a real possibility. Similarly, from the foreman on up, management is concerned over the erosion of its power implied by greater worker participation.

The apprehensions of both management and labor are understandable. It would be foolish to assume that new policies are riskless. But then there are also risks in pursuing established policies which do not seem to be working well.

Participative management is likely to slow the decision making process. Consensus building is often an arduous and time-consuming task--particularly if negative attitudes and mutual suspicions built up over many years must be overcome. But it may lead to better decisions, an unraveling of problems close to where the problems are, an enhancement of morale and job interest, and a rise in the efficiency and quality of production.

In the U. S. this cooperative approach is frequently called "the quality-of-work-life" or QWL. Although it encompasses a variety of specific programs, including better training, more flexible hours, greater worker autonomy, and more humane working conditions, the essence of QWL is to involve workers in determining their working arrangements; for example, in the flow of work, the design of an assembly line or a production process, the standards of work measurement used, the resolution of problems, and the discovery of ways to improve productivity.

The most familiar manifestation of QWL programs in the U. S. is worker circles. These consist of specialized small groups of employees, say eight or ten persons, participating in a specific work unit. Their purpose: to enlist the experience and creativity of those directly involved in the workplace in improving conditions of work and product quality, and developing better ways to do things. This does not imply speeding up the work pace. In simplest terms, it provides workers with a forum for venting their ideas and feelings to the mutual benefit of both themselves and their companies. Worker circles have been successfully used in both blue collar and white collar operations. Though worker circles are proliferating in production operations, their use among professionals may be equally valuable.

The evidence on the success of worker circles is still sketchy. Case studies report gains in employee morale, a drop in absenteeism, and improvements in the quality and costs of production.* Some companies are even considering major organizational changes building upon natural employee groupings and team relationships up and down the corporate ladder.

A major psychological impediment to enlisting employee participation in worker circles or related programs is the fear that resulting productivity improvements could lead to worker layoffs. This threat usually does not exist in the larger Japanese corporations, which typically offer effective lifetime employment to male employees. The near absence of the threat of layoff, combined with sizeable bonuses linked to company profitability are major factors in the Japanese worker's apparent willingness to participate in his company's efforts to enhance productivity.

Perhaps U. S. business may be able to develop arrangements within the framework of U. S. practices which give the worker a direct and visible financial stake in the fruits of productivity improvement and the general success of the enterprise. Indeed, if some portion of worker compensation were linked to profitability, the greater cyclical flexibility of compensation would lessen the pressure to lay off workers in recessions. This would provide an added plus by moderating the adverse economic effects during business downturns. For example, since costs would be more flexible, they would fall more during recessions allowing lower prices, which would help prop demand and output.

The Tarreytown Experiment

One of the early success stories of the American experience with worker circles occurred at General Motors' Tarreytown, New York Plant. It illustrates the latent problem-solving potential among typical workers which might be tapped if their participation is encouraged and welcomed.

*The NYSE is embarking on a broad study of human resource programs including a survey of the results companies have had with QWL programs. A bibliography on the subject has been published by Work in America Institute, Inc., Scarsdale, New York. "Quality of Working Life--A Selected Bibliography" (TIS Document No. 10-81) is available from the Institute.

In the early 1970s, the Tarreytown assembly plant had one of the worst productivity records among all GM assembly lines. Quality was low, costs high, and absenteeism was rampant. At one point, the situation seemed so hopeless, management considered closing the plant.

But then a new approach suggested by a couple of the plant's department managers was given a trial within their departments. Their success encouraged management and labor leaders to agree to extend this concept plant-wide. Efforts were made to involve workers in solving problems, an activity which had been strictly reserved for management. Obviously, jobs and sensibilities were at stake. To help overcome old attitudes on both sides, two especially gifted and farsighted individuals cooperated--"Dutch" Landon for GM management and Irving Bluestone for the UAW. They agreed to a formal effort to improve worker consultation and participation centered around the creation of worker circles. They dubbed their effort "quality of work life," which has since become the generic term for a host of programs designed to improve worker participation and job satisfaction. Subsequently, the Tarreytown experiment grew into a substantial company-wide effort and a major focus for GM/UAW cooperation.

Worker circles do not offer a magic formula for success. It takes not only good will but training and instruction in participative techniques and a remolding of attitudes.

For GM, the effort is apparently paying off. When GM introduced its first line of front-wheel drive cars--the so-called X car--assembly-line employees worked with engineers in designing the new assembly lines required for the new model cars. This participative effort has been carried through into workaday plant operations. GM credits its new participative approach for quality improvements, reduced absenteeism and fewer grievance filings.

Underlying Rationale

Underlying the growing interest in QWL approaches is the changing psychology of the American worker. The majority have not experienced the traumatic insecurity of the Great Depression which made money and job security the twin goals for workers. Poor working conditions were accepted and almost expected.

Young workers today have a different scale of values. They demand more satisfaction from both work and life. They will not be treated as unthinking robots and they do not respond solely to money incentives. They want to feel needed and they want to be productive. These two drives are brought together when workers are allowed to be active participants in the decisions which affect their work lives. It is no wonder that West German industry has embarked on a "humanization" program for repetitive jobs which still abound on factory floors.

Humans seek participation in both the planning and execution of their work. They want employers to provide human satisfactions through "bottom up" participation. QWL is as much a matter of the spirit of an enterprise as it is a matter of organization. QWL must not set out solely to improve productivity but to improve the spirit of workers. Productivity will be a by-product of revived job interest.

The QWL movement might be another quickly passing fad like consciousness raising and sensitivity training, the nostrums of just a few years ago. One executive is said to have "ordered" 100 quality circles for his firm recently. That obviously is the wrong approach. For QWL to work, corporations must infuse all levels of management with a new spirit of cooperative decision making and consensus building. It requires a real willingness to give up both management and union prerogatives. It means a more humanistic approach to decision making, to work flows, to problem solving, and to employee relations generally. To achieve this requires dedicated support throughout the organization from the Chairman's office to the factory floor.

The Japanese have had enormous productivity benefits from this style of management. There is every reason to believe the American worker will react the same way--though we cannot know for certain. It is a noble experiment. So far, case studies indicate more successes than failures in the U. S.

In the longer run, the QWL movement, by placing greater responsibility closer to the production floor, will lead to a leaner management structure--the situation in Japan.

The Japanese have given short shrift to M.B.A.s. U. S. business school graduates are thought to stress the short run, and to deal in abstract numbers rather than flesh and blood. The Japanese give greater emphasis to the production process, concentrating their efforts on more effective production planning. It would not be surprising if in the future U. S. business

schools began turning out more industrial engineers and other production-oriented professionals who are not afraid to get their hands dirty on the factory floor. Of course, this will happen only if American business gives them greater recognition and pay.

It is reported that when the Japanese Matsushita Company took over a Motorola TV plant in Chicago several years ago, it retained 1,000 production workers but dismissed 300 supervisors and managers. Within two years, production doubled, the reject rate dropped from 60% to 4%, and warranty costs fell from \$14 million per year to \$2 million.*

Conclusion

There is no way to tell whether QWL is a flash in the pan or a major new approach to management-labor relations. A large number of interesting experiments are going on across the nation. If successful, they could lead a revolution in the workplace involving top-to-bottom overhaul of the work environment.

Whether through QWL or other approaches, better management of our most important national economic resource--our human capital--should be a national objective. The payoff will be not only in improved competitiveness in world markets and higher material standards of living but a more psychologically satisfying life.

*Article by John Naisbitt in AIDE Magazine (United Services Automobile Association), Fall, 1980.