

COMPANY EFFICIENCY AND HUMAN RESOURCES

Edited by

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*Dedicated to
The Manager
whose watchword is
Efficiency in Human Resources*

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PREFACE

The What, Why, and for Whom of This Book

This is a 'what to do' book and represents the work of several experts in the field of management. It shows business enterprises how to promote and foster good and meaningful employee relations in order to maximize company efficiency.

A sound basis of employer-employee relations is the creation of an understanding that the two parties are in the pursuit of a common goal and that in this pursuit their roles are complementary. Of all the resources that an enterprise employs to achieve its goals, the human element though delicate and complex is the most potent. It is far more deserving of attention, care and planning than capital, for in the final analysis leakages through human investment (in the form of apathy, low morale, go slow attitudes, strikes, bad workmanship etc.) account for impoverished returns and shrinking capital.

It goes without saying that every employee controls and determines the output of the whole through the way he does his job, runs his operation and handles his equipment. The human resource thus should always be motivated to work. The development of sincere, responsible and productive employee relations is in direct proportion to the degree of harmony between the needs, interests and objectives of the employees and that of the enterprise. The ultimate economic and social needs and interests of an enterprise are no different from those of its employees for they both aim at self-realization. But as work and relations are the principal sources of self-realization, management must in its own interest minimize conflicts with employees by initiating and vigorously pursuing a fusion process between human resources and the enterprise. The key to actual capital expansion lies in the proper utilization and motivation of human resources. But before

this management must understand the intricacies of human investment.

The book contains fourteen chapters. The first chapter begins with the human factor in management. Personnel policies cannot be sound if these are based on inadequate understanding of the nature and characteristics of the human factor. The author stresses the fact that in determining the effectiveness and efficiency of any organization, the critical factors are the quality of its people and the opportunities available for exercising and developing their talents. Management should, therefore, ensure that personnel policies encourage an effective play of these factors. This necessitates the creation of a right type of environment. Policy statements to be convincing must be followed through a definite procedure in day-to-day practice. Words without action have no meaning and for meaning to be effective action must be consistent with policy statement.

Chapter two of the book answers the important question: Why do people work? This is a vital question and the more it is understood by the employer the more realistic can he be in the formulation of personnel policies meant to promote good relations with employees. The author makes an analysis of the needs of an employee as an individual and as a part of a working social group with a view to determining those needs the non-fulfilment of which could lead to a conflict between the employee and the employer. A list of factors that can minimize conflict and promote good relations is given in the appendix.

To enable a company to know the attitude of its employees toward it, the employee inventory at the end of this chapter can be used as a constant yardstick. In a nutshell the inventory will indicate the over-all morale of the employees.

- Chapter three deals with the changing role of the personnel function. A long and difficult road may compel

an enterprise to create better relations. Personnel departments will have to think in terms of long-term policies to prepare for the transition from a scarcity economy to the economy of plenty resulting from progress in technical and human sciences. This means that personnel managers will have to make an effort to adjust themselves to to-morrow's changing conditions. Their action will then have a dual effect on both management and personnel.

Chapter four outlines some yardsticks for measuring the effectiveness of a personnel department. Many firms continue to play the personnel function according to experience, rules of judgment, personal hunch, perhaps because of the notion that the personnel department is primarily a holding action rather than a department accountable for the anticipation and analysis of problems and for seeking solutions to these problems. But as the modern methods of accounting as a result of computer applications provide regular quantitative information it will not be possible for the personnel manager to reject statistical analysis on the ground that cost and time do not justify it. As EDP programmes can be developed to provide any kind of information on a regular basis, the personnel manager will have no excuse for not making decisions on strictly factual basis.

Chapter five discusses the vital role effective communications play in integrating an enterprise. The author of this chapter emphasizes that managers and executives in order to direct their efforts better should not only understand the specific objectives expected of them but also the objectives of their groups and the enterprise itself. Several studies have revealed that most company conflicts result from lack of knowledge and proper understanding of the facts due to inadequate or complete absence of communication.

The basis of the modern concept of management is persuasion and not compulsion or coercion. Communication thus is the most important managerial instrument.

The performance of management function is largely dependent on the formation of teams and of groups or sub-teams surrounding them. Effective integration of men into such teams and their further integration with higher structures can be achieved through a systematic transmission of instructions and data.

Chapter six relates to motivation of personnel. It is not possible to maximize the potential and abilities of employees for outstanding performance purely through good company policy, proper supervision, good interpersonal relations, satisfactory administration and good working conditions. What is required is recognition, responsibility and advancement that bring about a positive job attitude. It is basically through the satisfaction of the individual's needs for self-actualization in his work that the above factors begin to play a positive role.

Chapter seven deals with the objectives and methods of performance appraisal. In order to establish a climate of understanding, rapport and team spirit with employees, performance appraisals should be on a day to day basis. If the employees are aware of the goals then an artificial, belated, form-oriented appraisal system is meaningless and detrimental. Mutual discussion between supervisor and the employee must take place no sooner than the supervisor finds shortcomings of his subordinate. Unless the appraisal system is goal-oriented, it probably seeks to measure something which is not quantifiable.

Chapter eight discusses among other things the relationship between organizational health and company efficiency. Organizational health reflects the twin goals of company survival and growth. It is highly relevant to the search for company efficiency for it reflects the environment of the work place, the inter-relationship of people and the decision structures. It is not enough to have good human relations in today's complex organizations ; organization structure has much to do with what happens.

Chapter nine deals with role conflict and ambiguity, especially in large companies. The author, Dr. Kahn

thinks that the principal form of role conflict in supervisory or managerial positions is overload. This overload can be construed as a conflict in the setting of priorities among legitimate tasks. As the focal person has more demands than he can possibly cope with, he tries to deal with such pressures by releasing his work-induced tensions in outside groups, such as his family and club. But the community can ill-afford such a form of industrial drainage. When the focal person is overloaded he even shuts off communication from others in the work place and thereby reduces his own pressures. By doing so he reduces effectiveness of the company and increases the pressures of those people who try in vain to communicate with him.

Chapter ten deals with the concept of 'Managerial Grid' evolved by Drs. Robert R. Blake and Jane S. Mouton. The essence of the Grid theory is that the degree of concern for production and the degree of concern for people shown by management are two sides of the same coin and should be utilized with maximum and integrated concern for achieving the objectives of the company. For too long, Dr. Blake emphasizes, these concerns have been separated, isolated and misunderstood.

Concern for production is not confined to things only; nor is concern for people limited to interpersonal warmth and friendliness. Production, for instance, may be viewed and assessed through the number of creative ideas that result into useful procedures, processes, or products; workload and efficiency measurements, units of output and quality and thoroughness of staff services.

On the other hand the concern for human beings can include concern for degree of personal commitment to the accomplishment of the job; accountability based on trust rather than compulsion or force; self esteem; desire for a sense of security of employment and the need for recognition.

The most valuable aspect of the Grid scheme is its effectiveness in improving employee attitudes and

behaviour throughout the firm with its benefit to the individual and the company.

Chapter eleven establishes that the work planning and review approach is significantly more effective than the annual performance appraisal interview because through this method the employee and his supervisor can mutually establish the objectives of the job, plan the work to be done, and make sure that the work is done, and finally appraise the results and if necessary re-set the goals.

Chapter twelve is a discussion of experience with the Scanlon Plan. It explores questions such as (1) What is the meaning of participation ? (2) What are the sources of productivity increases ? (3) What obstacles to success may be identified ? and (4) How may the gains from participation be shared ?

Chapter thirteen discusses the productivity and human relations problem in developing countries with particular reference to India. The author emphasizes that in today's changing cultural and technological climate autocratic management must give way to the democratic attitude to ensure good human relations and productivity. It also stresses the need for flexible attitudes on the part of top and middle managements in matters relating to discipline and control within the enterprise.

Chapter fourteen describes the function and importance of human resource accounting as a managerial tool. It aims to provide management with timely, relevant, quantifiable, and verifiable data about human resources to improve the quality of managerial decisions. Although use is made of accounting concepts and terminology, human resource accounting is not designed for use in the preparation of published financial reports.

To the best of my knowledge this is the first attempt to pool the knowledge and experience of international experts and my own in the field of employer-employee relations vis-a-vis company efficiency. In this respect, this

book is unique and should be of interest to students of business management and company executives throughout the world.

I am most grateful to the distinguished contributors for their cooperation in bringing out this book. I also appreciate the help received from some publishers and institutions, particularly the American Management Association and the International Management Association.

S. KRISHNA

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The Human Factor in Management

—K. S. Basu

Of the many factors which impinge on the managerial task and influence its accomplishment, the human factor is one of the most, if not the most, significant. In his day to day work, a manager is deeply concerned with material factors like money, raw materials, and machinery. This is both understandable and justifiable. It would be a pity, however, if in this process it is forgotten that in determining the effectiveness and efficiency of any organization, the critical factors are the quality of the people in it and the opportunity they get of developing and exercising their talents. It is, therefore, necessary that management should frame such personnel policies as would ensure the effective play of these factors in their organizations.

Admittedly, it is difficult to enunciate a personnel policy in specific and concrete terms. It has to be very broadly stated, in somewhat abstract language which, may well convey different meanings to different people and to some, no meaning at all.

A company may make a statement that its policy is to :

- (1) provide to every employee a career of dignity and satisfaction both material and psychological
- (2) allow every facility for the expression and development of talents and capabilities

(3) encourage and stimulate advancement to positions of higher responsibility

(4) ensure absolute fairness of treatment and equality of opportunity.

And so on. And this may convey very little to the employees and also to those who are expected to implement the stated policy.

It is often more meaningful to state what may be called 'sub-policy' in action areas. It can be said, for instance, that for recruitment, the policy is to recruit at the lowest possible level and to fill senior positions by promotion except when a suitable person is not available within the company. Even in such areas, where policy can be stated in precise language, the intention becomes explicit only when the implementing procedure is laid down.

To take the above example, if the policy is to provide maximum promotion opportunities then the recruitment procedure should ensure that talent available inside the company is carefully considered before recruitment from outside is resorted to. It can be laid down that whenever a vacancy arises, it will be advertised on the company's notice board. Those employees who wish to be considered for the post should apply to the personnel department through their own departmental heads. All applications will be considered, and suitable applicants interviewed by a selection committee consisting of the personnel manager and the head of the recruiting department. Only if the internal selection fails will steps be taken to recruit from outside. This kind of procedure should be formulated in every action area such as welfare, disciplinary action, consultation, grievance handling, etc.

But even when procedure is laid down, policy statements become convincing only if the letter and spirit of the procedure are faithfully followed in day to day practice. Action is far more significant than words and in the ultimate analysis it is what is done that constitutes

policy and not what is said. Action, therefore, has to be consistent with statement and there should be consistency in the practices followed in different areas of personnel work.

Philosophy—Policy—Procedure—Practice

Frequently various activities are undertaken in an ad hoc and desultory fashion which collectively produce a patchy effect and not a discernible pattern. This is because of the absence of a basic approach—an overall concept of the personnel function. To put it in other words, there has to be a philosophy from which all activities emanate if the policies, practices and procedures are to add up to a meaningful grand design. If this is not achieved personnel practice becomes an aggregate of discrete and separate actions without a central purpose linking them into a cohesive whole. Such practice is wasteful, may even be harmful.

Philosophy

In deciding on a philosophy or basic approach which will inform and guide all personnel work, a choice has to be made from amongst three alternatives :

1. The Benevolent Approach
2. The Human Relations Approach
3. The Human Resource Approach

The choice is not absolute and the three approaches are not entirely mutually exclusive. The lines of demarcation are not sharp and the borders are often hazy. In fact, in all personnel work there has to be a bit of benevolence, a bit of human relations and a bit of the resource concept. Choice involves only the decision about where the dominant emphasis should be.

The Benevolent Approach

This is the philosophy which makes the 'boss' the 'looker-after' of his employees or subordinates. It is akin

to the concept of trusteeship enunciated by Mahatma Gandhi—or the concept of paternalism which is at present so much out of fashion that one hardly dares to mention it. From time to time certain words become ‘out of vogue’ like ladies’ dresses (nowadays it applies almost equally to men) and like all fashions they can safely be predicted to stage a come back. This approach is associated with a particular managerial style which is often described as autocratic which was fashionable once, became very repugnant to ‘progressive’ managerial thinking later but seems to be becoming acceptable once again.

The Human Relations Approach

This concept is very difficult to define. The aim seems to be to produce maximum employee satisfaction on the theory that this leads to increasing efficiency. Attempts have been made to determine systematically the ways and means of producing employee satisfaction and the consensus seems to be in favour of a managerial style usually described as democratic or participatory.

However, there does not seem to be any real evidence that employee satisfaction by itself increases efficiency and productivity, nor is it known with any certainty what brings about satisfaction and indeed there is considerable doubt about what constitutes ‘democratic’ management. A further complexity is created by the fact that the same managerial style is not equally applicable to all cultures, to the same culture at all stages of industrial development—indeed not even to the same individuals at all stages of their growth.

The Human Resource Approach

According to this concept the people working in an organization are a valuable resource whose talents have to be developed and utilized for the achievement of organizational objectives. Without it no organization can prosper regardless of how much material resource it happens to possess.

The accent is on efficiency. Employee satisfaction is not ignored but the assumption is that efficiency is a

potent source of satisfaction. Consultative practice is encouraged because it improves the quality of decision. It may also increase the level of satisfaction and this is valuable, but the prime purpose of consultation is to mobilize and use the knowledge, experience and judgment available in a group.

It is sometimes said that this is an inhuman, utilitarian approach to people and it smacks of exploitation. This is not the intention. The intention is to give the men and women working in a company their appropriate place of importance as being essential for its proper functioning, growth and survival. Unless this is accepted, personnel policy tends to become moody, fitful and dependent on the whims and fancies of the boss whether he is an employer or a senior. In other words, it ceases to be policy.

Meaningful personnel policy can be fashioned only if it is accepted without any reservation that human beings constitute the essential capital and assets of business. Without this no business can prosper. The rate of human investment is related to the growth and success of the enterprise. Economic investment can be fruitful only if human investment is adequate and time, money or energy spent in obtaining and developing the human resource is not philanthropy nor welfare but an integral part of overall business policy.

Steps have to be taken to create an environment in which the energies of people are released and directed towards the achievement of organization goals.

Many factors contribute to the creation of the right environment. Careful policy formulation and the intelligent application of techniques are very important. The effect of prevalent attitudes, particularly at senior and top management levels cannot be overestimated, whether they believe in freedom of action or tight control, whether they prefer authoritarian, directive, coercive managerial styles to democratic, permissive and participatory styles;

whether the general attitude is one of encouragement and appreciation or criticism and faultfinding—these are factors which determine to a very large extent the climate in which people have to work.

The following tests would be valid to determine whether human resources are regarded as being at least as important as material resources :

1. Is the same attention and thought given to forecasting and obtaining the manpower requirements as to the financial requirements ?
2. In utilization, is there as much concern about finding ways and means of maximizing return on human capital employed as on financial resources ?
3. In judging performance of companies, is an assessment made of the creation and maintenance of its human assets ?
4. In status, remuneration and authority, are individuals and departments concerned with personnel treated in the same way as those responsible for money or materials ?

Judged by these standards, the conclusion is unavoidable that often the importance of the human factor is not sufficiently recognized. This applies not only to companies but also to the management of national resources.

Understanding Employees and their Needs

—S. Krishna

The problem of establishing a sound employer-employee relationship must inevitably take into account the fundamental fact that each employee is an individual with attitudes and characteristics different from those of other employees. This fact, however, must not obscure another equally important fact that as a member of a group the employee's desires and attitudes are to a large extent common to those of the members of his group.

Thus, management has to deal with the human relations function in two ways : (1) the employee as an individual and (2) employees as a group or groups. This dual function can be clarified with the help of an example. If the personnel manager is considering the submission of proposals for a policy on absenteeism to top management he will scrutinize the records of all employees with a view to base his decision on an average employee. In the formation of his proposals, he will also be concerned with an assessment of the employees' attitude toward the policy, bearing in mind the personal position of the individual and the views of his group. This is a situation where the personnel manager is dealing with the employees as a group.

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The personnel manager thinks of the employee as an individual when he examines his work situation in the light

of his previous job experience, ambitions, family background, personality and educational record. When he is concerned with matters of policy such as recruitment, dismissal, absenteeism, wages, hours of work, safety, incentives, etc., he is dealing with a group or groups of employees. In any plan designed to strengthen the employer-employee relationship, management should not underrate the importance of treating the employee as an individual.

Why Do People Work ?

What does an employee look for in a job ? Is it nothing more than the earning of a living for himself and his family ? Unfortunately, many employers feel this is so and thus base their personnel policies on this notion. Lately, several studies have revealed that there is not enough justification in making wages alone a factor responsible for work satisfaction. Besides wages, the employees today are increasingly concerned about security of employment. The word "security" has three vital aspects for the employee : (1) Economic, (2) Social, (3) Physical.

The employee desires economic security, *i.e.*, an adequate wage for his services plus an assurance that his wage will be reviewed and refixed in the future to offset the effect of a rise in the cost of living. He also wants to feel that he will not be laid off during any temporary period of slack business, and finally, that upon his retirement he will get a gratuity or grant for his livelihood or that he will be entitled to monthly pension. The employee's desire for security is paramount and the sooner management realizes it, the earlier can it embark on a platform for sound relationship with the employees.

Socially, the employee wishes to live a personal life the way he wants and to exercise franchise in accordance with his wishes. The employee also has the psychological need to gain the respect of his fellow employees and to acquire a position which is socially satisfying to him and his family.

Physical security includes physical aspects such as safety on the job, adequate and healthy place of work, recreational facilities for rest and relaxation, medical facilities and residential accommodation not far from the work place.

Employee Needs

Besides aiming at security and recognition the employee also wishes to satisfy certain biological needs. Some of these needs are merely physiological ; *e.g.*, the need for water, food and air. His needs for recognition, esteem and safety may be characterized as psychological. Both kinds of needs are entwined to a great extent. In order that the employee may work efficiently the employer must provide for the following needs of the employee.

(a) The Physiological Needs—the employee's needs for air, water and food must be provided for if he is to function satisfactorily.

(b) The Safety Need—an employee desires a safe work place and an assurance for his future well-being with the firm.

(c) The Esteem Need—people enjoy feeling important. Make the employee feel that he is respected and thought well of by the management and the immediate superiors.

(d) The Self-actualization Need—not all employees hanker for promotion but they all want jobs which suit them according to their education, training, skills and aptitudes.

(e) The Need to Understand the Company and its Business—the employee is not only interested in himself but also in the affairs of the company. He wants to know the history, policies, present and future plans of the company.

In its efforts to meet the above needs, management must be careful to avoid going to such an extreme that it

may be called paternalistic. In the 'interest of good relations, an independent and self-respecting status must be assured by management to all employees.

Although there is no hundred per cent effective formula or technique that can be used to understand employee behaviour on the one hand, and attain the goals of the company on the other, the following factors will minimize chances of friction between employees and management and also lay the foundation for productive relations.

Recognition of the employee as an Individual—The need for recognition as an individual is not acquired but is inborn in every human being. An important element of this need is the desire to be treated with dignity. When the employee feels that he is not receiving recognition and good treatment he begins to lose interest in his work and gradually turns hostile towards the company. His lack of interest and resentment often leads to negligent working habits. Recognition is an incentive to the worker and must be construed as a basic factor in cultivating sound human relations. It is necessary that management is sincere in its recognition of the employee as an individual for lack of sincerity will bring about discontent and distrust rather than harmony.

Employment Security—The employee should be made to feel that his job is permanent barring unforeseen circumstances. This must of course imply that the worker does his job to the best of his ability. The lack of security is a constant worry to the worker. This affects the quality as well as the output of his work. Insecurity of employment is one of the reasons for low efficiency. On the other hand, when his job is assured the employee is full of initiative and enthusiasm. He acts responsibly and identifies his interest with that of the company. A proper system of employee communication (see chapter V) can help create a feeling of security by acquainting the employees with layoffs and dismissal policies. Layoffs and certain business risks can be eliminated by a scientific approach to marketing.

Work Satisfaction. The employee should have meaningful work. The role of his work in the overall operation of the company's business must be clear to him. Such an understanding on the part of the employee not only instils in him a sense of responsibility but also creates a feeling of belonging to the company. Appreciation of the employee's work by superiors, irrespective of the degree of its contribution to the end result, and a 'thank you' with the salary cheque add to the actual satisfaction which the employee receives from his work. The employer must encourage the employee to come forward with suggestions for improving the work procedures, etc., for such a move stimulates the employee's interest in his work. When the employer accepts the employee's suggestion the employee feels proud of his contribution to the company.

Opportunity to Progress. A conscientious and efficient employee must be assured of prospects for advancement. Appointments to higher posts should normally be from within for appointments from outside lower the morale of the existing employees. Frequent employment of outsiders to higher posts can cause a high rate of employee turnover and a decline in the image of the company. The employer must endeavour to provide opportunities consistent with the growth of the company.

Congenial Atmosphere. Since the employee spends nearly one-third of his day at the company, it becomes a second home for him. For the employee to feel happy in his second home it is necessary that other employees, including the officers of the company, have a sense of fellow feeling. It is the management's responsibility to employ those people who know how to get on with people and appreciate the value of group work. Even the most enthusiastic and conscientious employee will lose these qualities if the members of his group are lethargic, insincere and self-aggrandizing. The employer should not underestimate the importance of a proper selection and grouping procedure for the creation of a congenial atmosphere in

the company. Among other things productivity depends on pleasant surroundings.

Fair Wage. Although the subject of fair wage is not free from controversy, it cannot be disputed that (1) employees should get adequate wages for the work they perform, (2) the wages should be linked to the cost of living index and (3) the employer should not make it a policy to offer low wages to new employees in times of rising unemployment for this would be construed by the employees as exploitation. The unemployment situation or abundant supply of labour should have no bearing on the payment of a fair wage. The employer must bear in mind that good employee morale and fair wage are to a great extent complementary.

In the interest of fostering good relations the employer can make additions to the fair wage by giving the employees a share of the company's profits. This can be done by allowing a fixed percentage of the profit to be distributed as annual bonus. Some companies have introduced a co-partnership system whereby the employees receive a fixed share of the profit in the form of ordinary shares issued by the company. This method is becoming popular for it gives the employees shareholder's rights which entitle them to receive financial statements on the operations of the company.

Satisfactory Working Conditions. For an employee to be able to work at his best it is necessary that the working conditions are satisfactory. Unsatisfactory working conditions produce adverse mental and physical effects on the employee ultimately causing a decline in his efficiency. Under such conditions the employee feels disgusted and looks for other employment. His attitude to his present position is that of a 'stop-gap job'.

At times, due to unsatisfactory working conditions it is impossible to blame employees for low productivity even though a certain portion of this blame lies with the

employees. When ideal conditions for work exist it is easy and logical for management to turn to employees seeking co-operation to increase productivity. The employer must provide such conditions for work that bring the employees to the door step of the company in a happy frame of mind.

A Voice in Matters that Affect Employees. If the employees are unaware of or do not properly understand the reasons for the orders they receive, they cannot appreciate the reasons that lie behind them. Employees who are constantly imposed upon by the employer without any voice have no heart in their work. To them their work is a drudgery. With a view to ensure optimum employee participation in company production the employer should get the views of the employees on production policies, plans and methods. Employees are generally sceptical of changes in methods of work introduced by management. Such a feeling on the part of the employees can be eliminated by creating a climate of confidence based on frank exchange of views between the management and employees on production and allied problems that face the company. Management must not underrate the importance of a proper grievance redressing procedure for the employees. In grievances against his immediate superior the employee should have access to higher authority for seeking justice.

Freedom from Arbitrary Action. There should be no favouritism and discrimination in the treatment of employees. Discrimination against an employee dampens his interest in work and the company. After some time the employee refuses to cooperate and often turns hostile towards his superiors. In these circumstances the company has to dismiss the employee. The cost of dismissal to the company in terms of replacement by a new employee and his training before he actually begins work is often quite high.

The employer should, therefore, be judicious and fair in matters relating to promotion, increments, transfer,

suspension, leave, etc. He must endeavour to justify his action to the employee. The reason for an employee's promotion or transfer should not only be explained to him but also to those who aspired for it. Such an action on the part of the employer would help other employees understand the reasons for the change instead of being sceptical.

Good Leadership. Only those who can command respect and trust from their subordinates should be given supervisory and administrative powers. To be able to gain respect from his subordinates, the supervisor should be competent, sincere, helpful and a 'go-getter' well-versed in the art of human relations. If he does not know how to organize work and manage people there would be discontentment and hatred for him among his subordinates. When such situation persists for a long time there would be a decline in workers' morale and efficiency.

In the interest of good employee relations and productivity the employer must recruit only those supervisors and managers who are competent and have leadership qualities.

The establishment of a sound employer-employee relationship is vitally dependent on the generation of employee's confidence in the employer. Although there is no unique device or formula to test the degree of success of an employer's efforts in this direction the chart on the following page is a useful yardstick to measure employee morale.

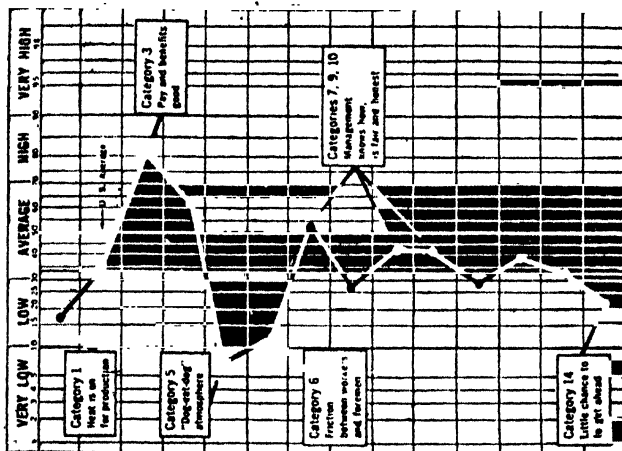
ATTITUDE YARDSTICK TO MEASURE MORALE IN YOUR PLANT - HOW ONE COMPANY'S EMPLOYEES FEEL

CATEGORY	QUESTIONS ASKED	% OF FAVORABLE ANSWERS
1 JOB DEMANDS	Work pressure "large burden, more load than I can handle"	72%
2 WORKING CONDITIONS	Working conditions "adequate, satisfactory, good"	70
3 PAY	Compensation "adequate, fair, good"	44
4 EMPLOYEE BENEFITS	Employee benefits "adequate, fair, good"	74
5 FRIENDLINESS, COOPERATION OF EMPLOYEES	Relationships "friendly, cooperative, good"	77
6 SUPERVISORY EMPLOYEE RELATIONS	Supervisors "friendly, cooperative, good"	71
7 CONFIDENCE IN MANAGEMENT	Management "friendly, cooperative, good"	67
8 TECHNICAL COMPETENCE OF SUPERVISION	Technical competence "adequate, fair, good"	73
9 EFFECTIVENESS OF ADMINISTRATION	Administration "adequate, fair, good"	65
10 ADEQUACY OF COMMUNICATION	Communication "adequate, fair, good"	64
11 STATUS AND RECOGNITION	Status and recognition "adequate, fair, good"	71
12 SECURITY OF JOB AND WORK RELATIONS	Security of job and work relations "adequate, fair, good"	59
13 IDENTIFICATION WITH THE COMPANY	Identification with the company "adequate, fair, good"	80
14 CHANCES FOR GROWTH AND ADVANCEMENT	Chances for growth and advancement "adequate, fair, good"	65

PART A

Attitudes of over 50,000 people in industry show how employees across the U.S. feel about 14 major job-morale factors.

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PART B

Profile chart showing morale variations in a company.

The "Personnel" Function, Today and Tomorrow

-Charles Kramer

New Circumstances

If we consider the problems of private industry, in which structural modifications are most evident, we may discern the beginnings of an evolution in personnel management policies. The management method followed in a firm is the result of interacting pressures, external (economic market, legislation, labour and capital markets, social-political context, integration of scientific discoveries) and internal (quality of management, staff requirements, efficiency of information and communication systems, etc.). But we are experiencing a gradual change in the conditions of economic activity, resulting in a new type of management, which will be reflected in personnel policies.

During the last ten years management's major pre-occupations have been concerned with the State, the trade unions and manpower. Admittedly, the traditional problems of customers, raw materials and competition still arise, and capital is not always available, but the increasing shortage of personnel is tending to become the main headache. Consequently, the "personnel" function will have a privileged role to play and its importance can as yet hardly be conceived. In management the balance of powers depends on the most urgent requirements of the moment. When capital

is short, the financial controller is given full powers; when production is hanging fire, the technical manager must increase research and endeavour to raise productivity; keener competition helps to strengthen the position of the commercial manager, the public relations officer, etc. Similarly, the powers and functions of the personnel service are extended as and when it becomes more difficult to find the necessary manpower and to keep trained staff in a period of rapid technical changes of all kinds. In any case the evolution of political and social thought brings with it more liberal treatment of manpower, and the personnel department will be responsible for controlling its effects. If production is to be assured and prices remain competitive while profits rise, the "personnel" element cannot be disregarded. The specialist in dealing with this component of success is in fact the personnel manager.

Method and Objectives

In varying degree according to the type of industry, the country, and the degree of management development, personnel managers already take part in planning. Moreover, they pursue, with reasonable efficiency, objectives concerned with improving profitability and raising productivity. They also contribute to the development of the firm.

Planning

In practice this is concerned with :

- ascertaining the manpower requirements of the firm; estimating the consequences of proposed conversions, new activities, development projects; estimating quantitative requirements on the basis
 - of average and extreme numbers in each unit, and qualitative requirements according to the vacancies determined by job evaluation;
- assessing the human capital of the firm : evaluating the potential resources of each individual on the basis of managers' reports and the central personnel records indicating abilities and kept

up to date with periodic reports on individual qualifications;

- organizing training for promotion, with the firm adapting its structure to requirements and making the best use of its personnel resources. Planning in this sector involves the adoption of a training policy taking account of the aspirations and capabilities of personnel as well as of the needs and prospects of management.¹

At the same time a recruitment policy will emerge, in order to make good in advance the foreseeable gaps in the establishment, and a promotion policy will prepare internal transfers in order to provide candidates for skilled posts at a given point.

Such planning is inconceivable without a sound statistical analysis, which involves the personnel department in establishing and keeping up to date files, graphs, surveys, cards, etc. providing useful data (rate of absenteeism, sickness, mortality, accidents, staff turnover, etc.). Moreover, special documentation is essential in order to follow the social, economic and political trend in the industrial sector in question and in general.

Anyone engaged in planning must make use of the budget concept, with profits and losses based on estimates and achievements. Without special accounting techniques how would the personnel manager measure the effects of his action?

Profitability

Manpower costs appear in the firm's accounts under the heading of production costs. To a varying extent they enter into costs prices, alongside expenses on raw materials, machinery, miscellaneous supplies, rent, etc. The profit is derived from the difference between liabilities and revenue.

¹ cf. R. Vatier, "Développement des entreprises et promotion des hommes", Editions de l'Entreprise Moderne, Paris 1960, pp. 18 et seq.

The more expenses are kept down and revenue kept up, the greater will be the profit; this is the firm's undisputed aim, but it is not the only one.

Determination of the exact percentage of turnover to be distributed in wages is a matter for the general manager, and forms an integral part of the financial policy followed. While the main task of the personnel manager is concerned with the equitable distribution of the total amount allocated, he is nevertheless also led to discuss the consequences of too restrictive attitudes in this field. He must draw attention to the repercussions of any disparity created in a given occupational sector, forecast the reactions of staff discouraged by a feeling of injustice, etc. In the most favourable circumstances, the personnel manager will succeed in obtaining approval for his wage proposals which will have been thoroughly considered and bear a reasonable relation to financial availabilities. It must be emphasized that action at this level calls for a personnel manager of sufficient calibre to discuss management on an equal footing with the other heads of departments, each defending his own sector and referring to orthodox financing, technical investment, publicity impact, etc. as the case may be.

A long-term wage policy should thus be at least prepared by the personnel manager and solidly supported in order to carry conviction. Estimates of overall expenditure will be based to a certain extent on wage estimates by categories (executives and non-executives, for instance), or by work posts or by departments. The personnel manager will use the conclusions drawn from job evaluation to plan adjustments to be made to basic wages each year. He will plan wage agreements with the authorized representatives of the staff, where these exist. He will integrate wage differentials supplementing basic wage (seniority increments, sundry bonuses, personal awards, family allowances, etc.). He will seek to modify trade union and government attitudes.

Like the other functions in the firm, the "personnel" function must not remain indifferent to the problem of

profitability. The personnel of any economic unit represents a financial investment by the entrepreneur. The personnel manager should control this investment, estimating the cost and profitability of personnel in terms of the firm's long-term profit. The cost of personnel management by departments and the expenditure agreed for it will be evaluated not only in absolute values but with reference to the maintenance and expansion of the economic unit. In the absence of such control personnel financing may well prove too costly and be in deficit, without such losses being perceived.

Productivity

Staff are recruited because they contribute to the functioning of the firm by their labour. This is an essential contribution, like capital, equipment or plant. Sound management may be defined as that which derives the maximum results from the various contributions to the firm.

This objective is naturally common to all managers and is pursued in all departments and all workshops. The personnel manager, however, has a special responsibility in this respect, although not concerned with the technical aspects of work organization. The vast sector of industrial relations and working conditions lies open to him, and in the modern conception, more widely than to any other central department.

Without disputing hierarchical authority, the personnel manager intervenes in particular in staff selection, a diversified activity with an undeniable influence on output.

Every member of the staff is in any case subject to appraisal by his boss and there is a permanent problem of personal qualifications. Who, apart from the personnel manager, could prepare, propose and control a procedure of individual assessment? He will also have to centralise data and see that they are judiciously used at any time, and in particular, at periodic salary reviews: the wage hierarchy will be modified to take account of performance,

the most favourable treatment being accorded to the most deserving.

Output does not however depend solely on staff selection, but is also connected with work organization and working conditions. Here again it is the personnel manager who is responsible for promoting human factors in structures designed rather to meet production requirements than for the adaptation of the worker.

In conjunction with organizational departments, but from a sometimes broader standpoint, the personnel manager will have to remove the obstacles hampering performance due to over-formal organization. There are certain real brakes on labour which the personnel manager must release and certain incentives which he ought to know and use.

The personnel manager accordingly checks on *working conditions* to see that they are adapted to the maximum number of workers (working hours, rest pauses, canteens, lighting, safety, accident prevention, emergency measures, fire fighting, elimination or attenuation of sources of physiological damage—noise, smell, poor lighting, temperature, dangerous or inconvenient working instruments...). The layout of work posts will be partly within his sphere together with the analysis that implies. He will see that human needs are respected and will study production methods with a view to increasing workers' satisfaction, and reducing their fatigue without impairing their technical role. He will study boredom, psychological fatigue, and irritations inherent in the job and will propose solutions to the engineers, O & M experts and doctors with the assistance of the psychologists and ergonomic experts in his department.

One of the main tasks of the personnel manager is concerned with *industrial relations*. In the best physical conditions output is poor if staff communications are neglected. Information problems must be solved, and relations established which will pierce the "wall of silence"

erected between groups and between persons by bureaucratic or authoritarian managements.

It is now established² that all group problems of business organization and administration could be solved by better communications:

Teaching how to communicate and collaborate is a contribution which the personnel manager can make to all sectors, insofar as his own qualifications and training are appropriate.

Of the many variables governing output, motivation is considered the most important. It is a question of inspiring both personnel and management with the wish to do well, to become integrated into the firm, to make progress. A survey carried out in the United States, whose results were published in 1963,³ reveals that the majority of the 237 personnel managers interviewed were convinced that their major objective was to improve employee motivation to do more than was required by the regulations. The general trend is to seek employees reacting positively to incentives—not purely financial—designed to provoke a considerable investment of energy in work. How to obtain the firm adherence of manpower to the firm's objective is the vital problem facing the personnel manager in present circumstances. Authoritarian or paternalist systems of command, irksome discipline, even small cash bonuses are not appreciated by the new generation of workers. More responsibility, more control, more independence—these are the claims which now spring from the desire for security and the fear of to-morrow on which traditional policies are founded. That is also why firms devote so much attention to indirect advantages, status symbols, housing facilities, leisure and group manifestations creating a "house spirit". Disputes are settled in a new spirit, respecting personnel representation by

² cf. R. Mucchielli, "Modeles sociometriques et formation des cadres," P.U.F., Paris 1963, pp. 1—3.

³ cf. Aileen L. Kyte, "Employee motivation—What role for Personnel?" Business Management Record, September 1963, 7—12 Nat. Industrial Conference Board, N.Y. USA.

associations and trade unions, particularly since State intervention in contractual practices is being extended, by the imposition of minimum wages, forced arbitration and in general the effort to organize manpower management at national level (annual leave, severance periods, etc.).

Productivity in the general sense thus depends on staff selection, organization, working conditions and industrial relations, and the stimulation and maintenance of employee motivation. The quality of management is certainly a considerable influence, and the view is held more and more that the desire to command is not sufficient guarantee of the ability to lead men efficiently and obtain their full support.

Development

The problems connected with planning, profitability and productivity indicate the activities occupying the personnel manager. His efforts are however most significant in the context of the firm's development, which involves him in special obligations:

- research on personnel questions is obviously a matter for the personnel manager. While keeping in close touch with progress in the social sciences (psychology and sociology), the personnel manager is also familiar with work in other fields — economic (wages), technical (work study), medical (hygiene and safety), demographic (trend of active population), etc.
- Public relations: the public consists of actual and potential customers, but to the personnel manager it also represents a store of manpower. The public image of industrial relations in a firm becomes just as important as the reputation of its manufactures. Any work unit has responsibilities towards the whole community, and is continually subject to its appraisal. A good reputation in this respect brings success both in

trade and in recruitment. A favourable internal climate is an important factor in securing the fidelity of the public. The employees themselves make propaganda in favour of or against their employer and their influence is sometimes considerable. The personnel manager thus has the task of building up a good reputation for the firm, which is a complex job with many different aspects. Many of his decisions will have public repercussions. Public opinion has an effect on general operation, both outside and inside even the smallest company.

Mobilization of personnel : at the present time, moreover, the need for rapid changes to keep abreast of faster progress in all fields—technical, scientific, commercial, etc.—make any undertaking fragile and vulnerable. How can the constant adjustments required be made with the desirable flexibility if a favourable climate is not maintained ? Each employee may be asked to make a personal contribution in actively participating in the inevitable conversion, while the confidence of the customer (or shareholder, as the case may be) is put to the test. Development requires a favourable consensus of opinion among the staff and a sound outside reputation. This adds psychological responsibility to any act of the personnel manager, which carries significance far beyond the bounds of the establishment. The publication of house journals, information bulletins, organization of apprenticeship, award of fellowships, contacts with schools and universities, loans, grants, pension funds, organized visits, etc. are all instruments which the personnel manager can use to win public favour. Far from being a luxury, a social relations programme is an essential part of development, and the personnel manager's share in it has often been too much neglected, with deplorable results. Goodwill is decisive in overcoming

keen competition or partial recession ; it promotes the maintenance of a privileged position on the labour market ; it accelerates and improves personnel mobilization in difficult circumstances and stimulates their loyalty in favourable periods. (Suggestion schemes, "idea boxes", and other forms of participation bear witness to the importance of personnel motivation).

If the firm's financial, commercial and technical objectives are not ratified by its staff, adjustment to new goals will be achieved only slowly and painfully. If, on the other hand, the personnel manager paves the way for the staff's agreement to the new policies by efficient industrial relations, their contribution to the achievement of the new objectives will facilitate the conversion made necessary by technological change and achieve it more rapidly and more economically.

It is noteworthy that the personnel manager is less concerned with competition, which is the major spur to the activity of most other departments. It is of course possible to win a place on the labour market by offering high wages, which are an attraction to those seeking employment. But is that enough to neutralise for good the competition of firms with a reputation for a good personnel policy ? The mistakes of certain American groups established in Switzerland may lead us to meditate on this question. In fact, a public image of the industrial or commercial company is being built up, summarising the broad lines of its policies : Does it behave properly towards its employees ? Does it reward stability ? Is it generous in case of need ? Or does it usually act ungratefully or harshly ? Do some of its former employees speak badly of it, etc. ?

In short, the competitive ardour of the commercial department, the public relations service and other sections should also be found in the personnel manager. He will watch other employers and try to surpass them in their

efforts to evolve fruitful measures of considerable psychological impact. This attitude will be an instrument for him to use with his own management; for the fear to see oneself surpassed may often serve as a substitute for a progressive mentality.

The Instrument

The action of the personnel manager must be guided, now and in future, by norms of behaviour, or policies. How should these policies be conceived and defined?

Personnel Policy

This is merely the collection of principles formulated to guide all those taking part in the action we have just described in the fields of planning, profitability, output and development. A policy is generally defined as a formally stated line of conduct regarding the management of an undertaking. It is a guide for decisions to be taken in similar situations likely to be regularly repeated⁴. According to Prof. F.T. Malm⁵, such policy defines responsibilities, authority and means of action regarding the employment of all members of an organization. It is composed of general principles, rules, directives and implementation procedures.

The advantages of a definite policy can easily be conceived : uniformity of decisions taken, publicity for the "rules of the game" which each is supposed to respect, harmonization of internal climate, favourable public image, etc.

A personnel policy handbook generally analyses at least five aspects, described by Prof. Malm as follows :

(a) employment policy,

⁴ cf. Louis A. Allen, *Management and Organization*, New-York, 1958, p 82. Lawrence A. Appley, "Essentials of a Management Personnel Policy", *Readings in Personnel Administration*, edited by Paul Pigors, Ch. A. Myers and F.T. Malm, 2nd edit. New York, 1959, p. 110. C. H. Northcott, *Personnel Management*, 2nd edit. London, 1950, pp 22-25. Richard N. Owens, *Introduction to Business Policy*, Homewood, 1954, p. 3.

⁵ cf. F.T. Malm "Less politiques du personnel et la direction des entreprises", *Management International* No. 3, Dusseldorf, May-June 1951.

- (b) Training policy,
- (c) Remuneration policy,
- (d) Industrial relations policy,
- (e) Social policy.

In the main, responsibility for the human element in the organization rests with the hierarchy. Quite often, in large firms in particular, wages, bonuses, social security benefits, and other factors of remuneration do not depend directly on the management hierarchy. Trade union agreements, wage scales, collective agreements, supply and demand in the industry or occupation may have more effect on fixing a wage than industrial relations. The satisfaction of the psychological needs of the staff is all the more closely linked with the climate in the firm and management attitudes to subordinates. Work organization, confidence in the operator, his freedom of action, the value of example, fairness in assessing services, frankness in giving information, and to a certain extent promotion, all still depend more or less on the direct boss. It is thus essentially human factors which enable the employee to consider his working life of value, and not merely the material reward, which is fixed almost independently of his immediate entourage. In some cases wages and other benefits even seem, to the morally unsatisfied employee or the under-employed manager, to be the price paid for their alienation, the symbol of their renunciation of intellectual freedom and independence, even of their self-esteem. The continual claims of some quite well-paid employees may be explained in this way. Managers should consider the significance of some of their attitudes. To keep one's staff, treat it well and use it rationally, is the business of "line" management, in the utilitarian context of the firm in a market economy. However, this is difficult, and the assistance of industrial relations experts is essential as long as managers themselves are not particularly qualified in this special field. That is why, as soon as the firm grows large enough, functional colleagues assist the "line". Hence the creation of a personnel department to promote objectives, plans,

policies and practices leading to the optimum use of the firm's human resources. The personnel manager is capable of performing his task provided he really has free access to all sectors of the firm, takes part in preparing budgets and estimates, and is not barred from any action relating to the human factor. Obstacles may of course be created either by an unprogressive employer or by wrongheaded personnel organisation. How can progress be made?

Difficulties to be Overcome

Of the difficulties facing personnel managers, some are psycho-social, some arise from the inadequacy of their available techniques, and others derive from the policy trend in the community in which they work.

Psycho-social problems

The social strata working together in the firm model their behaviour on old customs. Employers find difficulty in renouncing the authoritarian policies they adopted in periods of crises, employment shortage and relative technological stability. Their personnel defends the hierarchical stratification of yesterday, and restrictive practices ensure security at the expense of promotion, attaching more value to seniority than to training and mobility.

However, as the pace of technical progress gradually quickens,

- managements are no longer able to reach their objectives unless the personnel ratifies the technical choices made and freely agrees to participate in the necessary adjustments;
- the various manpower categories can defend their interests only by accepting full utilization of available technical resources.

For these reasons the personnel manager will have the task of preparing a psychological change :

- to the management he will demonstrate that the growth of an economic unit is impossible without

planning personnel requirements or without decentralization. If he does not delegate powers more and more widely to employees with better and better qualifications, the employer will become incapable of managing increasingly vast and diversified complexes; without giving more attention to manpower requirements, he will not obtain the high-quality assistance needed to solve his now more complex problems; unless he helps his staff to acquire useful specialized training they will not have the level of knowledge required for the execution of the work. If retrograde attitudes among managers are tolerated, they will have very regrettable consequences for productivity in an expanding economy and competition will depend on the moral quality of management; autocratic decisions must be replaced by more democratic choices, with greater personnel commitment.

- To the staff the personnel manager will prove the advantages of the greater intellectual investment and greater energy input required by an expanding economy; he will provide the necessary assistance for the continual development of the collective potential, despite the difficulties of an adjustment whose need is constantly being challenged; he will help to solve the non-vocational problems involved in economic expansion; he will bring the personnel into association with management, finding in the intellectual and moral resources too often disdained in the past, the means of improving working conditions in the firm and the key to perfecting management methods.

To sum up, the personnel department will endeavour to discover and get adopted a style of industrial relations taking better account of a ratio of opposing forces modified by technical development.

Technical problems

Selection methods are still clumsy and do not fully meet the requirements either of the applicant or of the firm. But have psychologists, interviewers, graphologists and other recruitment officers been made aware of their role and faced with their moral, technical and social responsibilities?

Have job evaluation systems been adequately criticized? Have employers and trade unions really agreed to adopt objective job analysis criteria? Have they not usually been content with arbitrary approximations, whereas considerable theoretical progress has been made in job qualification techniques (Milox system)?

Have methods of assessing personnel merit frequently been discussed at joint meetings? Has the tendency towards hasty, pre-determined opinions and bureaucratic procedures not been perpetuated?

Have the new techniques of individual and group training been adequately elaborated without encountering indifference, hostility or scepticism on all sides (courses of instruction, audio-visual aids, management games, case studies, closed circuit television)? How is the ground prepared for the widespread use of O & M experts? Is retraining of workers in automation making much progress?

Have the principles of psycho-sociological action to improve inter-individual relations received frank acceptance and been widely disseminated? Are psychological achievements taken into account in the controls and reorganization prescribed by work study engineers? Are structures or machines designed to fit the workers?

Policy problems

However lavish they may be in their statement of general principles, policy doctrines are silent when it comes to defining practical methods of co-operation in a work community.

All problems relating to industrial relations and the development of collective productive effort are usually settled in a superficial and peremptory manner. Moreover, despite appearances, the conceptions defended most energetically are more suited to an already outmoded stage of production relations than to those based on an attempt at planning. But the emergence of an industrial civilization demands a forward view and more methodical intellectual work. Research, discussion, reflection, demystification are the prerequisites for real progress in human relations. But national wage and price policies, employment legislation, trade union law, State social security benefits, etc. are all external factors to which the firm is inevitably subject.

Prospects

A long and difficult road may lead the firm and its partners to better relations. Personnel departments will have to work out long-term policies to facilitate the transition from a scarcity economy to the economy of plenty secured by progress in technical and human sciences. But personnel managers themselves will have to make an effort to adjust to to-morrow's conditions of existence. Their action will then have a dual effect, both on management and on personnel.

No doubt we must expect that the spread of automation will not proceed entirely smoothly; that the clash of ideologies will produce delay in utilizing discoveries in human sciences; that regression will result from over-bureaucratic organization. It is true that macro-social problems cannot be settled within the firm and that its development is heavily influenced by external tensions. Let us therefore refrain from absurd prophecy and admit that personnel policies will have their effect in the context of the possibilities opened up by the parent company.

Yardsticks for Measuring Personnel Department Effectiveness

—W. F. Rabe

Quantitative measures of performance are applied to almost all functions of the business organization. Financial analysis, production management, sales and marketing, purchasing, and quality control are all activities in which various statistical techniques are used routinely. But when it comes to the personnel department, administrators often take the view that quantitative measures are inappropriate. Stressing the qualitative nature of personnel administration, they contend that statistical analysis is unimportant, that such criteria as how well the personnel department anticipates organizational problems, develops employees, handles manpower planning, and the like are of much greater significance. In fact, it is said in many companies that the diverse variables in the personnel area preclude the use of quantitative standards at all, and that quantitative comparisons would be either impossible or unreliable.

Still other companies, however, report that it is precisely this reason that prompted them to use quantitative devices. They want to be alerted to changes and variables, and consider differences in standards from time to time as signals for further investigation and research. With this follow-up problems can be defined and performance improved.

To find out just what statistical techniques are being used by personnel departments, and in what areas, last spring the Department of Personnel Administration at San Fernando Valley State College surveyed a group of companies selected from *Fortune* magazine's list of the 100 largest U.S. corporations. The respondent firms were limited to those with decentralized operations, on the assumption that they would be the most likely to use statistics to compare the performance of different operating units.

Altogether, the range of techniques in use is rather surprising. When brought together in one listing, they reveal that while no one firm is fully measuring all facets of personnel administration, all facets are being explored by one company or another.

Manpower Utilization

A general group of ratios appear to be used by various firms to indicate the effectiveness of their manpower utilization. Some are indicators of productivity. Others point up areas in which lost time is involved in the administration of various personnel regulations. For example, the aging of the workforce can be significant for long-range manpower planning because losses in certain skills can be anticipated. The full meaning of any of these ratios will depend on the context in which they are used, as well as the span of time they cover; maintaining ratios over a period of time will permit standards to develop so that deviations become signals for action.

Some specific types of manpower utilization ratios include :

- Sales in dollars per employee for the whole company or by organizational unit.
- Output in units per man hour worked for the entire firm or organizational unit.
- Attendance, tardiness, and overtime comparisons by

organizational unit as a measure of how well an operation is handling manpower loading.

- Vacations granted as a percentage of employees eligible.

- Sick leave days granted as a percentage of man days worked.

- Military leaves granted per 100 employees.

- Number and percentage of workforce eligible for selective service.

- Number and percentage of those eligible with appeals in process.

- Jury duty leaves granted per 100 employees.

- Maternity leaves granted per 100 employees.

- Educational leaves granted per 100 employees.

- Personal leaves granted per 100 employees.

- Manpower distribution by chronological age.

- Manpower distribution by length of service with firm.

- Managerial manpower distribution by chronological age.

- Managerial manpower distribution by length of service.

- Average age of workforce.

- Average age of managerial workforce.

Employment Function Analysis

Several ratios can be used to evaluate the efficiency of the employment function. Some indicate results in relation to money expended. Others point up the firm's ability to make hires from offers extended, or attempt to evaluate the performance of interviewers in selecting applicants for

referral to supervision for final approval. All these ratios seem to recognize the increasing costs of this function and the need to make the most of each dollar invested in it. Specifically, ratios may measure these elements :

- Responses by applicants to recruiting advertisements, as a guide to which media best reach the proper segment of the labor market, at what cost.
- Number of applicants contacted compared with those reporting for interviews.
- Offers accepted compared with offers made, to determine the company's competitive position.
- Cost of hire by job, by job types or family, or for all hires. While this cost analysis is useful in many cases, some firms operate in such varying labor markets that the analysis may be meaningless. For example, the cost of hiring in a local market is generally much less than that of recruiting over a wider area.
- Number of interdivision transfers by employee or job type, to get some idea of how efficiently the firm is using internal sources of manpower.
- Average starting salary of college recruits.
- Ratio of hires to number referred to supervision by interviewers. Presumably, if the interviewer knows the needs of supervision and interviews effectively, the ratio should be close to 1 to 1. Conversely, the more applicants referred to supervision but rejected, the less competent a job the employment office is doing.

Separation Analysis

Closely related to the question of the employment function is the matter of turnover. In a day of increasing hiring costs and expensive training and education, the loss of skills and know-how through separation is a major concern. At the same time, reduction of turnover to zero is hardly reassuring, either. A certain amount of turnover might be desirable in keeping the average age of the

workforce down, in opening up promotion opportunities to the younger employee, and in keeping benefit and retirement costs within reason.

Analysis of separation ratios may suggest many areas in which corrective personnel action is necessary. Imbalance in wage rates may show up; ineffective supervision may be revealed; poor job placement or even excess manpower may be indicated. Among the ratios :

- Turnover per 100 employees for the entire firm or for various organizational units.
- Turnover per 100 employees for job categories.
- Turnover per 100 employees by job classification.
- Turnover per 100 employees by job classification by organizational unit.
- Turnover per 100 employees by length of service.
- Turnover by reason for separation.

Wages and Salaries

Many ratios, averages, or statistical comparisons are used in this area, with varying purposes, depending on the problem each firm faces in administering its compensation program.

- Average pay by job classification. When compared with external averages, these averages can indicate how well the firm is maintaining a competitive position in the labor market, and if compared internally by organizational unit will bring out adherence to policy.

- Frequency of pay changes by organizational unit. Again, use of this ratio may indicate how liberal supervisors are in granting increases and thus indicate not only how they adhere to policy but also whether they are discriminatory.

- Average amount of pay changes by organizational unit.

- Average pay of employees in a particular job compared with the mid-point in the rate or salary range. This can indicate how well supervisors and managers are maintaining a normal movement of personnel through the range.

- Percentage of merit increase budget actually granted each year. This may be a mere academic exercise, since the tendency is always to want more in the budget, but for that very reason any departments that do not use their budgets might require further investigation.

- Average annual salary in each salary classification.
- Average merit increase granted by classification.
- Average promotional increase granted by classification.
- Number of increases granted by classification.
- Ratio of increase to size of salary by classification.
- Ratio of increase to years of service by classification.
- Salary dispersion by decile of each salary pay grade.

One firm covered in the survey had developed an interesting measure to determine the effectiveness of wage and salary administration. Assuming that the wage and salary department exists as a control on labor costs, the difference between the rates proposed by the union or supervision and the rates finally established by the department should result in a saving, and the saving multiplied by hours worked on the job should indicate in dollars the effectiveness of wage and salary administration. This theory may appear harsh to many personnel men, but it does represent a real attempt to determine how well a particular personnel function is being carried out.

Benefit Analysis

Despite the increase in various forms of deferred compensation, benefit analysis is one area in which the firms surveyed indicated the minimum use of statistical analysis,

with the implication that they take these expenditures somewhat for granted. In fact, only one type of analysis was reported : a determination of the percentage of the eligible workforce using a particular group health insurance plan compared with the cost of the benefit or coverage. If only a small percentage of the workforce used a particularly costly benefit, the firm then explored the possibility of changing the coverage to a benefit of comparable cost but of use to a greater percentage of the workers.

As the costs of these forms of compensation rise, this is one area that could well be subjected to more analysis.

Education and Training

No educational institution has ever been particularly successful in evaluating its performance in quantitative terms, and the same is true of industrial education programs. In the final analysis whether they are worth the investment is largely a matter of opinion, but there are a few ratios and some examples of tabulation to determine what is going on and how much, even though they don't tell much about how well the job is being done :

- Percentage of participants completing the program out of the number starting it. Some training departments regard this as an indication of how well the course or program maintains the interest of the participants, but others regard it simply as an indication of how strong other pressures are in the firm to keep the employee in or out of the program. Does supervision encourage the employee to participate? Do job requirements and work assignments permit employees to say with a program of training ?

- Number of courses by type or subject ; number of man hours of training by type, course, or job of participants ; cost per man hour by type of program. Here again, these statistics reveal only what is going on and how much time and money are entailed ; they make no attempt to evaluate the actual learning.

- Percentage of employees as of any one date who were hired into their jobs and the percentage promoted to their jobs. One company using these ratios believes that they indicate how effectively the organization is developing and promoting from within. Ideally, there would be a trend over a period of time toward a greater percentage being promoted as a result of development and training, but of course no training department could claim that it was responsible for such an upward trend. The ratio does, however, reflect how well supervisors and managers are doing their job; after all, they, too, are "personnel managers."

Safety

For several decades businesses have been under pressure to evaluate the safety function with quantitative techniques, because of the fact that compensation insurance rates are tied to accident frequency and severity rates. Most companies now use standard ratios to determine how well they are doing in this area, and some report the application of the ratios to various organization units to provide comparisons and identification of hazardous conditions :

- Severity rate for the firm as a whole or by organization unit.
- Frequency rate for the firm as a whole or by organization unit.
- Number of lost-time accidents.
- Compensation paid per 1,000 hours worked.
- Accidents by type.
- Accidents classified by type of injury to each part of the body.
- Average cost of accident by part of the body involved.

A company using the last two averages found that the cost of the accident varied according to the part of anatomy involved, and this finding led it to pay particular attention to accidents involving high-cost parts of the body, thus reducing compensation costs.

Labor Relations

Reports from the companies surveyed suggest that the use of statistical analysis in labor relations is related to the militancy of the union. If relations tend to be peaceful, the firm is not motivated to use measurements of performance in this area. However, there are typical ratios they can refer to :

- Number of grievances filed per 100 employees in the bargaining unit.
- Disciplinary actions taken by type of offense.
- Disciplinary actions taken by type of penalty.
- Number of grievance settlements by level of settlement in procedure; type of award made; organizational unit involved; and settlement in favor of company or union, or compromise.

Employee Participation

A few corporations said they were interested in the extent to which employees participated in various programs sponsored by the company, as a barometer of morale. Some of the ratios of measurement were :

- Percentage of eligible employees submitting suggestions through a suggestion plan.
- Percentage of eligible employees' participation in voluntary group health insurance, voluntary retirement, and pension plans.
- Percentage of eligible employees participating in savings bond program.
- Percentage of eligible employees participating in educational reimbursement program.
- Percentage of eligible employees participating in recreation programs.
- Percentage of eligible employees participating in charity payroll deduction plan.

Hunch or Fact?

Many companies apparently are still willing to play the personnel game according to the rules of judgment, personal hunch, and experienced guess, perhaps because of the concept that the personnel department is primarily a holding action rather than a department accountable for the anticipation of problems, analysis of those problems, and the innovation of solutions to the problems. However, changes in the field of accounting as a result of computer applications now make quantitative information readily available in some new forms, and at moderate cost. In the years ahead it will not be possible for the personnel executive to reject statistical analysis on the ground that time and cost do not justify it. The entire matter of personnel records can be left to the computer, and EDP programs can be developed to yield any sort of information desired on a regular basis.

The personnel executive will soon have little excuse for not basing his actions and proposals on strictly factual analysis.

Effective Communication as a Means of Integrating an Organization

—Count Pierre Baruzi

I. Communication in Modern Society

The evolution of our society, based as it is on individual liberty, follows the evolution of man himself which keeps on modifying in the course of time the continual expansion of his training, education, and dissemination of thought.

Better-informed, his intelligence open wider each day to factual understanding and reasoning, naturally becomes increasingly demanding; his profound wish is to escape from the feeling of subordination unavoidable discipline imposes on him, and to comprehend its philosophy.

The common rules essential to the functioning of a human group increasingly depend on individual acceptance; everyone must be invested with precise information as to the facts and events in which he takes part; systematic authority demands a net work permitting continuous communication, both up and down the hierarchy. The creation of such a flow can only be initiated by the inspiration emanating from, and the example set by, the

higher echelons. Its functioning and maintenance presuppose an adequate organization using all the resources developed in practice. The phenomenon of communication may be defined by the behaviour of voluntary expression of each in the face of exchange of thoughts, opinions, and facts. It is predicated on mutual understanding which it actually fosters as it evolves. On a national basis, in whatever country it may be, the government feels a profound necessity for contact with the population, which it seeks to attain in varying degrees and for various purposes depending on the ideology followed. In any case they fully appreciate how greatly the integration of the individual into the social community is essential to national cohesion.

If modern means of communication provide complete and continual information, they also allow ideological propaganda for the benefit of a small but dominant group which may be injurious to man. Modern technology is sometimes a two-edged weapon.

Whatever form it may take, communication is the means offered to governments to bring men together through an understanding of their common tasks, through enhancing their good will, confronting them with the reality of facts, and appealing to their willing cooperation. Integration within a national community is nothing but a positive response to the pulls set up by communications.

II. Communication within the Company

The company is a working community in which men of all hierarchical levels are continually engaged in the daily relations of life called for in the attainment of common objectives. The corporate structure may be compared with a skeleton bearing the elements or components that make it an active body. It can come to life only with the effects of continuous communication, much like blood circulating in the human body, bringing to each point of the firm the instruction; inspiration, means of reflection,

and data enabling men to perform enlightened work and the organization to function harmoniously.

It is acknowledged today how much more efficient the whole personnel of a firm is when the moral and intellectual satisfaction which is their right is granted to them—the latter are a tribute to their personality and to their intelligence. Managers and executives should be in a position, in order to direct their efforts better, to understand not only what are the specific objectives expected of them but the objectives of their work groups, and those of the firm itself.

Such psychological satisfactions go together with, and can never be separate from the material satisfactions to which men aspire by both instinct and necessity. Together they form a spring of good will which is the primary component of efficiency. Furthermore, observation and analysis clearly illustrate that the major proportion of company friction results from a lack of knowledge of the facts, hence of information, hence in reality from inadequate communication.

It is becoming amply apparent that conveying data and ideas is essential for the proper operation of the company. It is not a supplementary activity requiring occasional attention, but is an integral part of the administration of a company which would be incomplete without it.

It is not always possible to evaluate or measure the success of communication, but the first requirement to which one must give attention is the certainty of being properly understood by those addressed. It is no simple matter to penetrate the soul and life of others. Nor is there any predetermined meaning of words guaranteeing total and final comprehension. The means of expression are seldom the same, each one having his own vocabulary—often a limited one—depending on his education or lack of it; while the individual's receptive interpretation is dependent on the preparation of his mind and his sensitivity.

The form of expression is an essential factor which must be prepared with care taking account of the matter to be conveyed and the concerns of those to be reached.

The factors that influence expression—meaning those that influence its form and the degree of its comprehension—are analysable. The most evident are :

1. Educational differences between individuals. The same words do not always have the same meaning for a man with a scientific background and one with a literary background, the means of expression between engineer, accountant, and worker are not the same;
2. Differences in hierarchical and social rank, or even in work groups, bring with them different means of expression and understanding;
3. Origin may evoke different reactions to a given expression.

The influence of the environment in which men have been brought up has a definite effect on emotional reactions and viewpoints with which the same problems appear.

Efficient communication whatever the means utilized therefore is not inevitable, and appropriate precautions in keeping with the obstacles encountered should be painstakingly taken. In point of fact the problem is never solved absolutely; it demands constant attention and continuous supervisory control on the part of management.

It is rather remarkable that in a company, common forms of expression tend to develop, sometimes involving a specific vocabulary, the words of which may have no meaning to anyone outside. This means that in order to ensure maximum efficiency in communication it is essential to establish some coordination in the forms of expression consented to and in force in a company, ensuring a common language accessible to and understandable by all.

The purpose of communication covers three essential areas: to transmit instructions, to pass on results, and to provide vital links. Obviously, the functioning of the

company as a whole can only be defective and may even actually freeze unless the three factors are the subject of clear, precise, and complete communication.

The company must also pay attention to communicating with the environment in which it evolves: suppliers, customers, competitors, the geographical and even political environment. This is where we come on common ground with public relations, which are today recognized as forming a special activity in the life of the company within the economic and social community in which it exists.

Integrating the company into this community calls for external communication without which it would be merely a nucleus existing on itself, diminishing its own means of existence, of development and strength.

III. Communication as a Method of Management

One of the most intricate problems facing company management concerns the considerable and complex communications called for to enable the required objectives to be met. The modern concept of company management is based on persuading men, and not on brutal coercion. Exercising the function of management itself depends to an increasing extent on the forming of management teams and of teams surrounding them. Integrating men into such teams and these into the higher structures can come only from the systematic transmission of instructions and data due to the indispensable cooperation of each. This is the real meaning of the term *integration*, enabling regrouping to be accomplished, and the harmonizing and synchronizing of unavoidably dispersed activities through allocation of responsibility and individual tasks.

The necessity for the manager to ensure permanent contact with his team, to appreciate the degree of voluntary individual *acceptance* of responsibility, of understanding the assignments set, imposes on him as an essential precondition that he solicits communication and knows how to listen. A climate of dynamic and confident coopera-

tion will arise from a clearly established intention in the eyes of all to allow free scope and promotion of the individual. The establishment of continuous links, both intellectual and material, among men, the company, industry, the nation, and the world itself, can result only from continuous communications.

Managers at all levels must set themselves the task of promoting by their behaviour the integration of men and women into the company. Observing, listening to, and maintaining contact between individuals in order that they know and understand each other is the essential condition in creating a *climate of confidence* without which there can be no happiness in work. Confidence does not arise of itself: it can only be fostered by confidence already granted. Someone must start somewhere. The highest levels have to set the tone by having that confidence.

Next the delicate bloom has to be protected. The great enemy of confidence is doubt; this is born of ignorance. Its antidote is therefore knowledge—to inform is to make known. Information forms a part of the modern arsenal of management; its transmission proceeds by communication, whose method will have to be chosen and its use supervised.

There is no doubt that the future will see information being developed even further, not only within the company itself but without, in response to humanity's ever increasing hunger to *know*.

Management decisions and actions that have to be guided by the company's interest can only gain by being brought to the light of day and to the staff's attention. By the same token any egoism on the part of management must be avoided.

Thus communication is unquestionably a managerial instrument of the highest importance.

The proper operation of a system is a source of *collective strength*. It follows that it must be constantly

improved, developed, and simplified; on its clarity persuasion will be dependent, and in the final analysis also, the enrichment of the men in the company. It is up to directors and executives in a company to grasp the importance of the means they have available to them and to shape them into a practical and efficient working tool.

IV. Communication and Human Relations

Human relations by their influence override all technical, administrative and productive techniques in the company. Without in any way wishing to give a purely materialistic goal to existence, it is clear that the progress of the individual no less than that of civilization itself is closely linked with technical progress. Hence nothing should be allowed to hinder it; poor human relations inside a company exert a braking effect on its expansion. Good human relations on the other hand cannot be acquired at the expense of the material results necessary to the life of the whole. It is essential therefore to gauge decisions and avoid reflexes which, however generous in origin, risk having results inimical to individual interests. To neglect the material necessities of economic existence may result in reducing resources and loss of individual freedom.

These often contradictory requirements may inevitably become a source of incomprehension which may go as far as open rebellion on account of lack of precise knowledge of the facts.

In the first place, therefore, human relations must derive from a company philosophy which it is up to the managers to formulate and apply. Disseminating that philosophy, making clearly known its sources of inspiration and bases, then relating it to attitudes and decisions taken, is essential if it is to have its full effect.

Communication by all practical means allows minds to be enlightened, keeps men permanently informed, and enables them to complete their understanding of general problems as they arise, of the solutions chosen, and of

the reasons for the choice. This is the first phase of integration.

On the whole, wage earners have certain wishes and aspirations of a psychological and material nature which information may well help to fulfil. It must also, through the data furnished to each, enable each one to participate in the life of his community, such as its general organization and functioning, and the salient facts in the life of the Company: its successes, difficulties, earnings, forecasts, reasons for the efforts demanded, and the results they have helped to achieve.

The transmission of such information should be systematic. The results derived are fruitful for all: a climate of goodwill and team work. The most obvious manifestations are the desire of each to express his thoughts, to make fruitful suggestions, and to correct mistakes. The healthy human relations thus obtained result in greater mutual understanding between teams, and a more intensive integration on the part of each into the work of the whole.

None of these objectives may be attained without proper communication.

V. Means of Communication—Written, Spoken and Graphic

A copious literature exists on the study of the means used to communicate within and without a company. These fall under three main heads: written, spoken and graphic. The three methods taken individually are inadequate. They complete each other and should be used separately or together depending on circumstances. The choice of the method selected should be inspired by the necessity for rapidity and accuracy.

(a) Spoken Communication :

To express oneself clearly in speech or in writing is to possess the art of conveying to another his own thoughts in a form ensuring optimum comprehension. ❀

Oral relations are easy, complete, subtle, direct, and economical when employed judiciously and according to methods which have to be mastered.

No function—whether it be financial, production or distribution, administration or accountancy—may be totally and effectively understood without verbal interchange, completion of written rules and instructions.

Every executive at whatever level he may be must learn to express himself verbally to his colleagues, either individually or in groups. The spoken word is much more convincing than a written note, since it has the immense advantage of establishing human contact.

This means of expression has definite rules that have to be studied carefully and applied with attention. Training to know how to expound or instruct verbally requires much preparation and development of the natural abilities of each person.

More perhaps than any other means of expression, clarity of thought is a precondition to attaining clear oral exposition, for it cannot be touched up or retracted.

Oral communication applies to numerous situations :

In meetings, whatever their purpose,

In word of command,

In daily contacts,

In attributing rewards,

In considering claims, demands and so on.

Oral communication requires direct contact, which is the surest means of creating and maintaining a climate of confidence since it dissipates the fear of the unknown and the far away.

The trained manager knows how to confirm or to agree, verbally or in writing, with those whom he knows to be directly or indirectly concerned with his decisions or events in which they are involved. Thus every message

has an optimum effect without being drowned in extraneous details of no real relevance that are liable to result from blind information.

Oral communication however has certain weaknesses which often render it inadequate of itself. The conclusions of a discussion often lack precision and clarity ; written confirmation is frequently required. Decisions and instructions cannot always remain purely verbal, their implementation calls for precise writing of a permanent character.

Finally, oral transmission through a number of levels is often distorted ; this should be remembered to avoid unpleasant consequences.

However great the force of persuasion and the clarity of oral communication, much of it has to be confirmed in writing.

(b) Written Communication

Written communications may be classified under two heads : those intended for managers, and those intended for executors, meaning the staff as a whole.

The first category covers all notifications relating to corporate policy and some information of a confidential nature : say, results obtained, such as volume of shipments, importance of claims, personnel statistics, progress recorded, exceptional events whether internal or external, general instructions to managers, etc.

For the staff as a whole : notices posted up or distributed, company magazines, management letters, sundry literature and booklets on induction, fringe benefits, operation of the suggestions box, information regarding company operation, future plans, material results affecting quality, punctuality, and so on.

The aim is invariably to stress to everyone, whatever his rank or status, the feeling of being an important link in the company's chain of activity.

Written communications are essential, for instance to confirm oral communications whose record should remain untouched through time. Correspondence with the outside world forms a part of written communications. It calls for some know-how in writing to impart to such notes, letters, instructions, etc. a specific form determined by their purpose in a clear and concise language. Precise writing of this sort may be learned not only in regard to the form of the texts but to enable a clear and logical thought sequence to be presented, giving to each idea its exact relative value. Written notes should be attractive and stimulating both in style and layout. Elegance is always an eloquent feature.

(c) Graphic Communication

It is a common saying that "a sketch is clearer than a thousand words." Graphic communication is the presentation of ideas, results or analyses by means of sketches, diagrams or curves of various kinds. Some involve pictures, others depict comparative or absolute results; they illustrate facts which are rendered more accessible and more meaningful and instructions which are made clearer.

The simplest graphic methods are curves showing fluctuations in production or sales, profits or losses; alternatively they may be linear or spatial representations of such results. They have the advantage of being easy to read and constitute the most effective means of observing or grouping together results obtained, and of conveying and understanding of the outcome.

Diagrams and organization charts enable everyone to familiarize himself with the company's structure, the relative positions of the different groups, and the functional links between them. Comparisons at different periods of such vital features as the elements of the company itself, cost price, market surveys, competitor's activities, and the like reflecting the evolution of the company's own activity in the most striking manner possible for all, is best done by graphic means.

Graphic information may also depict results in the form of absolute ratios whose inter-relations may be of the highest usefulness for the information of the staff.

VI. Communication from Bottom to Top

Unilateral communication, that is communication solely downwards, from management to staff is insufficient in itself.

Integration, of which one result is collaboration, cannot take place unless the whole of the staff has an opportunity to convey to the management its thoughts, questions, suggestions, and claims.

The problem is no simple one since it is not merely a matter of designing a system, but above all of modifying postures and developing a common wish to communicate on the part of those appealed to. The obstacles are many: the first unquestionably resides in compartmentalized organization ; the second derives from hierarchical levels which are unprepared or unwilling to transmit. A climate unfavourable to free expression, lack of understanding of the reasons for appeal to expression, unfavourable postures on the part of the intermediate executives, and their lack of willingness to listen, failure to follow through to defined targets, these are problems requiring solution. Unremitting attention will have to be brought to bear to establish an upward flow of communication.

In fact, two-way communications are much more a result of a good company climate and proper human relation than vice versa. In return, proper functioning of the system ensures that a good company climate is maintained.

Overall the first requirement is to ensure that the company structure permits communication right up to the top, and if defective, to correct it. Yet it should not prevent the possibility of short-circuiting ; this should not be systematically rejected but on the contrary should be made possible whenever it may help to hasten the conveyance of communication and to satisfy those concerned. All hierarchical levels should be convinced of the importance

of the system and their assistance should be encouraged. In fact they should be made directly responsible for its operation both ways. Obtaining the collaboration of the managers without reticence requires that they are absolutely certain—based on observation in practice—that their thoughts transmitted via intermediaries or by short-circuit, be they constructive or restrictive, cannot be used by the top levels as a means of criticizing their behaviour. This is an essential point and depends on the climate prevailing in the company. Information received by top management should always be used to help everyone to fulfil his function, by highlighting weaknesses or valid suggestions liable to call for collective measures in the interests of all, and not *against* a few.

Executives on a level closest to the operative personnel can only benefit from a more precise knowledge of the desires of the men whom they seek to direct. They must themselves learn to listen and draw conclusions from what they have heard.

In any event, messages emanating from the rank and file can only be obtained in the first place if management has been able to develop that confidence which is essential to obtaining their participation and their thoughts in connection with the common task. The importance and frequency of expression on the part of the operating personnel in all its forms itself reflects its integration in the life of the community.

VII. Planning a System of Communication

It must be admitted that communication may have certain disadvantages unless its methods are properly applied. Company heads often fear that their actions or decisions may be misinterpreted by those to whom they are addressed.

Courage is the cardinal quality of a manager. He must be an example to the men he commands; courage is always respected. Of course no decision is without its element of risk, and doing one's duty does not fail to

entail some mistakes, but whatever is accomplished with directness and sincerity is never adversely criticized. This is the proper answer to the fearsome.

Methods of communication should be adopted taking into consideration difficulties that will have to be overcome. All the techniques are not yet entirely foolproof; but knowing how to communicate must be looked upon as a dynamic process inspired by a dynamic management. It covers three essential stages :

1. A permanent flow of communications from top to bottom must be established in which the total cooperation of all intermediate levels is indispensable. This has to be ensured by convincing preparation.
2. Once the system is set up, all points of possible misunderstanding or incomprehension must be analysed and then the system clarified and corrected.
3. The maintenance with particular care of the upwards communications system since it is as delicate as it is essential. The role of the intermediate levels is cardinal and making them responsible is a precondition to success.

A network operating continuously should find its place within a company as a normal feature of its work. This will necessarily result in a climate of confident understanding and collaboration which themselves engender enthusiasm for work and the will to take part in the common endeavour.

Motivating Personnel

—*Herbert J. Weiser*

The business organization has been defined by some social scientists as a continuing system of differentiated and coordinated human activities, welding together a specific set of physical, human, capital, ideational, and natural resources into a problem solving whole whose objective it is to serve the needs of its surrounding environment in interaction with other systems of human activity. The success of the organization would therefore seem to hinge upon its ability to solve related problems in such a manner so as to serve society, maximize its profits, and, by doing so, increase its basic resources.

Unfortunately however, management's view of the human element has often been a misguided one, and has frequently resulted in less optimal utility of personnel. In an organization such as the accounting firm, where service is our primary product and personnel our most valuable asset, the effectiveness and productive capabilities of our staff take on added significance. The principles to be developed here will not be limited to our own form of organization, however, for we should be in a position to advise our clients with respect to similar problems they might encounter within their organization.

In order to improve the effectiveness of our own organization as well as of our clients, we would do well to acquaint ourselves with the findings of behavioral

scientists in the areas of human achievement and motivation and to review our organizational policies and management approach in the light thereof.

The late Douglas McGregor devoted a substantial portion of his life to an attempt to improve the effectiveness of human organizations through an application of knowledge derived from the social sciences. McGregor indicated that past conceptions of the nature of man were inadequate and in many ways incorrect. He felt that under proper conditions "unimagined resources of creative energy could become available within the organizational setting."¹

Theory X

In the past, management performed its task of harnessing human energy to organizational requirements by following several propositions which McGregor referred to as "Theory X." Theory X was described by McGregor as follows :

- Management is responsible for organizing the elements of productive enterprise—money, materials, equipment, people—in the interest of economic ends.
- With respect to people, this is a process of directing their efforts, motivating them, controlling their actions, modifying their behavior to fit the needs of the organization.
- Without this active intervention by management, people would be passive—even resistant—to organizational needs. They must therefore be persuaded, rewarded, punished, controlled—their activities must be directed. This is management's task—in managing subordinate managers or workers. We often sum it up by saying that management consists of getting things done through other people.²

Underlying this conventional management theory were the assumptions that man is by nature indolent, lacks ambition, dislikes responsibility, and prefers to be led. Furthermore, management's theory assumed that the individual is self-centered, indifferent to organizational needs, resistive to change, gullible, and not very bright.

In an attempt to accomplish its objectives, therefore, management has adopted a course of action that ranges from one extreme to another. On the one hand, management might be hard and tough ; it will employ coercive techniques (in disguised form) and tight controls over behavior. On the other hand, management might be soft and permissive, easily giving in to individual demands so as to satisfy them, hoping thereby to achieve harmony.

In its applications of these two extremes, management has learned that if it follows a hard line its actions may lead to counteractions on the part of personnel in the form of restricted output, militant unionism, and an effective though subtle sabotage of management objectives. We might note that in our present period of full employment, such an approach might easily lead to an organizational crisis. By adopting the soft line, however, management found that although harmony was sometimes achieved, it was only at the expense of work performance, for the individual would take advantage of the soft approach. In an attempt to gain the advantages of both approaches, management has generally adopted a "firm but fair" policy. The knowledge derived from the social sciences, however, conflicts with management's conventional beliefs as to individual and human nature. The social scientist does not dispute management's industrial findings, but states that what is actually being observed is not a consequence of man's inherent nature ; it is, rather, a consequence of the structure of industrial organization, management philosophy, and policy. In other words, the conventional approach of Theory X is founded upon a misconception of cause and effect.

Through his study of motivation, McGregor confronted the conventional approach of management and indicated the reasons for its inadequacy. McGregor drew heavily upon the work of Maslow in the area of human motivation.

BASIC NEEDS

What are the motivating forces within the individual ? For one thing, the human being is inherently a wanting

animal (a concept that vaguely relates to the libido theory) whose needs follow hierarchical patterns. Physiological needs are primary, for "man (does) live by bread alone—when there is no bread."

Management, however, has failed to realize that when a need is satisfied it no longer acts as a motivator of behavior. As one's physiological needs are satisfied, those needs pertaining to safety (*i.e.*, protection against threat, danger, and deprivation) assume significance. These in turn give way to social needs (*i.e.*, needs of belonging, associating, and being accepted and loved) as motivators of behavior. Management has also erred at this point by believing that such social needs represent a threat to organizational objectives. Studies have indicated, however, that a closely knit social unit within the organizational structure can be more effective in achieving organizational objectives than an equal number of separate individuals performing similar tasks. Nevertheless, because of its fear of group hostility to organizational objectives, management often takes great pains to control and direct human efforts by methods that are obstructive to the social needs of the individual. With his social needs thus thwarted, the individual behaves in ways that militate against organizational objectives. Thus, behavioral patterns involving resistance, antagonism, and uncooperation are to be viewed as consequences rather than causes.

The needs of greatest significance to management are the egoistic needs of the individual. They encompass the individual's needs for self-confidence, independence, achievement, competence and knowledge or, in other words, needs pertaining to one's self-esteem. They also encompass the needs for status, recognition, appreciation and respect, or in other words, needs, relating to one's reputation. These come into play when the lower level needs have been satisfied. Unfortunately, however, these higher level needs are rarely satisfied, for the typical business organizational structure (especially in mass production industries) offers little opportunity for their satisfaction at lower levels of

hierarchy. Stated differently, man's most refined need is that of self-fulfilment. This encompasses the need for realizing one's full potential and for continued self-development. These needs will only function as motivators when the lower level needs have been satisfied. Since the average individual is primarily occupied with those lower level needs, however, it is all too rare to find this sophisticated and refined motivator of self-fulfilment at work.

Thus the behavioral patterns observed by management are the consequences of unfulfilled needs and are not inherent elements of human nature. In other words, the observed behavioral patterns are the result of the individual's being deprived of his social and egoistic needs. When management has satisfied the individual's lower level needs they no longer serve as motivational stimulants. Thus in those organizations where the individual receives good wages, is provided with good working conditions, excellent fringe benefits, and steady employment, traditional management will be at a loss to explain the failure in increased productivity.

For although management has often satisfied the individual's physiological and safety needs, it has failed to give sufficient consideration to the social and egoistic needs. The individual will feel deprived if the work situation does not provide him with opportunities to satisfy these higher-level needs and his behavior will reflect such deprivation. The individual, unable to satisfy his inherent needs at work, will increase his monetary demands in an attempt to obtain limited satisfaction.

In an economy such as ours, where the individual obtaining employment is virtually assured of his basic lower level needs, these needs no longer serve as motivational forces. The needs begin centering upon self-respect and self-fulfilment. Management must therefore create conditions whereby the individual can satisfy these higher needs. In other words, management's conventional approach of awards, incentives, and other coercive devices relate to the lower needs which, in our society are relatively satisfied. Their conventional

approach makes no provision for the very needs which are most important to further organizational as well as individual objectives. Directions and control are of little value in motivating people whose important needs are social and egoistic. Thus, both the hard and soft approach are of no value in present-day organizational structure, for they are irrelevant to the situation.

Being deprived of an opportunity to satisfy his needs at work, the individual becomes passive, resistant to change and increasingly lacks responsibility. The writer has carefully observed these theories in the policies followed by different accounting firms. In those firms where the beginning junior accountant is given an opportunity to prove himself, through increased authority and responsibility, and where encouragement is given to further education and professional participation, the individual becomes immersed in his work, thereby satisfying his ego needs, especially that most refined need of self-fulfilment. Financial remuneration is a matter of little immediate concern, for it tends automatically to follow his progress. In those backward firms, however, where the junior accountant is moved from one job to another serving always in the capacity of junior and never being given the opportunity to take on, even gradually, added responsibility, and where his own efforts at further education receive little encouragement from supervisors, the result is often an emerging pattern of laziness and passivity. In today's economy the intelligent individual simply picks himself up and searches elsewhere for a position wherein the above-mentioned needs can be satisfied.

Theory Y

Having developed the concepts indicated, McGregor proposed a different theory for the task of managing people. This theory, referred to as "Theory Y" was thus based on a more adequate assumption of human nature and motivation than Theory X. Specifically, McGregor's Theory Y states :

- Management is responsible for organizing the elements of productive enterprise—money, material, equipment, people—in the interest of economic ends.

- People are *not* by nature passive or resistant to organizational needs. They have become so as a result of experience in organizations.

- The motivation, the potential for development, the capacity for assuming responsibility, the readiness to direct behavior toward organizational goals are all present in people. Management does not put them there. It is a responsibility of management to make it possible for people to recognize these human characteristics for themselves.

- The essential task for management is to arrange organizational conditions and methods of operation so that people can achieve their own goals *best* by directing *their own* efforts toward organizational objectives³.

In other words, Theory Y would require that management create opportunities for developing and encouraging one's potential and growth. This is what Peter Drucker referred to as "management by objectives" in contrast to "management by control."

If one were to elevate Theory X and Y to a more theoretically abstract level, it would be possible to note a direct relationship and application of both Freudian and neo-Freudian psychoanalytic theories. For both theories rely upon an assumption as to inherent human instincts. Theory X assumes the individual is basically indolent, whereas Theory Y deals with instinctual motivational needs. One will recollect and associate such thoughts with the instinctual biological needs propounded by Freud. Furthermore, both Theory X and Y assume that the individual's environment can alter his behavior patterns. Note the similarity between these aspects of the two theories and those of neo-Freudians such as Karen Horney.⁴ Wherein lies the difference between the two theories if both adhere to concepts developed by Freud and Horney? The difference is quite readily apparent if we for a moment consider Freud's libido theory. The individual is not naturally passive as theory X would lead us to believe, rather acts with force and vigor, with constructiveness and an attempt

to channel libidinal drives. This indeed is the essence of Theory Y. Note finally, how McGregor then draws upon the thinking of both Freud and Horney and fuses the two into a practical management concept. Yes, the individual has basic libidinal instincts requiring, as their ultimate, a means of self-fulfilment, but these needs can be tempered and affected by environmental action. It should be noted however, that Theory X places exclusive reliance upon external control of human behavior, whereas Theory Y gives considerable weight to self-direction.

Difficulties in Implementation

What then, are some of the difficulties preventing an immediate implementation of Theory Y? Having applied the conventional theory for so many years, management has tied men down to limited jobs that do not utilize their capabilities, thereby discouraging the acceptance of responsibility and encouraging passivity. As a consequence of man's habits, attitudes, and expectations, his whole concept of membership in an industrial organization has been conditioned. A change in the direction of Theory Y will therefore be slow and will require extensive modification of the attitudes of both management and lower level employees.

Drucker's idea of "industrial citizenship" is still remote and unrealistic. Individuals have been so accustomed to being directed, manipulated, and controlled in the industrial organization that they have long sought satisfaction for their social, egoistic, and self-fulfilment needs away from the job. The individual has thus for years been treated as a child through the process of direct control. It would be unrealistic to expect an overnight shift to an approach wherein the individual is suddenly treated as an adult and would thus be expected to rely heavily upon himself for self-control and self-direction.

Let us take one final look at Theory X and note one of its basic faults. Theory X has as its objective the task of making human beings docile, of creating conditions in which they will do what they are told without question or

resistance. This is indeed an impossible task, for it is based on a faulty conception of human behavior and human motivation. It completely discounts the very significant ideas of individual constructiveness and aggressiveness advanced by Freud.

We have thus far seen that gratification is as important a concept as deprivation in motivation theory, for it releases the organism from the domination of a relatively more physiological need, permitting thereby the emergence of other more social needs.⁵ The physiological needs, along with their partial goals, when chronically gratified cease to exist as active determinants or organizers of behavior. They now exist only in a potential fashion in the sense that they may emerge again to dominate the organism if they are thwarted. But a want that is satisfied is no longer a want. The organism is dominated and its behavior organized only by unsatisfied needs. If hunger is satisfied, it becomes unimportant in the current dynamics of the individual.

Self-Actualization

But even if the physiological, safety, love, and self-esteem needs are satisfied, we may expect that a new discontent and restlessness will soon develop, unless the individual is doing what he is fitted for. What a man can be, he must be. This need is referred to as self-actualization. The term was first coined by Kurt Goldstein⁶ and refers to the desire for self-fulfilment, namely, the tendency for one to become actualized in that in which one has the most potential. The individual has a desire to become everything that he is capable of becoming. The specific form that these needs take will vary greatly from person to person. In one individual it may be expressed maternally, as the desire to be a perfect mother, in another athletically, and in another aesthetically. In all cases, however, the emergence of these needs rests upon prior satisfaction of the physiological, safety, love, and esteem needs.

The theoretical discussion and practical implications, as presented thus far, might mislead the reader to believe that a need must be 100 percent satisfied before the next need emerges. In actuality, most normal members in our society are partially satisfied in all their basic needs and partially unsatisfied in all their basic needs at the same time. A more realistic description of the hierarchy would be in terms of decreasing percentages of satisfaction as we go up the hierarchy of needs. For example, assigning arbitrary figures for the purpose of illustration, we might observe that an individual may be satisfied perhaps 80 percent in his physiological needs, 70 percent in his safety needs, 45 percent in his love needs, 35 percent in his self-esteem needs, and 8 percent in his self-actualization needs. Furthermore, the emergence of a new need after satisfaction of a lower level need is not a sudden phenomenon, but rather a gradual process of emergence from nothingness in slow degrees. For example, if need A is satisfied only 15 percent, then need B may not be visible at all. However, as need A becomes satisfied 35 percent, need B may emerge 10 percent, and so on.

The Scanlon Plan

Application of modern motivation theories have led to such managerial approaches as the Scanlon plan.⁷ This plan stems from a particular philosophy of organization. It is, in brief, a way of life for the management, the union, and for every individual employee in the firm. As a way of life, it affects virtually every aspect of the organization's operations.

Joseph Scanlon believed in the worth of the individual, in his capacity for growth and learning, and in his ability "to work with his head as well as with his hands." The plan thus evolved from this fundamental belief in people. Although Scanlon himself was a cost accountant who had no formal training in the behavioral sciences, his theories fulfil, to a remarkable degree, the requirements for effective human effort that have been highlighted by theoretical⁸ research.

Scanlon's underlying belief in the individual is implemented by the establishment of three broad conditions whereby firm members can easily and naturally collaborate in contributing to its economic effectiveness.

These conditions involve, first, the establishing of "areas of collaboration" and machinery for co-ordinating the collaborative efforts throughout the organization. This is accomplished through production and screening committees. Second, a "ratio" or meaningful, realistic, and common objective is established, in terms of which collaborative efforts can then be objectively measured. Finally, a psychologically adequate system of rewards is established for a wide range of contributions to the effectiveness of the enterprise. The traditional techniques of wage incentives, profit sharing, and suggestion systems awards are inadequate in the light of modern psychological theory.

The plan thus results in a new way of life that permeates every corner of the organization. I would like to digress for but a moment and relate the Scanlon plan to the basic premise advanced by Chris Argyris and the thoughts expressed by Peter Drucker. Argyris pointed out that the policies of management are such as to create informal but effective methods of collusion to defeat its very purposes.⁸ A further failure of the traditional management approach is its failure to make effective use of people. Drucker often states that management's treating of a worker as though he were a "glorified machine tool" is a waste of those very characteristics that distinguish the individual from the machine.⁹

Scanlon applied Drucker's concept of "industrial citizenship," even in the mass-producing setting, by establishing the necessary conditions through which management will recognize that its workers are endowed with brains and ingenuity as well as muscles. As a consequence of this creation of industrial citizenship, the "psychological failure," which Argyris attributed to the traditional management approach, is eliminated.

Every industrial organization can offer its members opportunities to achieve status, acquire new skills, learn, develop, and exercise creativity, once the area of collaboration is established. The traditional management approach, wherein workers are paid to do what they are told and management is paid to tell them, prevents effective collaboration and, moreover, automatically creates the feeling of psychological failure. The end result is indifferent passivity or active hostility. On the one hand, by allowing the individual to genuinely participate in problem solving areas, the cause of such reaction is eliminated. On the other hand, although it might at first appear that, under the proposed plan, management would lose its responsibility, such is not the case. On the contrary, the foreman will no longer be caught between divided loyalties and conflicting pressures and will be able to devote his full capacity to the management function by encouraging individuals to think and be creative for the economic benefit of the organization. The management task thus becomes one of genuine leadership and makes effective use of human resources through participation. Management will then provide more general rather than close supervision and will encourage responsible behavior and tough-minded self-control rather than reliance on external authority.

The Scanlon plan thus typifies Drucker's "management by objectives and self-control." General supervision and wide delegation evolve naturally as management discovers what must be done. It then becomes possible to deal with people as mature adults rather than as children and thus avoid much of the conflict between organizational requirements and the needs of the human personality. The problems delineated by Argyris would thus be satisfactorily resolved.

Scanlon's plan reflects a keen insight into human behavior. Its production and screening committees as well as the whole management-employee relationship that develops, provide an excellent way for satisfying the ego and self-actualization needs which are typically frustrated under the traditional organizational setup. Scanlon goes

further by stating that the real task of management is to create conditions which result in genuine collaboration throughout the organization : provide an environment that will enable the individual to fulfil his inherent drives, abilities, and potential. This is indeed the conclusion being arrived at through present-day findings in the social sciences.

Industrial psychologists have conducted extensive tests to determine what people want from their jobs.¹⁰ It has been noted that when respondents reported feeling happy with their jobs, they most frequently described factors relating to their tasks, to events that indicated to them that they were successful in the performance of their work, and to the possibility of professional growth. Conversely, when feelings of unhappiness were reported, they were not associated with the job itself but rather with conditions that surrounded the doing of the job. These events suggest to the individual that the context in which he performs his work is unfair or disorganized and as such represents to him an unhealthy psychological work environment. Factors involved in these situations have been referred to as hygienic factors, for they act in a way analogous to the principles of medical hygiene.

Hygiene operates to remove health hazards from the environment. When there are deleterious factors in the context of the job, they serve to bring about poor job attitudes. Improvement in these factors of hygiene will serve to remove the impediments to positive job attitudes. Included among the factors of hygiene are supervision, interpersonal relations, physical working conditions, salary, fringe benefits, and job security. When these factors deteriorate to a level below that which the employee considers acceptable, then job dissatisfaction ensues. The reverse, however, is not true. For when the job context can be characterized as optimal, dissatisfaction will not result but neither will there be much in the way of positive attitudes.

The factors that lead to positive job attitudes do so because they satisfy the individual's need for self-

actualization in his work. Man tends to actualize himself in every area of his life, and his job is one of the most important areas. The conditions that surround the doing of the job cannot give him this basic satisfaction; they do not have this potentiality. It is only from the performance of a task that the individual can get the rewards that will reinforce his aspirations.

It is thus possible to divide the wants of employees into two major groups. One group revolves around the need to develop in one's occupation as a source of personal growth. The second group operates as an essential base to the first and is associated with fair treatment in compensation, supervision, working conditions, and administrative practices. The fulfilment of the needs of the second group does not motivate the individuals to high levels of job satisfaction and to extra performance on the job. All that management can expect from satisfying the needs for hygiene is the prevention of dissatisfaction and poor job performance.

With these distinctions in mind, we are able to account for the lack of success that industry has had in many of its attempts to motivate employees. The failure to get positive returns, in both job attitudes and job performance, from rewarding the avoidance needs of the individual is most clearly seen in the use of monetary incentives. For salary is among the factors of hygiene, and as such it meets two kinds of avoidance needs of the employee. First is the avoidance of the economic deprivation that is felt when actual income is insufficient. Second, and generally of greater significance in times such as our own, is the need to avoid feelings of being treated unfairly. Salary and wages are very frequently at the top of the list of factors describing answers to the question, "What don't you like about your job?" in morale surveys. They are, however, only at the middle of the list of answers to the question, "What do you want from your job?" This difference in emphasis can be accounted for by distinguishing between factors that lead to job satisfaction and those which contribute to job dissatisfaction.

Thus, although on the surface it would appear that job attitudes and company loyalty are engendered by incentive plans, such is not actually the case. For upon probing a bit deeper it will be found that employees in such companies will report that they like working for their companies, but the "liking" seems to be little more than the absence of disliking, their satisfaction little more than the absence of dissatisfaction.

An interesting and related description of this condition was reported by Blum :

If I had to summarize worker's feelings about the company in one sentence, I would repeat the words of a worker : "If a man is going to work for anybody else, it's hard to beat Hormel." It is the single most often heard expression in any conversation about the company. I have never heard a worker express an unconditional acceptance of the company as an organization to work for.¹¹

What the workers are really saying is that they have found a place to work in which life is not unbearable. According to Blum's report, shop talk is deafening by its absence when the work day is over. There seemed to be a deliberate effort on the part of the employees to repress any mention of their job away from the plant. This contrasts significantly with the unceasing shop talk reported by C.R. Walker in his study of steel workers.¹² His description of their jobs emphasizes the large number of motivators present. They are not running away from their work at the shift bell. They continue to live their jobs at home. In the previous situation described by Blum, the sooner the worker finishes his job, the sooner he can get away from it ; the more money he can earn, the more effective his escape in pleasant living off the job. The true production potential of these workers is not being tapped ; the incentive system, along with other hygienic factors, serves merely to make the job tolerable.

We have thus, throughout our discussion and illustrations, indicated one of the most significant psychological concepts for management. Specifically, it is up to management to consider and accommodate man's basic drive for

self-fulfilment if the individual's full potential is to be utilized to the benefit of the firm.

We have previously referred to physical, social, and egoistic needs, and I would like to dwell upon the latter for a few moments. Each individual can be thought of as operating in terms of an "ego-ideal"—a set of values and ideals in terms of which he sees himself.

Satisfying Egoistic Needs

Egoistic motives are satisfied when one can give a satisfactory answer to the question, "Who am I?" Egoistic motives are satisfied by recognition, by status signs, by being able to tell others what to do, by being apart from the group, by being admitted into the inner circle, and the like. In his studies of human relations in the restaurant industry, William Whyte relates a case where the kitchen of a large restaurant was threatened with a work stoppage because the woman in charge of preparation of sea foods was going to walk off the job. A detailed look at her problem showed that her main complaint was that in the organization of the kitchen she had been called the "fish woman!"

We can now expand on the underlying conflicts of attempting to satisfy various classes of needs. For example, management often pits social and egoistic need-satisfactions against one another. Many times men avoid or refuse an opportunity for advancement to foremanship, suggesting that they don't want the extra responsibility, or aren't good leaders, or the like. In many cases it is probable that the opportunity for self-aggrandizement inherent in a promotion to foremanship is actually threatening to cut the man off from social relations with his group, and in the face of the conflict he chooses the latter rather than the promotion and loss of his affiliations.

In the light of these thoughts, I would suggest the following approach, which may be of considerable value to management. Since there are countless opportunities for social and egoistic need-satisfaction at work, they

should be exploited whenever possible. There are many opportunities for social relations at work that do not necessarily interfere with production, and it is often possible to increase greatly the feeling of group membership on the part of the work force and thereby provide real social need-satisfaction. In many cases, we should severely question those production layouts, working rules, and practices that have developed, which limit social relationships on the job. They seem often to have had their origin in an unformulated notion that if people enjoy something it can't be good for them and must be interfering with production. Many management practices seem to be based on the theory that, for instance, inspection lines should not be set up so that operators face one another because they will chat all day, and when they are standing around having a good time they are *ipso facto* not doing their work. Perhaps if we were to maximize the opportunities for social interaction at work we would greatly increase the overall return the employee gets from the job and thereby improve morale and consequently his view of the job itself.

Satisfying Social Needs

Following is an illustration of the importance of satisfying social needs at work. In a large central office of a utility, it had been the practice to operate a single large room full of female clerks—one hundred of them—sorting bills as they came in from the service line. The work was relatively tedious and exacting, and the department had always been one where turnover, absenteeism, and mistakes were real problems. The company eventually changed the layout of the workroom as a part of other work on the building. The single large room was now broken up into a series of rooms, with about ten girls to a room. Although the nature of the work was the same, the absenteeism, turnover, and mistakes all decreased. Instead of being one of a very large group, without any individuality, each girl was now a member of a small group so that she could see herself as a person in it. Instead of

feeling, when she woke up in the morning with a cold. "I'd better stay home, they'll never miss me," she may now have felt, "I'd better go in anyway ; Alice, Jane, and Nancy will have to do my share if I'm not there." The old organization minimized the opportunities for either social or egoistic need-satisfaction. It is hard to feel that you are an important member of a group of a hundred. On the other hand, the new layout of the work facilitated both a feeling of association with the individual members of the work group and a feeling of individual importance, as the individual changed from being 1 percent of the group to being 10 percent.

Role of the Superior

A properly motivated staff cannot function effectively without knowledge as to the rules of the organization or, if you will, the rules of the game. It therefore becomes essential for the subordinate to know a good deal about his superior as an individual. For it is the superior himself who makes any other kinds of information meaningful.

Thus, for example, the rules of an organization do not mean anything except in terms of the superior as an individual. The rule book might state that everyone must be at work at 8:00. Now the question arises, "How late is late?" The answer to this question is not to be found in the rule book, but in the superior. Late is when the boss thinks it is late. Is he the kind of man who thinks 8:00 is the time, and 8:01 is late? Does he think that 8:15 is all right occasionally if it is not a regular occurrence? The subordinate may be told what is expected of him, but the superior is the final judge who decides whether to interpret the level strictly or leniently. The subordinate must know the superior in this respect. The company handbook may say, "We encourage suggestions," but the subordinate must find out whether the superior is, in fact, the kind of person who wants suggestions to go up from his department, or whether he is afraid that it would cast doubt on the supervision because he

didn't think of them himself. These are matters which the subordinate must learn. The superior can make it difficult or easy to learn them, and in many cases superiors seem to unknowingly slip into a pattern of making it difficult for subordinates to "know."

In addition, the superior must maintain an atmosphere of approval at work. A good part of the atmosphere of approval is in the freedom to make mistakes. This does not mean tolerating lower standards of quality at work, but simply the recognition of an honest mistake that comes from someone's trying something and failing to accomplish it for several reasons. It is quite possible to point out mistakes to a subordinate and to correct them within an atmosphere of approval; it is quite possible to maintain a high quality of work-performance and still give the subordinate a feeling of having freedom to make mistakes. Nor does an atmosphere of approval suggest a lowered standard rate of output. The two do not necessarily go together. It is quite possible to maintain high standards for quality and quantity with an atmosphere of approval, and it is equally possible to have rather low standards in an atmosphere of disapproval. The chief difference will be in the subordinate's feelings about himself, his job, and his boss, and the resulting difference in his effectiveness at work.

Active Independence

Once the superior has provided the conditions of knowledge, consistency, and approval, so that the subordinate is not hampered by feelings of dependency, he can attempt to provide opportunities for active independence, so that he may thereby take advantage of the subordinate's interest and abilities. If the individual is to grow in independence, he must come to feel that he is something, that he is a member of the group, that he can do something, and that he is important to the task and to the group. It is the leader's job to be on the look-out for opportunities to foster the development of such feelings. They include not only the opportunities for actual advance-

ment in pay, position and responsibility, though these are important, but also the learning of new skills, a feeling of one's role in the total productive effort, a feeling that one is personally responsible for the accomplishment of certain functions, and that these functions are essential to the completed whole. To whatever extent possible the individual should be made to realize that he is uniquely responsible and required on the job, and that he is an integral member of the group in a social as well as productive sense. These are among the important social and egoistic need-satisfactions that are available on the job, and it is essential that the superior utilize them in providing on-the-job returns to the subordinate so that he may be of maximum value to the organization.

The superior's ability to control absenteeism and turnover is likewise related to his ability to provide his subordinates with a feeling of growth and a means for the expansion of social and egoistic need-satisfactions. A broken leg or serious illness will of course lead to absence no matter what the superior does. We can, however, hope to control those cases in which the subordinate is in doubt about whether he is really sick enough to be unable to come to work. If his job is one about which he feels no personal involvement, and in which he feels that he is easily and immediately replaceable, there is no great impetus to come to work. If, however, the employee feels himself to be a member of the group, feels his own skills and understanding to be essential, and feels himself to be part of the job, those feelings will quite likely swing the balance and bring him to work. The employee's feeling about himself and his relation to the job and the group are largely the superior's responsibility.

Participation

The effective manager should be certain to secure the subordinate's participation. It is difficult to overemphasize the importance of participation from a psychological point of view. Industrial research studies have frequently revealed that participation is a basic means by which a

subordinate may be given an opportunity to develop, with a resulting improvement of morale and a maximization of skills and abilities.

A word of caution is appropriate in this regard. Specifically, the participation must be real and not a sham. In many cases the superiors invite participation only after they know the answer, with the idea that it would be good for the men to "have a feeling" of participating. Nothing is more apt to be sensed by the participant than the fact that he isn't taken seriously and that his participation is not real. If a superior is going to invite participation he must be ready to take it seriously and be swayed by it, as well as ready for it to open many areas that he hadn't anticipated. If this is not possible, he would do better to avoid it.

This is indeed the cause of the breakdown in many industrial suggestion systems. Usually the work group is invited to make suggestions, but they do not have sufficient information about the problems to offer penetrating solutions. The way has not really been paved for participation. The result is that the suggestions are superficial and peripheral. The next step is a decision to reward the contributor a nominal cash award for trying and "to encourage him." Soon the whole plant senses the phonicness of the suggestion system. Real participation can pay real dividends; phony participation is apt to be more of a liability than an asset.

To bring the examination of this area to a conclusion, we have noted a significant difference between the physical need-satisfactions on the one hand, and the social and egoistic need-satisfactions on the other. Physical need-satisfactions provide a form of reward that cannot be enjoyed on the job. By and large, our physical need-satisfactions must be utilized off the job, and they are accepted as a goal to be enjoyed at the end of work. The social and egoistic need-satisfactions can, in many cases, be provided and realized on the job itself, and they can serve to identify the individual as a person with the job, so that he feels part of it.

Conclusion

The obvious objective for any type of organization, where the work force is the crucial factor in its success, is to improve staff member motivation. We have already indicated that the factors on which management has traditionally tended to rely for motivating people, such as wages, salaries, working conditions and benefit programs caused dissatisfaction if they were handled poorly or inequitably. A fair and equitable handling of the same factors, however, merely provided a minimum level of acceptable performance. If managers desire to maximize the potential and abilities of their staff in promoting outstanding performance, they would do well to investigate an additional set of factors—ones that have generally been ignored in the traditional management approach.

Considering both frequency and duration of attitude effects, the three factors of work itself, responsibility, and advancement stand out strongly as the major factors involved in producing high job attitudes. Their role in producing poor job attitudes is by contrast extremely small. On the other hand, company policy, interpersonal relations, and working conditions are factors causing job dissatisfaction which exert negligible pull in the positive direction. It is important, furthermore, to note that the job satisfiers deal with the factors involved in doing the job, whereas job dissatisfiers deal with factors that surround doing the job. Good company policy, satisfactory administration, proper supervision, and adequate working conditions will not lead to positive job attitudes. On the other hand, recognition, responsibility, and advancement all lead to positive job attitudes. Their absence will much less frequently lead to job dissatisfaction.

It is through the satisfaction of the individual's needs for self-actualization in his work that the factors indicated are able to function in a positive manner. Man tends to actualize himself in every area of work, and his job is one of the most important areas. The conditions that surround the doing of the job cannot give him the basic

satisfaction for they lack the potentiality. It is only from the performance of a task that the individual can get the rewards necessary to reinforce his aspirations.

As an example of the application of these motivation theories, let us examine the ways in which a public accounting firm would use these theories so as to achieve the particular objectives of the firm. In general terms, the objectives are to attract, keep, train, and foster the growth of staff accountants, so that their productivity will continually mature technically and managerially throughout their career with the firm.

In order to motivate the staff man, the accounting firm must create conditions that foster growth by means of a "way of life," a practicing philosophy expressed in terms of policy and implemented in the day-to-day activity of management and staff. It is up to the managing partners to sit down and analyze each of the dissatisfiers and satisfiers, which we have enumerated above, in the light of their particular organization. It is important also to keep in mind our previously stated conclusion that the needs affecting motivation are of changing importance over a period of time. In other words, the unconscious hierarchy of needs will change as the individual progresses from junior to managerial level. For example, the needs of the newly hired man might include interpersonal relations, job security, possibility of growth, and financial compensation in the order listed. A partner in the same firm might be motivated by the work itself, achievement, and personal life, in that order.

Financial remuneration, as a motivating force, is thus seen to be a changing and shifting factor. It means different things to different people at different stages in their careers. In a sense, it is seldom a "motivator" in itself—but it may have an important bearing, often symbolic, on a person's other needs for recognition. Salary begins as an economic necessity to meet a young man's hunger, safety, and security needs. But even at the start, status plays an important part, as when students begin to

compare the offers they receive. Therefore, unless the firm can satisfy the individual's status needs with other compelling features of the job besides salary, money will dominate.

Achievement in the form of self-fulfilment was one of the satisfiers cited by Herzberg and was the focus of David McClelland's studies.¹³ As an example, let us consider this need as a motivational factor in the accounting firm and tie in the thoughts of Argyris as well. The graduating senior accounting major can be expected to bring a good deal of drive to his work. Research on organizational structure has indicated, however, that the organization itself may inhibit creativity, produce conformity, and stunt what should be the normal growth of the individual toward maturity. The accounting firm must be particularly alert to situations that fail to bring a man along rapidly enough to suit his ambition. The firm should guard against creating undue over-specialization and should be sure to clarify the opportunities that exist for the individual, help him set clear goals and, at specified times, indicate how well he is doing. Failure to observe these rules will serve to inhibit the individual's achievement motivation.

We are always on the search for those staff men who will eventually become managers and partners in our firm, and we should therefore recognize the characteristics of these highly achievement-oriented persons. These people welcome challenges, like to work and solve problems, set reasonable goals and take a certain amount of risk to meet them, and desire rapid "feedback" on their performance. We noted studies that showed that these people probably got this way early in life. Their parents typically set high achievement goals for them, gave them warm support and encouragement toward reaching goals, but did not dominate them.

There are, therefore, a number of important steps that the accounting firm can take to control and develop this achievement motivation in staff men. It should first

select high achievement people. Second, it should talk about and stress its aims and goals and help the individual set such goals. Third, it should provide the men with fast, accurate feedback, and whenever possible and practical, assign more responsibility. Management should ask questions like these: Are staff men being constantly challenged to "stretch themselves" with new and added responsibility? Or is there a tendency for management to hold on more than necessary?

Today's management has much upon which it can draw to improve upon its objectives of economic growth. The very practical applications that are to serve as revisions of the traditional management methods reflect and rely, to a considerable degree, on the unconscious needs of the individual, which Freud so remarkably uncovered. Thus, by a knowledge of the individual's unconscious needs, we have been able to establish practical and most useful theories upon which management might rely in the furtherance of its economic objectives.

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Who Really are your Best Employees?

—C. R. Grindle

How do you rate your employees?

By their personality, past performance or what they accomplish?

Unfortunately, no matter which method you use it could be worthless.

For decades, companies have said: "People are the most important part of our organization." Then, in an effort to learn more about their people, they set up an appraisal program.

Usually, this means an annual interview—and the filling out of a form—to evaluate an employee's work.

In theory, it's an all-important management tool. It's meant to tell you whether an employee should be promoted, trained, transferred, given a raise—or fired.

And it is supposed to help the employee develop his skill and ability to the fullest.

No foolproof approach

But it usually doesn't, and here's why.

Originally it was thought that if people are the most important part of an organization, they should be analy-

zed to determine just what kinds of people they have been during the past performance period. So, such things as initiative, common sense, ambition, tact, sincerity and drive were rated for each employee. No two companies have exactly the same list of traits but they all have a common fault—giving a numerical value to qualities which are just not that measurable.

There are many other pitfalls in this approach :

- Who decides which traits are going to be rated?
- Can there be agreement on a definition of each one?
- Are some traits an asset in some jobs and a liability in others?
- Should all the traits have the same relative value?
- Can prejudice by the rater be adequately overcome?

So the designers of appraisal forms said : “Let’s change the questions. Let’s be concerned about performance itself, not personality traits.”

Thus, instead of an arbitrary list of personality traits, the appraiser finds questions like these :

- How well does this employee overcome problems?
- Does this employee display any special qualities when working with his peers?
- How does this employee perform under pressure?

But typical answers read like this: This employee shows a lot of common sense in overcoming problems. He is very cooperative with his peers. He works calmly under pressure.

What happens is obvious. The questions don’t get any better and the answers are still trait-oriented.

Finally, many companies turned to a goal-oriented appraisal. They feel that the focus should be on measurable accomplishment. At any given moment an employee should be working at something that has a quantifiable goal that contributes to the company’s major objectives.

The alleged advantages of such an approach are many. Goals describe why a job exists in the first place. We don't in a sense have a man in the organization to operate a machine; we have him to produce so many units, meeting certain specifications, at a certain cost by a definite time.

Goals are thus both definable and measurable.

Any drawback to this approach? Unfortunately, yes. There is at least one serious built-in pitfall that cannot be overcome. It has to do with timing.

Performance appraisal usually calls for an evaluation of the employee's work on an annual or semiannual basis. Unfortunately, the goals that any employee works toward seldom have exactly a 12 month or six-month deadline.

Some of his goals will take one month to achieve, others three months, a year or more.

It does not take a psychologist to know that any discussion that praises accomplishment of a task should occur at the time of accomplishment, not some months later.

Bias spoils results

More often than not, the two people taking the biggest parts in performance appraisal are the employee and his immediate supervisor.

In recent years some organizations call on the employee to make an appraisal of his own performance. This is held to be consistent with participative management, and it recognizes the fact that the employee probably has as good an idea as anyone about how well he has done.

Unfortunately, when told to do a "self-appraisal," many employees are not quite sure what this means unless it is just a matter of filling out a form.

Other procedures call for a more-heads-are-better-than-two process. In these cases several people have a say in evaluating the employee's work. Review committees sometimes are set up for this purpose.

Several organizations have tried peer ratings—where an employee is evaluated by his fellow workers.

A few organizations have tried subordinate appraisals. The reasoning behind it is that if a man supervises others, those men are in the best position to know just how well he performs this role.

At best, the formal evaluation of one human being by another is bound to be contaminated by some degree of subjective bias. When it comes to peer ratings and especially ratings by subordinates, these prejudices often run wild.

Other basic flaws

Apart from human bias, the appraisal system suffers from other common flaws. Among them :

- Lack of top management support. An old problem for personnel administrators, this is especially critical when it comes to appraisal programs. Most supervisors do not like to evaluate other people. When they know top management gives the program lip service only, they find it easier to ignore it.

- No reward. Unless a supervisor recognizes the long-range satisfaction to be had in helping an employee develop through frank appraisals of his performance, he sees no personal advantage to himself for the time and effort required to conduct them.

- Advantages not made clear. The benefits that are supposed to result from appraisal systems include improved performance, employee development and better utilization of manpower. These are the reasons supervisors should want to support and carry out the appraisal program.

Unfortunately, these benefits are not usually made clear to supervisors. Instead it is the mechanics of the appraisal system, such as procedures and forms, that are emphasized.

- Inadequate training. To become skilled at sitting opposite a subordinate and fairly evaluating his past performance requires considerable training and practice.

Strangely, many organizations feel supervisors can pick this skill up, not through training, but simply by reading a company manual.

With today's emphasis on participative management, two-way communication and the need to keep employees informed, the interview is considered essential to employee rating.

Final fiasco—the interview

But traditionally, the supervisor looks forward to appraisal interviews with trepidation, conducts them reluctantly and is immensely relieved when they are over. Employees themselves are hardly any more receptive to the idea.

With two strikes against it from the start, it's hardly surprising that the interview is usually not a howling success. Aside from this general mutual apprehension that so often permeates the interview, there are some specific reasons why these face to face discussions about the employee's past performance do not usually come off well:

- Too often, the interview has no specific agenda. For example, instead of using the time to summarize systematically just what the employee has accomplished, the interview often is used to discuss whatever comes to mind. Usually what comes to the employee's mind is a raise in pay. Usually what comes to the supervisor's mind is a whole series of little criticisms which he has, in fact, saved up for just this occasion.

Small wonder the interview sometimes rambles aimlessly, appears to be getting nowhere and seldom does.

- Too often the interview is personality centered. Personality traits are important, but they have been pretty well debunked as yardsticks to measure past performance. When both manager and employee anticipate the interview as a time when the subordinate's personality will be dragged out for an airing, small wonder neither of them looks to the experience with pleasure.

- Any discussion between boss and employee tends to be one-sided. When the communication is one-way only, it probably means the boss is telling the employee what he has been doing wrong and right. When it's all over, chances are good the employee will not agree with every one of his supervisor's judgments.

Furthermore, if the boss has been an autocratic supervisor all year, but now decides to unbend, he may be disappointed. If

the employee suddenly is invited to speak up on this one occasion, the result is likely to be bewilderment, rather than a free exchange of ideas.

Forms share the blame

Forms are nearly as much at fault as the interview itself for failure of employee rating systems. To many managers performance appraisal means only one thing—filling out a form.

Forms may be a key part of an appraisal system, but when filling them out becomes an end rather than a means, obviously the tail is wagging the dog.

By its very nature, a form is a limiting analytical tool. It has room for only so many questions.

Yet the appraisal interview itself should certainly be an opportunity for manager and employee to conduct a wide-ranging discussion.

When the manager uses the form as a guide, he may limit his evaluation to those items shown on the form, and ignore others that should rightfully be taken into consideration.

Furthermore, no one form can adequately cover the diversity of positions found in most organizations to-day. Yet to facilitate administrative bookkeeping, often just one design is used.

Also, unless the form is goal-oriented, it probably tries to measure something that is not quantifiable. It often tries to measure such imponderables as reliability, integrity, loyalty, imagination and enthusiasm.

Finally, too often the form is simply filed and forgotten.

A few progressive corporations are experimenting with automated manpower inventory systems. They are intended to make it easy to locate the right employee for the right job. Employees who are capable of filling a vacancy

are identified from data fed into a computerized memory system.

But even here there is a controversial question. Namely, how important a part should past performance play in filling the job?

Quality of performance is subject to change. A man performing well today may, in fact, be hunted by a single poor record of performance that is still filed or remembered even though it was made years ago.

Using forms as part of an appraisal system has so many serious disadvantages that it is certainly one of the main reasons why such systems fail.

Perhaps instead of trying to determine through the years what type of form is best, business firms should have been asking themselves a far more basic question: Should a form be used at all?

The real answer

If performance appraisal has not proved the answer to a healthy employee development program, what will? To solve that riddle we must first make certain what we want performance appraisal to achieve.

In general, the objectives include:

- Better use of existing manpower.
- Improved performance on the job.
- Periodic feedback to let the employee know how he is doing.

The answer to our predicament is not to forget performance appraisal, but to improve timing.

You should hold a frank talk with an employee about his shortcomings—but only when the shortcomings occur. You should discuss his achievement of goals—but when the achievement occurs. Ideas for development should be discussed when you have those ideas, or he does.

If supervisors postpone discussion because company policy calls for a get-together only once a year, then the discussion becomes a mere formality conducted on an untimely basis, covering things which are difficult to recall, no longer of immediate concern and properly discussed only when they happened.

The point by now is obvious. To establish a climate of understanding, rapport, friendliness and team spirit with employees, a manager must do it on a day to day basis. If the manager and his people know what the goals are and how things are going, then there is no need for an artificial, belated, form-oriented appraisal system.

Mutual discussions between boss and subordinate, working together, and timely, informal progress appraisals should relegate the unsuccessful, outdated performance appraisal system to management's junk heap.

Organizational Health and Company Efficiency

—Dalton E. McFarland

The concept of organizational health, although merely an analogy, provides useful insights for understanding organizational behavior. These insights are the product of an increasing amount of excellent research on the organizational behavior of executives, supervisors, and rank-and-file workers. By drawing upon some of this research, it is possible to show that business organizations must seek new approaches to problems of organization structure and design if they are to adapt to the changing social, economic, and technological demands confronting them.

The idea of health implies, life, growth, and vitality. Viewed in this light, a company is a dynamic system, pulsating with changes that continuously shape the company's evolving character, and hence the attitudes, behavior, and very lives of its employees. A business organization is healthy to the extent that it can thrive in a competitive and often hostile environment.

A healthy organization is both adaptive and innovative, with a high tolerance for internal and external crises, and the ability to forge ahead to new levels of activity. There is a continuous renewal of its vital forces.¹ In the study of organizations renewal and growth are central aspects of the biological analogy. Dubin has examined

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the linkage systems which make for stability in organizations. He found that stability in individual units and clusters of units in organizations arises from internal work-group bonds, and from mechanisms enabling constituent groups to present a united front to the organization in order to resist changes affecting the group as a whole. Thus he sees the matter of stability both from the standpoint of the system as a whole and from that of its components.²

Haire's analysis of organization growth, following a biological model, investigates the interdependence of size, shape, and function in organizations. By empirically studying the histories of a number of firms, Haire concluded that growth processes characteristic of business firms can be described by relatively simple growth equations of the kind used in population studies and other disciplines and that general principles underlie this growth. This tentatively confirms the utility of the biological model.³

Biological models emphasizing such concepts as growth and stability have important antecedents in the work of economists on the subject of equilibrium. Summarizing this work, McGuire analyzes the writings of Cannon, Boulding, Knauth, and Chamberlain, all of whom have developed theories revolving around the concept of homeostasis, a condition of stability in the bodies of highly developed animals. Cannon, a physiologist, first developed the concept. He also argued that non-physiological states, such as social, political, and industrial organizations, have evolved mechanisms for preserving their homeostatic condition. Boulding emphasized the homeostatic nature of the firm's balance sheets, reflecting the way in which external pressures cause the disequilibrium to which internal forces in the firm react. Knauth was concerned with the maintenance of trade positions between a firm and other firms in an industry. Chamberlain holds a bargaining theory of the firm which is homeostatic in character. He emphasizes the balances which result from bargains between conflicting interests.⁴ All homeostatic theories stress the importance of the

stability of the business as a system related to either internal or external forces, or both. The implication in all such theories is that goals or motivating forces other than profit maximization operate either within the entrepreneur, or spring from the environment.⁵

Management theorists have, strangely enough, made little use of equilibrium theory. Chapple and Sayles, in advocating a reassessment of the morale concepts used in business organizations, suggest that morale may be viewed as a measure of organizational health. Basic patterns of activity and interaction and associated personality factors can be viewed as representing a state of equilibrium. This state may be disturbed by stress situations, with equilibrium being restored by various behaviors of the individual experiencing stress. Morale is then defined for an organization as the obtaining of a state of equilibrium in the relations of the constituent individuals.⁶

Organizational health, then, clearly reflects the twin goals of company survival and growth. Survival is a minimum goal, and an important one. But the healthy enterprise pours its energies into a vigorous struggle for progress, if not supremacy, in a competitive environment. Managers use periods of stability to generate the conditions of further growth, and they know how to achieve this growth at costs and risks reasonably commensurate with potential gains.

Important Distinctions

Organizational health should not be confused with company health. Although related, they are not synonymous. Company health is the result of organizational health. Elements such as financial conditions, product acceptance, market position, technological adequacy, and capacity for confronting the impact of economic conditions generally are indicators of company health. Changes in these elements are often the outward manifestations of deep-seated organizational problems. However, there is mutual interaction between these variables and the characteristics of organization, so that causes and effects are

difficult to isolate. For example, financial losses apparently caused by changes in consumer tastes, or technological change, may produce symptoms of organizational ill-health as executives struggle to find remedies for the situation. But the financial difficulties might not arise or become so acute, had not organizational difficulties prevented the company from building its resistance to the forces of disintegration.

A company may thus seem to fail because it cannot solve its technical, financial, or economic difficulties. Underlying these manifest problems, however, are latent ones associated with deficient skill in maintaining the conditions of organizational health. A business that does not achieve this health is less able to withstand adverse forces in the economy generally, or the pressures of competitors; nor can it stem the beginnings of internal decay dormant in every organization. Even a very robust organization can deteriorate under the impact of complex internal and external forces, as in the case of RKO, which, according to one observer, degenerated in five years under Howard Hughes from the nation's fifth biggest motion picture studio into little more than a few bankrupt parcels of real estate. In RKO, neglect and mismanagement "had dissipated its value as a producing unit beyond any hope of recapture; it had become merely a corporate derelict to be salvaged as profitably as possible."

Clearly a company can be in a state of poor organizational health long before the symptoms become apparent. It can outwardly exhibit the earmarks of efficiency, success, and company health at the same time that it is nurturing the seeds of decay. The symptoms lag behind the outward manifestations, often for many years. As in the case of a human being, one's outward appearance can be healthy, but a serious condition, such as tuberculosis, may lurk deceptively within. For example, the anti-trust crisis in the General Electric Company in 1960-61 was preceded by management pressures for profits dating back to the early 1950's, when Ralph Cordiner introduced his plan for decentralization. These pressures continued, while top

management failed to keep informed about how recipients of those pressures were reacting.⁸ It took General Dynamics almost six years from its decision on jet transports in 1955 to reach the climax of its disastrous \$425 million loss by 1961.⁹

Organizational health is thus a critical element supporting the goals of company stability and growth. Because it reflects the environment in which people work, the interrelationships of people, and the human frameworks for managerial decision and action, the question of organizational health is highly relevant to the search for efficiency. Technological bases for efficiency—the methods of marketing, production, and finance—are available equally to all companies: the Monsanto Company, for example, employs essentially the same devices for raising capital that other companies use. But the really significant differences among companies are found in their managerial skills, in the utilization of human resources, and in the productive efficiency that is associated with team-work, high morale, and high job satisfaction. In modern complex organizations, however, good human relations and good personnel management are not enough. Organization structure has a lot to do with what happens.

Efficiency

We must note one more important distinction. Company efficiency and organizational efficiency are not the same. The concept of efficiency itself requires a criterion, and the criteria by which these two concepts are measured are different. Managers regard company efficiency as productive efficiency, or the minimization of unit costs. The aim is low costs per unit of product consistent with the desired level of quality. In contrast, organizational efficiency has fewer specific referents and less objective criteria. Organizational efficiency refers to the way in which the patterns or structures are multi-purpose in nature. We expect an organization today to provide channels of communication, systems of delegated authority and command,

control networks, service patterns, task accomplishment, status systems, job satisfactions for employees, and the fulfilment of many other human needs.

There is a presumption in most of the management literature that organizational efficiency is a requisite of company efficiency, as well as a presumption that organizational health is a requirement of organizational efficiency. However, this chain of organizational health, organizational efficiency, and company efficiency is a complex one, and research does not yet completely substantiate the validity of these presumptions. But we are confronted with the stark reality of company failures, and with the stubborn fact of widespread job dissatisfaction among the employees of most companies today. A central problem for managers, therefore, is to study and properly diagnose the defects of organizational structures, and to achieve the early detection of potential decay in the interrelationships of people within the organization. Only then can they introduce changes that will increase the payoffs and decrease the human, social, and economic costs of operating the organization.

Three Structural Stages

Having clarified the concept of organizational health, we can now analyze its relationship to company efficiency. Organization structures evolve through these three recognizable stages : The early pattern of organization is one built around strong leadership by dominant executives. The second stage of development is marked by the emergence of bureaucratic structures and associated patterns of administration. Finally, the firm evolves organizational adaptations to remedy the deficiencies of traditional bureaucratic structures and to equip the company for the future demands almost certain to be made upon it. Here we compare the leadership patterns and some problems of organizational health and company efficiency characteristic of each stage.

EXHIBIT 1

**EMERGING LEADERSHIP AND ADMINISTRATIVE PATTERNS
IN BUSINESS ENTERPRISES**

Stage 1	Stage 2	Stage 3
CHARISMATIC DOMINATION (LEADERSHIP)	BUREAUCRATIC ORGANIZATION (PROFESSIONAL LEADERSHIP)	TASK-ORIENTED INFORMATION SYSTEMS AND FLUID ORGANIZATIONS
Strong top loader	Organizationally-created leader	Group leadership and decision
Strong owner influence	Indirect owner influence	Indirect owner influence
Non-rational	Highly rational	Highly rational
Hierarchy with informality of roles, positions	Formal roles, offices, and positions; strong hierarchy	Fluid structures: deemphasizes hierarchy
Arbitrary succession in hierarchy	Planned succession; assured careers and merit appointments	Weak hierarchy and more informal offices, positions
Loose functional units	Tight functional units	Task forces, teams, projects, and interfunctional activity
Situation oriented	Institutionally oriented	Systems and computer oriented
Emotional interpersonal relationships	Impersonal relationships	Collegueship and personal relationships
Unstable; dependent on great leader	Stable and predictable	Stable, but less predictable
Resists specialization and routinization of decisions	Promotes specialization and routinization of decisions	Deemphasizes specialization and routinization of decisions
No organization charts	Strong dependence on charts	Deemphasizes charts
Handles emergencies and new situations well	Less flexible in emergencies and new situations	Slower and more uncertain in emergencies and new situations
Arbitrary reward systems	Planned reward systems	Rewards based on results
No participation in planning or decisions	Controlled participation	Meaningful participation in decisions and planning invited
Strong discipline with arbitrary rules	Strong discipline with fair rules	Deemphasis on rules and discipline
Moderately legalistic	Strongly legalistic	Permissive
Loyalty and conformity to leader	Loyalty and conformity to system and institution	Loyalty and conformity to profession and peer groups

Research shows that over the past fifty years, contrary to widespread opinion, there has been substantial innovation, and change in the structure and design of organizations. In companies where managers have successfully pursued growth objectives, substantial innovation has been at work in the design and utilization of organization structures as they are adapted to changing needs and conditions. Of special importance are the decisions that affect organizational health—those relating particularly to the design and utilization of the company's organization structure during periods of growth and change.

As companies grow, difficulties of communication, coordination, and control become greater. Technology becomes more complex. Production and distribution shift to a national and international scope. Yet habits, customs, and management philosophies bind the organization to its past. These rigidities inhibit the changes required for survival or further growth. But as changes in technology and other aspects of the enterprise create the need for new ideas in organization structure and design, rigidities must give way. If they do not the business founders.

If a business successfully evolves a new organizational apparatus in response to changing demands made upon it, it is usually capable of providing for very large expansion. This releases energies devoted to research, experimentation, and exploration for fruitful ways to increase the size and scope of the business. The pace of the company's growth is accelerated both by sales expansion, and by acquisitions and mergers. As a business acquires more and more resources, its earning potential under competent management greatly increases. In businesses undergoing such growth pressures, organizational designs and mechanisms must keep pace with changing needs in the company.

The general characteristics of ongoing organizational change in growing, healthy organizations are shown in summary form in Exhibit I. The first column, Stage I, describes rudimentary organization structures and leadership patterns characteristic of early, pioneering business

enterprises. The second column, Stage 2, summarizes the characteristics of the emerging bureaucratic structures in the period from 1925 onward. The third column presents innovations designed to remedy apparent defects in the design and use of bureaucratic structures. I will now analyze these three stages in substantial detail, describing the intrinsic relationships between organizational health and company efficiency.

1. The Great Organizers

In the closing decades of the nineteenth century and early decades of the twentieth, emerging business empires reflected the personal inspiration and creative genius of their founders. The spirit of entrepreneurship was widespread; frontier psychology still pervaded the nation; economic opportunity abounded for those willing to adhere to the Protestant ethic, with its adjurations for hard work, thrift, and self-denial. The business enterprises of this period employed plain and simple organizational patterns built around the genius or the whim of a dominant executive. In such businesses, the principal operators were also the principal owners, and they stayed close to the business. They kept the reins under tight control through diligent observation, constant, immediate, and direct contact with the ongoing work and elaborate order-giving and reporting systems. The leaders around whom such businesses were formed were strong personalities, aggressive and energetic, guided by common sense. Their actions were not entirely untouched by kindness and sympathies of various sorts, but emotions were kept in check, subservient to the problems of production and finance they were trying to solve.

For the enterprise objectives of this period, such methods of administration and management were effective and efficient. Organizations were healthy because they had momentum and strong direction from their leaders. One-man leadership made clear whose decisions were controlling; the source of orders, instructions, or vetoes was known to all employees. Tasks were arranged in

groups of related functions, which yielded a logical basis for organizing the work. The top leader was the only coordinating official needed. Such organizations had high capacity for dealing with emergencies and for adapting quickly to changes. No doubt there were many problems not categorized as poor organizational health, but few considered it the company's responsibility to be concerned. Orderly behavior in the company's interest was rationally based and the expectations for all persons within the organization were kept very clear. Exhibit I details these characteristics.

But "genius management" or "Caesar management,"¹⁰ strong-arm control by a single dominant owner-executive, proved inadequate for the later stages of development of these burgeoning firms. To meet new conditions of growth in a competitive free-enterprise economy, one-man domination had to give way to systematic organization and planning, under the leadership of assertive, ambitious, and hard driving managers capable of creating and applying new concepts of large-scale organizations. The birth of new organizational patterns followed the demand created by growth in size and complexity, and the great organizing geniuses of this early period laid some foundations that have endured to the present day. For example, at the turn of the century the Du Pont Company was foundering near disaster. Alfred I. du Pont and two of his cousins introduced systematic management and organization concepts and saved the company. Twenty years later the Du Pont methods of decentralization and autonomous divisions controlled through centralized policy saved General Motors, then nearly bankrupt under Will Durant. Durant had invented the idea of General Motors, but it was the great organizers—the du Ponts, Alfred P. Sloan Jr., and others—who made it work.¹¹

2. 'The Great Bureaucracies

The replacement of "genius" management by the great organizers was, for each business in which it occurred, a critical turning point in its history: the substitution of great

bureaucratic structures by which most businesses today operate. The evolution of bureaucratic organization in response to the demands of large-scale objectives is an important achievement in the history of business enterprise.

Some businesses, of course, are more bureaucratic than others, and we should be aware that particular firms would fall on a continuum ranging from somewhat bureaucratic to extremely bureaucratic. No single business is purely bureaucratic or non-bureaucratic. The bureaucratic form is merely an analytical model describing the main characteristics of observable leadership and organizational patterns. Moreover, the term "bureaucracy" is not an epithet, it is a description. It is incorrect to equate this term solely with red tape and other invidious connotations.

The bureaucratic organizational model was first described by Max Weber, a German sociologist writing in the late nineteenth and early twentieth centuries. He studied large governmental organizations, describing complex sets of characteristics that still seem appropriate today in the study and description of large business organizations. However, a second stream of thought reinforced the applicability of bureaucratic concepts: the scientific movement. This was an evolving management philosophy based on characteristics very similar to those of bureaucracy. It stressed the design of pyramidal organizational systems built around efficiency concepts, with the output of organizations as a central aim, and with work measurement, task planning, payment by output, and management efficiency standards predominant.

This conjoining of two important streams of thought found its expression in the academic world, where schools of business administration and schools of industrial engineering developed elaborate courses and a supporting literature. They trained many practitioners—consultants, managers and teachers—who advocated notions appropriate to the bureaucratic model. Note how the following characteristics of bureaucracy, based on Weber's analysis,

are indicative of current philosophies and practices of organization design, leadership, management, and personnel administration :

- The organizational hierarchy, with chain of command, the concept of unity of command, clear lines of authority.
- Specialization of tasks and persons within the organization, definite accountability and responsibility.
- Rationalism, guidance by reason and empirical verification, and accumulation of past experience.
- Appointment to positions by merit. and a prescribed career system ; provision of career training.
- A formal, impersonal atmosphere.
- Routinization of procedures, decisions by rules, careful classification of persons, problems, procedures, statuses and rewards, and strict discipline.¹²

Organizational health in a bureaucracy can best be analyzed from two points of view. First, it can be examined for its advantages and disadvantages, and these can be weighed for the purpose of retaining and improving the bureaucratic model. Second, we can raise the question of whether the bureaucratic form can endure at all, or whether it produces so many dysfunctional effects that it will succumb to overwhelming forces of change. If it has reached the upper limits to which it can be pushed to yield productivity and desired need satisfactions, or if the costs of achieving its benefits are too great, we may need to find substitute forms or new structural types.

Bureaucratic organization is the most productive arrangement of human effort ever contrived by man. Its superiority, in Weber's view, lies in its capacity to command and utilize technical and scientific knowledge. Its ability to accomplish objective organizational goals has led to phenomenal productivity and the highest standards of living ever achieved by man. In all this the role of the specialist is supreme. More and more persons within organizations are becoming specialists. The bureaucratic form accommodates to the training, utilization, and proper status and economic rewards for the specialist, so that his

contribution to goals and sub-goals is rational, predictable, and controllable. If highly efficient productive effort is our main goal, the bureaucratic form is supremely designed for this purpose. It is a highly logical, rational system, self-perpetuating and productive.

But efficiency is not the only demand we make of organizations, and it is in the sphere of human satisfactions that bureaucratic systems fall short. The indictment against bureaucratic models or organization is a growing one, and the criticism centers upon organizational health rather than on bureaucracy's contribution to productivity or company efficiency. It turns out that bureaucratic systems are not particularly consonant with the fulfilment of human needs of their constituent members, or with basic values espoused in our society other than those relating to production, success, and wealth. Their assumptions are not congruent with scientific findings about people. Bureaucratic organizations provide nice ladders of upward mobility by which society at large defines success, and material rewards go to those who can succeed in this kind of system. Yet we suspect the system. We accuse it of creating organization men by valuing blind loyalty and rigid conformity. We doubt its ability to fulfil the psychic, spiritual, self-realizing needs of its members.

On the basis of extensive research, Argyris has advanced an important hypothesis: that organizations based on hierarchical structures and bureaucratic forms of management force their members into states of docility, submissiveness, and dependency that can only lead to severe frustration if the person behaves in a psychologically mature way. Psychological maturity is sacrificed in organizations that rely on strong controls, exact rules, strong discipline, hard-boiled management, production at all costs, pleasing the boss, upward mobility for success, and hierarchical structure, with its political implications. Creativity, innovation, involvement, and human dignity are sacrificed.¹⁸

Argyris further points out that management may be in danger of mistaking such factors as low absenteeism, low turnover, low grievance rates, and high production for evidences of organizational health, whereas these same results can be obtained by bureaucratic methods of coercion and discipline. In his words :

Present management thinking about a healthy organization may be oversimplified and at times false. It is not correct to assume that such "products" of the organization as low absenteeism, low grievance rates, and high production are always valid indicators of organizational health. Nor is it safe to take for granted that such criteria are necessarily connected with loyal, ego-involved employees...Management leadership is not the only cause of organization illness. The very nature of organization and of managerial controls (if practiced correctly) makes them equally causal factors. As long as it is necessary to use the pyramid type of organization and to employ managerial controls, employees will tend to experience dependency, subordination, submissiveness, and other indications of psychological immaturity¹¹.

Bureaucracies have fought back to correct their defects in the human sphere with impressive lists of personnel administration techniques, and with human relations policies and procedures. Training courses for supervisory personnel and development programs for executives have largely been designed to get more mileage out of the bureaucratic system without fundamentally changing it. Companies have spent millions of dollars on retreating the skills, beliefs, understandings, values, and communications of organization members, without examining their assumptions about people and organizations. These procedures have often been advanced as correctives by consultants and others who are far from being quacks. Human relations activities have been accepted as a matter of faith. The logic is persuasive if one accepts the logics of the bureaucratic system.

We need not, however, oppose good human relations or the training and development of employees. Still, the deeper issue is that we must first ask the purpose of what we do. If we truly have the benefit of organization members in mind as well as the benefit of the organization, we will go beneath the surface far enough to make an examination of the system itself, rather than merely spreading it over

with a coating of human relations and personnel administration. As Argyris has pointed out,

being nice to employees is fine for the company that is coasting along, but it breaks down when there is real pressure for growth, expansion, and efficiency. A company that pictures organizational health as a condition in which the people are all happy will be all right as long as the company is in very sound financial condition and with little prospect of competition. But the philosophy breaks down when management applies pressure for greater goals.¹⁵

3. Departures from the Pattern

Evidence abounds that bureaucratic models are changing, and that bureaucratic structures and concomitant assumptions are undergoing substantial modifications. The character of these changes is still in the realm of prophecy, but the main outlines are becoming clearer. The prime influences are the growing use of computers, changing technologies, the persistent search for productive systems that more closely approach the full range of human needs and satisfactions, and increasingly better research leading to more adequate organization theory.¹⁶

These changing patterns emerge not only from the failure of the bureaucracies to respond to the needs and problems of human beings, but also from deficiencies internal to the bureaucratic concept itself. Eisenstadt, for example, distinguishes three types of equilibrium with respect to bureaucratic concepts.

Autonomy. In the first, a bureaucratic organization maintains its autonomy and distinctiveness, retaining basic structural characteristics that differentiate it from other social groups and enable it to achieve its goals. Holders of legitimate power, such as owners, trustees, or managers, run these organizations.

Bureaucratization. The second possibility extends the bureaucracy's spheres of activities and power, either in its own interest or in those of some of its own elite. It tends to increase the regimentation of different areas of social life, and to some degree to displace its service goals in favor of various power interests. For example, military organizations may impose their will on civilians, or school systems may encroach on parental responsibilities.

Debureaucratization. In case of the third possible outcome, the organization reflects a subversion of the goals and activities of the bureaucracy in the interests of different groups with which it is in close interaction, such as clients and customer. In debureaucratization, the specific characteristics of the bureaucracy (in terms both of its autonomy and its specific rules and goals) are minimized even to the point where functions and activities may be taken over by other groups or organizations. For example, one organization may attempt to divert the rules and operations of a bureaucratic organization so that it functions according to the firm's own values and goals. Bureaucratic organizations are vulnerable to demands that they perform tasks clearly outside their specific scope. These tendencies and possibilities may, in fact, overlap or develop side by side.¹⁷

Deficiencies

Thompson has also analyzed some of the problems and deficiencies of bureaucratic organization structure. The existence of intense specialization of both tasks and persons leads to inordinate problems of coordination and control. Members of such organizations experience serious conflicts in their roles as specialists. They find it difficult to square the needs of the organization as a whole with the particularistic needs of its sub-units. The demands upon the organization produced by specialization are inconsistent with the dictates produced by hierarchical structures.¹⁸

Thompson also finds that dysfunctional effects result from the bureaucratic model. Some of these effects are similar to those that concern Argyris. Since modern complex businesses are managed by professional salaried managers, rather than owners, corporate earnings are not a direct measure of managerial ability, or of company efficiency. These are affected by several additional factors, among them economic conditions, actions of competitors and changes in laws. Bureaucratic motivations thus

become important in large corporations—important to managers and employees alike.

A manager or an executive is, after all, an employee of a special type, with different status and privileges, but with the same tensions, insecurities, and defense mechanisms as those of any other employee. Some employees seem to be fighting the organization rather than cooperating with it or helping it. They resist its directions and policies. They become pompous and self-important, often preoccupied excessively with rules and regulations for their own sake. Their customary routines become havens of refuge and security. Impersonality and coldness of treatment, both of insiders and outsiders, results.

Most of all, organization members are content to get by with minimum acceptable results, just barely satisfying the organization's requirements. Such behavior patterns may help the individual in his reactions to his experiences and problems within the organization, or in resolving his own personality problems, but they are unplanned by the organization and are of no value in meeting organizational needs and objectives. The insecure, fearful administrator has a strong need to control in order to minimize his fears. The bureaucratic model is peculiarly susceptible to this type of administrator, and the hierarchical structuring tends to strengthen the devices by which he seeks to blunt his fears.¹⁹

The Implications of Change

Some important changing patterns of organization and leadership in business enterprises are emerging. Some of these are indicated in column 3 of Exhibit I. The characteristic trend is toward loosening the structure through the creation of more fluid and informal arrangements. This has the effect of reducing the impact of hierarchy, with its monocratic "one boss for every man" emphasis. Among the devices potentially leading to such results are project management, task forces and management team concepts, and the "results" school of thought in management. 3

Task forces and project teams can be assembled quickly, and as quickly dissolved. Group members rapidly learn to cooperate and collaborate for common goals, and they share in prompt and adequate rewards. The orientation is toward peer-pleasing rather than boss-pleasing.²⁰

In some ways these changes are reminiscent of pre-bureaucratic periods when businesses were run by a single owner-manager, with "great man" concepts. The main strength of the great man was his ability to maintain a fluidity and flexibility of organizational patterns. People were hired to get jobs done; people were far less specialized than they are considered to be today; trouble-shooting, projects, rapidly changing assignments, were the stuff of these early organizations. People were kept off base, guessing about what was to be happening next, and this was thought to be good for them.

Such changes as we have described have grave implications for traditional personnel and management methods associated with the bureaucratic model. Training and development of executives, supervisors, and workers cannot remain the same; systems of reward and punishment must adapt; criteria for selecting new organization members shift from selection to fit specific definable jobs, to the search for talented, creative, innovative people with the capacity to feel secure in more amorphous situations. Perhaps personnel and human-relations concepts of the past twenty years have seemed so inadequate because they have been pitted against intractable problems inherent in bureaucracy itself, rather than because of weaknesses in their logic or techniques.

Such is the challenge before managers today: to wrestle with the problems of organization change and development even if this means discarding the ways of the past. To competent managers, executives, and administrators, such changes will seem like opportunities for development rather than threats to security and status.

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Conflict and Ambiguity in Large Organizations

—Robert L. Kahn

Our studies of role conflict and ambiguity in industry are among a number of researches which share a common and distant goal: to make understandable the effects of the contemporary environment on the person including his physical and mental health. We begin by thinking of the environment of any individual as consisting very largely of formal organizations and groups. From this point of view the life of the person can be seen as an array of roles which he plays in the particular set of organizations and groups to which he belongs. These groups and organizations, or rather the sub-parts of each which affect the person directly, together make up his objective environment. Characteristics of these organizations and groups (company, union, church, family, and others) affect the physical and emotional state of the person, and are major determinants of his behavior.

The first requirement for linking the individual and the organization is to locate the individual in the total set of ongoing relationships and behaviors comprised by the organization. The key concept for doing this is office, by which we mean a unique point in organizational space, where space is defined in terms of a structure of inter-related offices and the pattern of activities associated with them. Associated with each office is a set of activities or

potential behaviors. These activities constitute the role to be performed by any person who occupies that office. Each office in an organization is directly related to certain other less directly to still other, and perhaps only remotely to the remaining offices included in the organization. Consider the office of press foreman in a factory manufacturing external trim parts for automobiles. The offices most directly related to that of press foreman might include general foreman and superintendent, from which press foreman's work assignments emanate and to which he turns for approval of work done. Also directly related to the office of press foreman will be the foreman of the sheet metal shop, which provides stock for the presses, the inspector who must pass or reject the completed stampings; the shipping foreman who receives and packages the stampings, and of course, the fourteen press operators for whose work press foreman is responsible. We can imagine the organizational chart spread before us like a vast fish net, in which each knot represents an office and each string a functional relationship between offices. If we pick up the net by seizing any office, we see immediately the other offices to which it is directly attached. Thus, when we pick the office of press foreman, we find it attached directly to nineteen others—general foreman, superintendent, sheet metal foreman, inspector, shipping room foreman, and fourteen press operators. These nineteen offices make up the role set for the office of press foreman.

In similar fashion each member of an organization is directly associated with a relatively small number of others, usually the occupants of offices adjacent to his in the work flow structure. They constitute his role set and usually include his immediate supervisor (and perhaps his supervisor's direct superior), his immediate subordinates, and certain members of his own and other departments with whom he must work closely. The offices are defined into his role set by virtue of his work flow, technology, and authority structure of the organization. Also included in a person's role set may be people who are related to him in other ways—close friends, respected "identification models"

and others within or outside the organization who for one reason or another are concerned with his organization role. See Figure 1.

All members of a person's role set depend upon his performance in some fashion; they are rewarded by it, or they require it in order to perform their own tasks. Because they have stake in his performance, they develop beliefs and attitudes about what he should and should not do as his role. These preferences, which we will refer to as role expectations, are by no means restricted to the job description as it might be given by the head of the organization or prepared by some specialist in personnel.

For each person in an organization then, there is a pattern of role expectations which exists in the minds of members of his role set, and represent standards in terms of which they evaluate his performance. The expectations do not remain in the minds of members of the role set, however. They are communicated in many ways—sometimes directly,

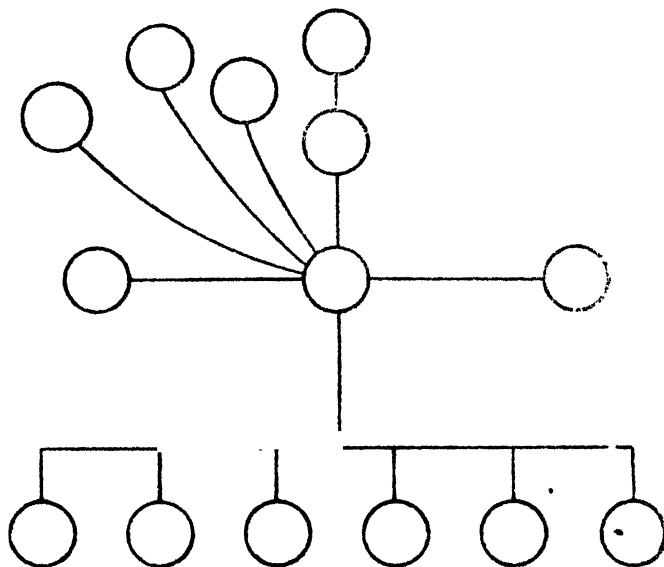


FIGURE 1

FOCAL PERSON AND ROLE SET

as when a supervisor instructs a subordinate in the requirements of his job; sometimes indirectly, as when a colleague expresses admiration or disappointment in some behavior. The crucial point is that the activities which define a role consist of the expectations of members of the role set, and that these expectations are communicated or sent to the focal person (the person occupying the role being studied).

It is apparent from the approach to social role described above that various members of the role set for a given office may hold quite different role expectations toward the focal person. At any given time, they may impose pressures on him toward different kinds of behavior. To the extent that these role pressures are felt by him, he experiences psychological conflict. In the objective sense, then, role conflict may be defined as the simultaneous occurrence of two or more sets of pressures such that compliance with one would make more difficult or render impossible compliance with the other. For example, a person's superior may make it clear to him that he is expected to hold his subordinates strictly to company rules and to high production schedules. At the same time, his subordinates may indicate in various ways that they would like loose, relaxed supervision, and that they will make things difficult if they are pushed too hard. The pressures from above and below in this case are incompatible, since the style of supervision which satisfied one set of pressures violates the other set. Cases of this kind are so common that a whole literature has been created on the problem of the first line supervisor as the man in the middle, or the master and victim of double-talk.

Several types of role conflict can be identified. One might be termed intra-sender conflict: different prescriptions and proscriptions from a given member of the role set may be incompatible, as for example when a supervisor requests a man to acquire material which is unavailable through normal channels and at the same time prohibits violations of normal channels.

A second type might be termed inter-sender conflict: pressures from one role sender oppose pressures from another sender. The pressures for close versus loose supervisory styles cited above constitute an example of this type of conflict.

A third type of conflict we refer to as inter-role conflict. In this case the role pressure is associated with membership in one organization and in conflict with pressures which stem from membership in other groups. For example, demands on the job for overtime or take-home work may conflict with pressures from one's wife to give undivided attention to family affairs during evening hours. The conflict arises between the role of the person as worker and his role as husband and father.

All three of these types of role conflict began in the objective environment although they will regularly result in psychological conflicts for the focal person. Other types of conflict, however, are generated directly by a combination of environmental pressures and internal forces. A major example is the conflict which may exist between the needs and values of a person and the demands of others in his role set. This fourth type of conflict we will call person-role conflict. It can occur when role requirements violate moral values—for example, when pressures on an executive to enter price fixing conspiracies are opposed by his personal code of ethics. In other cases a person's needs and aspirations may lead to behaviors which are unacceptable to members of his role set; for example, an ambitious young man may be called up short by his associates for stepping on their toes while trying to advance in the organization.

All the types of role conflict discussed above have in common one major characteristic—members of a role exerting pressure to change the behavior of a focal person. When such pressures are generated and sent, they do not enter an otherwise empty field; the focal person is already in role, already behaving, already maintaining some kind

of equilibrium among the disparate forces and motives which he experiences. Pressures to change, therefore, represent new and additional forces which he must cope; by definition they threaten an existing equilibrium. Moreover, the stronger the pressures from role senders toward change in the behavior of the focal person, the greater the conflict created for him.

This approach to the understanding of behavior in organizations in general and the understanding of role conflict in particular is summarized in Figure 2 which illustrates a role episode: that is a complete cycle of role sending, response by the focal person, and the effects of that response on the role senders.

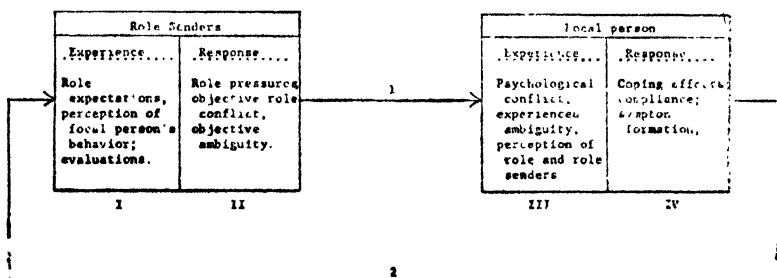


Figure 2. A model of the role episode.

The four boxes in Figure 2 represent events that constitute a role episode. The arrows connecting them imply a causal sequence. Role pressures are assumed to originate in the expectations held by members of the role set. Role senders have expectations regarding the way in which the focal role should be performed. They also have perceptions regarding the way in which the focal person is actually performing. They correlate the two, and exert pressures to make his performance congruent with their expectations. These pressures induce in the focal person an experience which has both perceptual and cognitive properties, and which leads in turn to certain adjustive (or maladjustive) responses. The responses of the focal person are typically perceived by those exerting the pressures, and their expectations are correspondingly adjusted. Thus, for both the role senders and the focal person the

episode involves experience and the response to experience. Let us look in more detail at the contents of the four boxes in Figure 2 and at the relations among them.

A role episode starts with the existence of a set of role expectations held by other persons about a focal person and his behavior on the job. Speaking of the members of a person's role set as a group is a matter of convenience. In fact, each member of the role set behaves toward the focal person in ways determined by his own expectations and his own anticipations of the focal person's responses. Under certain circumstances a member of the role set, responding to his own immediate experience, expresses his expectations overtly; he attempts to influence the focal person in the direction of greater conformity with his expectations. Arrow 1 indicates that the total set of such influence attempts affects the immediate experience of the focal person in a given situation (Box 3). This experience includes for example the focal person's perception of the demands and requirements placed on him by members of his role set, and his awareness or experience of psychological conflict. The specific reactions of each focal person to a situation are immediately determined by the nature of his experience in that situation. Any person who is confronted with a situation of role conflict, however, must respond to it in some fashion. One or more members of his role set are exerting pressure on him to change his behavior, and he must cope somehow with the pressure they are exerting. Whatever pattern of response he adopts may be regarded as an attempt to attain or regain an adequately gratifying experience in the work situation. He may attempt a direct solution of the objective problem by compliance or by persuading others to modify their incompatible demands. He may attempt to avoid the causes of stress, perhaps by using defense mechanisms which distort the reality of a conflict or ambiguous situation. There is also the possibility that coping with the pressures of the work will involve the formation of affective or physiological symptoms. Regardless of which of these, singly or in combination, the focal person uses, his beha-

viator can be assessed in relation to the expectations of each of his role senders.

The degree to which the focal person's behavior conforms to the expectations held for him will affect the state of those expectations at the next moment. If his response is essentially a hostile counter-attack, members of his role set are apt to think of him and behave toward him in ways quite different than if he were submissively compliant. If he complies partially under pressure they may increase the pressure; if he is obviously overcome with tension and anxiety, they may "lay off". In some, the role episode is abstracted from a process which is cyclic and ongoing; the response of the focal person to role pressure feeds back on the senders of those pressures in ways that alter or reinforce them. The next role sendings of each member of the set depend on his evaluations of the response to his last sendings, and thus a new episode begins.

In order to understand more fully the causal dynamics of such episodes and their consequences for the person's adjustment, the model must be extended to include three additional classes of variables—organizational factors, personality factors, and the character of interpersonal relations between the focal person and other members of his role set. Taken in combination, these factors represent the context within which the episode occurs. In Figure 3 the role episode is shown in the context of these three additional classes of variables. Figure 2 forms the core of Figure 3. However, the circles in Figure 3 represent not momentary events, but enduring states of the organization, the person, and the interpersonal relations between focal person and other members of his role set. An analysis of these factors makes more understandable the sequence of events in a role episode. Figure 3 provides a convenient framework within which to summarize the major research findings obtained from an intensive study of fifty-four role sets in a number of different industries, and from a national survey of approximately 1,500 households.

1. The immediate effects of conflict and ambiguity

(a) Role conflict

The experience of role conflict is common indeed in the work situation. Almost half of our respondents reported being caught "in the middle" between two conflicting persons or factions. These conflicts are usually hierarchical; 88 per cent of the people involved in them report at least one party to the conflict as being above them in the organization. Somewhat less than half report that one of the conflicting parties is outside the organization. One of the dominant forms of role conflict is overload, which can be thought of as a conflict among legitimate tasks, or a problem in the setting of priorities; almost half of all respondents reported this problem.

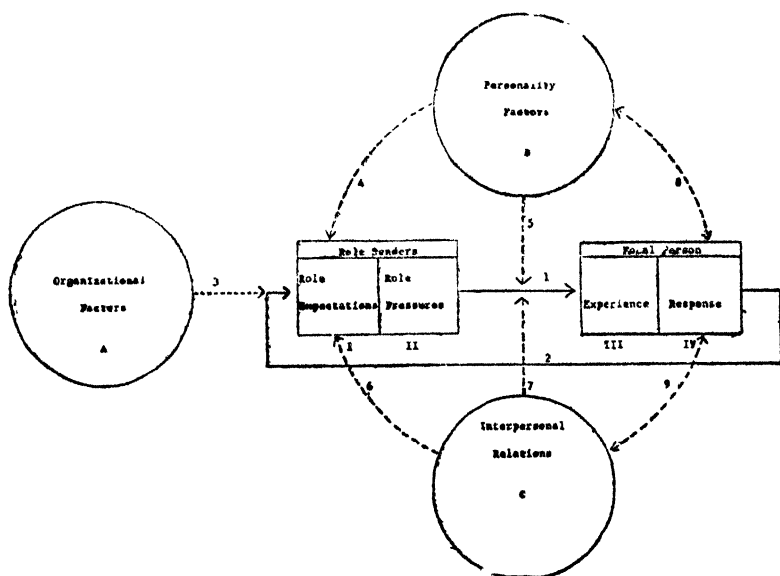


Figure 3. A theoretical model of factors involved in adjustment to role conflict and ambiguity.

The intensive study, in which role senders and focal persons were interviewed independently, deals more directly with the causal sequences initiated by conditions of conflict. Measures of objective conflict, as derived from

the expectations of individual role senders, are strongly associated with the subjective experience of conflict, as reported by the focal person, who is target of incompatible expectations. These, in turn, are linked to affective and behavioral responses of that person.

For the focal person, the emotional costs of role conflict include low job satisfaction, low confidence in the organization, and high scores on the multi-item index of tension. The most frequent behavioral response to role conflict is withdrawal or avoidance of those who are seen as creating the conflict. Symptomatic of this is the attempt of the conflicted person to reduce communication with his co-workers and to assert (sometimes unrealistically) that they lack power over him. Case material indicates that such withdrawal, while a mechanism of defense is not a mechanism of solution. It appears to reduce the possibility of subsequent collaborative solutions to role conflict.

(b) Role ambiguity

The prevalence of role ambiguity appears to be approximately comparable to that of role conflict. Four specific subjects of ambiguity are cited as disturbing and troublesome in approximately equal numbers by respondents. These include uncertainty about the way in which one's supervisor evaluates one's work, about opportunities for advancement, about scope of responsibility and about the expectations of others regarding one's performance. Each of these areas of ambiguity was mentioned by approximately one-third of the respondents. In all, about two persons out of five considered that they were given insufficient information to perform their jobs adequately.

Among the major sources of role ambiguity about which we speculated were complexity of task and technology, rapidity of organizational change, interconnectedness of organizational positions, and that managerial philosophy which advocates restriction of information on the assumption that the division of labor makes broad information unnecessary for most positions.

The individual consequences of ambiguity conditions are in general comparable to the individual effects of role conflict. These include for ambiguity: low job satisfaction, low self-confidence, a high sense of futility, and a high score on the tension index. There is evidence, however, that the response of the person to ambiguity is highly selective. For example, ambiguity regarding the evaluations of others does not decrease the intrinsic satisfaction of the employee with the job, although it does decrease his self-confidence and weaken his positive affect for co-workers.

Organizational Determinants of Conflict and Ambiguity. The major organizational determinants of conflict and ambiguity include three kinds of role requirements—the requirement for crossing organizational boundaries, the requirement for producing innovative solutions to non-routine problems, and the requirement for being responsible for the work of others (Arrow 3).

Let us consider first the requirement for crossing a company boundary. Both the frequency and the importance of making contacts outside one's company are associated with the experience of role conflict. Crossing the company boundary is associated also with experienced tension, but the relationship is curvilinear; greatest tension is experienced by those who have discontinuous contacts outside the organization. We propose the hypothesis that in positions which require extra-company contacts on a continuous basis, there are special facilities or some other organizational acknowledgment of boundary difficulties which renders them less painful.

Hypothetical explanations for the stressfulness of boundary crossing are available primarily from case materials. It appears that the person who must frequently deal with people outside the company usually has limited control over these outsiders. He cannot strongly influence their demands and the resources which they supply to him. Moreover, a person in a boundary position is likely to be blamed by people in his own company for what his outside contacts do or fail to do. They in turn may blame

him for shortcomings in his own company. The difficulties of living at the boundary of an organization are intensified when the boundary-dweller must coordinate his extra-organizational activities with people in other departments within the company.

In general, living "near" a departmental or other intra-organizational boundary has effects very like those just remarked for boundaries of the organization itself. Nearness to a departmental boundary and frequency of dealing across such boundaries are associated with felt conflict and with experienced tension.

Roles which demand creative problem-solving are associated with high role conflict and with tension. The occupants of such roles appear to become engaged in conflict primarily with older and often more powerful individuals in the organization, who want to maintain the *status quo*. Among the major role conflicts which persons in innovative jobs complain of is the conflict of priority between the non-routine activities which are at the core of the creative job and the routine activities of administration or paper work. These latter, according to the people who fill innovative positions, are unduly time-consuming, disrupt the continuity of their creative work, and are generally unpalatable.

There is considerable evidence that organizations exercise selective effort in choosing people for innovative positions. People in such positions tend to be characterized by high self-confidence, high mobility aspirations, high job-involvement, low apathy, and a tendency to rate the importance of a job extremely high compared to the importance of other areas of their lives.

Supervisory responsibility emerges as a major organizational determinant of role conflict. Either the supervision of rank and file employees or the supervision of people who are themselves supervisors appears to have substantial effects on the degree of objective conflict and the amount of experienced conflict. In combination, direct and indirect supervisory responsibility produce very

substantial role conflict and tension. There is a systematic relationship also between rank and role conflict, as there is between rank and tension. The often heard assertion that the lowest levels of supervision are subjected to the greatest conflict is not borne out by these data. Rather, there is a curvilinear relationship in which the maximum of conflict and conflict experience occurs at what might be called the "upper middle" levels of management. We interpret this in part as a consequence of the still unfulfilled mobility aspirations of middle management, in contrast to the better actualized aspirations of top management people.

Interpersonal Relations as Determinants of Role Conflict. The sources of pressure and conflict for a person can be expressed rather fully in terms of his interpersonal relations with these pressure sources. The greatest pressure is directed to a person from other people who are in the same department as he is, who are his superiors in the hierarchy, and who are sufficiently dependent on his performance to care about his adequacy without being so completely dependent as to be inhibited in making their demands known (Arrow 6). The people who are least likely to apply such pressures are a person's peers and role senders outside his own department.

The kinds of pressure which people are prepared to apply, as well as the degree of that pressure, vary considerably with their formal interpersonal relationship to the potential target of their pressures. Thus, supervisors seem to refrain from exerting coercive power where it might impede the performance of the local person and perhaps reflect upon the supervisor himself. On the other hand, the techniques used by subordinates to apply coercive power are precisely those which threaten the efficiency of the organization. They include the withholding of aid and information.

When a person is surrounded by others who are highly dependent on him and who have high power over him and exert high pressure on him, his response is typically one of apathy and withdrawal (Arrow 7). Moreover, under such

circumstances, his experience of role conflict is very high and his job satisfaction correspondingly reduced. Emotionally he experiences a sense of futility and attempts a hopeless withdrawal from his co-workers.

There is significant evidence that close and positive interpersonal relations between a focal person and members of his role set can mediate substantially the effects of role conflict (Arrow 7). A given degree of objective role conflict is experienced as less stressful in the context of positive affective relations with others. Nevertheless, experienced conflict and ambiguity appear to cause deterioration in interpersonal relations (Arrow 9). Thus, a consequence of role conflict is decreased trust, respect, and liking for co-workers, and in the presence of experienced ambiguity there is a similar attempt on the part of the focal person to weaken interpersonal relations. As with conflict, this weakening of interpersonal relations is self-defeating, since he finds himself withdrawing in the face of ambiguity from the very persons from whom he requires information.

The Place of Personality Variables in the Study of Conflict and Ambiguity. Several personality dimensions mediate significantly (Arrow 8) the degree to which a given intensity of objective conflict is experienced as strain by the focal person. These personality dimensions include emotional sensitivity, sociability, and flexibility-rigidity. With respect to sociability, we find that the effects of objective role conflict on interpersonal bonds and on tension are more pronounced for people who are unsociable (independent). The independent person, in other words, develops social relations which, while often congenial and trusting, are easily undermined by conditions of stress. The preference of such people for autonomy becomes manifest primarily when social contacts are stressful, that is, when others are exerting strong pressures and thereby creating conflict for the persons. In similar fashion, emotional sensitivity conditions vary sharply the relationship between objective conflict and tension, with emotionally

sensitive persons showing substantially higher tension scores for any given degree of objective conflict. There is also a tendency for people of different personality characteristics to be exposed by their role senders to differing degrees of objective conflict (Arrow 4). Thus, people who are relatively flexible are subjected to stronger pressures than those who have already demonstrated by their rigidity the futility of applying such pressures.

Conclusion

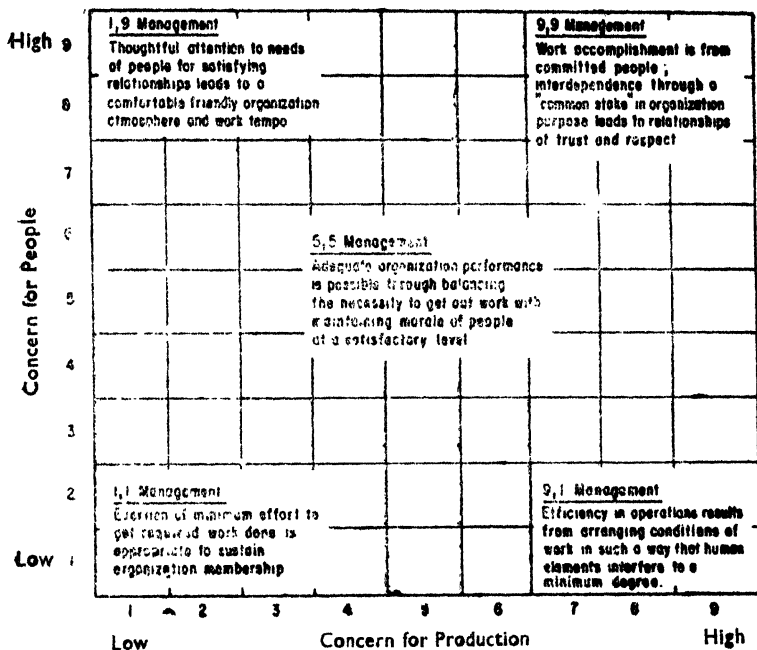
Much of the role conflict in industry takes the form of overload, especially in managerial positions. The focal person has more demands flooding in on him than he can possibly satisfy. He may try to deal with such pressures, by exporting his work-induced tensions to outside groups, such as his family, but this is a form of industrial drainage which the community can ill afford. Some persons shut off communication from others in the work situation and thus reduce their own pressures—at the same time reducing the effectiveness of the organization and increasing the pressures of those people who try in vain to communicate with them.

It is not exaggeration to say that most of the responses which we have observed for coping with conflict, ambiguity, and overload are less than satisfactory for individual and for organization. It seems that more constructive resolution of pressure situations ought to be possible. For example, why should the person who experiences role conflict or ambiguity not convene the members of his role set, who have in effect created the situation which he finds stressful, so that they can make a joint attack on the problem? None of the people in the set knows the totality of the focal person's job requirements (any more than he knows theirs), but this is something he can explain to them. Each person in an organization is the ultimate expert in this single respect: he knows better than anyone else the combination of demands which are being made upon him and what their immediate sources are.

A ceremony of confrontation and joint problem solving would seem to be a useful mode of conflict resolution. Why does it not happen? Two factors may work to prevent it. The first is subjective, a feeling that such an approach is unorthodox, unlikely to work, or even downright dangerous. The second may be inherent in the structure of hierarchical organizations.

Regarding the subjective factor, it is indeed difficult to find people who are willing and able to undertake such a confrontation of superiors, subordinates, and peers. A person may have deliberately created overload, conflict, or ambiguity in order to further his own organizational ambitions or to increase his power. More often, his feelings of insecurity and embarrassment prevent him from attempting such a group solution to his problems. Regarding the organizational factor, the risks and rewards of industrial life often cause individuals to keep their information sources private and hold as much power as possible in their own hands. Confrontation under such circumstances could be viewed as a giving away of precious power and information, or even as an admission of incompetence. More frequently, perhaps, the person in conflict feels that he lacks the power to convene the members of his role set in the first place. How many people in industry can recall taking the initiative in bringing together their subordinates, supervisors, and peers to consider the incompatibilities in their various expectations.

Nevertheless, there is in many managements a growing interest in solving the human problems of large scale organizations, a growing realization that the solution will involve structural changes as well as gains in interpersonal skills, and a growing willingness to innovate and evaluate in the effort to put organizations more fully into the service of human needs. These attitudes of management, in combination with research, offer new possibilities for understanding organized human behavior. We know of no goal more deserving of our efforts.



10

The Managerial Grid

Robert R. Blake & Jane S. Mouton

Appreciation by William Robertson*

The most significant and practical contribution to more effective management practices and organizational development to appear in many years is the Managerial Grid. Created and developed by US industrial psychologists, Drs. Robert R. Blake and Jane S. Mouton, the Managerial Grid is based on massive, practical research into the behavioral sciences in the industrial setting.

*Adapted and reprinted with permission of Monetary Times. For more information see: Blake and Mouton, "The Managerial Grid", Gulf Publishing Co. (1968).

What they have come up with is a tested science of management theory using systematic principles which can be taught and which may then be applied in the day-to-day situation.

A significant article entitled "Breakthrough in Organization Development" appeared in the November-December 1964 issue of the Harvard Business Review. It describes how a well-planned total Managerial Grid program materially assisted a very large US company out of a potentially serious situation by dramatically altering the managerial attitudes of the majority of the 800 managers and technical supervisory staff who were exposed to the program.

It paid off in profits

Within one year of the inception of the program in 1962, large increases in profits could be traced directly to these changed attitudes. The program has now been extended to all divisions of this company. (The company is Humble Oil and Refining and the Managerial Grid program was started shortly after Humble's merger with New Jersey Standard.)

Crux of the theory behind the Grid is that the degree of concern for production and the degree of concern for people exhibited by industrial managers are two sides of the same coin and should be utilized with maximum and integrated concern to achieve the objectives of the organization. For too long, says Dr. Blake, these concerns have been separated, isolated, and frequently misconstrued.

Under his theory, concern for production is not limited to things only ; nor is concern for people confined to narrow considerations of interpersonal warmth and friendliness. Production, for example, may be assessed through the number of creative ideas that applied research turns into useful products, procedures, or processes ; quality and thoroughness of staff services, workload and efficiency measurements, as well as units of output.

Similarly, human aspects also cover a variety of concerns which can include concern for degree of personal commitment to completing a job for which one is responsible; accountability based on trust rather than force; self esteem; desire for a sense of security in work; friendships with co-workers, etc.

But the most exciting aspect of the Managerial Grid is its effectiveness in improving people's attitudes and behavior throughout an entire organization to the benefit of the organization. And, the idea of applying educational methods under the concepts of full and equal concern for production and for people to bring an entire organization to a higher level of development and functioning, is entirely new. It promises to turn the "art" of managing into a science.

From art to science

Earnest but unsuccessful conventional attempts to make the behavioral sciences useful to industry usually consist of sending selected executives to management development programs which feature human relations concepts. Although many of these executives return from these programs highly enthusiastic, in many cases they are forced back into old behavioral patterns and relationships.

Managerial Grid is more than just a theory in human behavior. It is a tested system that has been successfully applied in industry and has contributed significantly to increased profits and improved union-management relations.

Depicted in the accompanying graph is the visual aspect of the Managerial Grid which shows the degrees of concerns for production and people and possible interactions between them. The horizontal axis indicates concern for production while the vertical axis indicates concern for people. Each is expressed as a nine-point scale of concern. The number 1 in each instance represents minimum concern. The number 9 represents maximum concern.

The Managerial Grid

At the lower left corner of the grid is the 1, 1 style. This has a minimum concern for both production and people. In the upper left corner is the 1,9 style which embodies maximum concern for people but minimum for production. In the lower right corner is 9,1. This style has a maximum concern for production and a minimum concern for human relationships. In the upper right corner is the 9,9 style, which has a maximum concern for both production and human relationships. In the centre is the 5,5 style, which is a "middle-of-the-road" style in both kinds of concern.

Each of these five managerial styles defines a definite but different set of assumptions regarding how individuals orient themselves for managing production situations that involve people. Each of these theories in actual practice is found, to some degree, in concrete situations in industrial and government organizations.

A number of additional managerial theories may, of course, be shown on this grid. It's possible to interpolate to arrive at 81 separate "mixtures" of these two concerns. However, it is analysis of the assumptions at the corners and mid-point of the grid that prove to be the most rewarding study.

In the bottom right corner of the grid is the 9,1 managerial style which embodies maximum concern for production. Here, people are regarded as tools of production. Authority and hierarchy are all-important; the boss plans, subordinates execute. Schedules must be met and production got out even if this means frustrating people.

If a subordinate should question a 9,1 oriented supervisor about the advisability of the method by which work was to be performed, he would probably get an answer like: "These are your instructions. Don't bother me with questions, just get busy!"

Under a 9,1 style of managing, "the use of hierarchical power in the authority-obedience sense, is the basis of

control," says Blake. "One-to-one boss subordinate relationships are the key linkages within the system. Human relationships and interactions are minimized. Little concern is given to the development of subordinates or to communicating with them beyond issuing instructions or procedural changes."

This attitude prevails even at meetings with subordinates where information has to be pooled.

The 9,1 approach to managing conflict is to make sure that it doesn't appear. If it does, then it is suppressed quickly and decisively. However, if the 9,1 manager is the man in the middle and has to take part in the conflict, he will identify with the position of greater power and authority and "let the chips fall where they may" onto lower levels.

"Because of the emphasis on comparative evaluation between organization units in terms of production results, win-lose competitiveness among those at the same level is likely to develop under 9,1," says Blake. "The reason is that each vies with the others in terms of a "good showing" for advancement to a higher position. Genuine disagreement is indispensable where differences are legitimate, but the 9,1 use of competition to spur effort often does not contribute to organization purpose. When it becomes tense and invidious it may work against achieving the organization goals."

Ideas only go down the line

Although a certain amount of creativity is possible under 9,1 at the higher managerial levels, few creative ideas can be generated at lower supervisory levels under this system.

"If suggestions are passed up the line," says Blake, "the 9,1 action is likely to be that of immediate judgment, often with resentment of the suggestions themselves. Rather than taking an experimental attitude, the supervisor is likely to say, "We've tried that," or simply, "It won't

work." To himself he may say: "New ideas go down, not up."

In any event, if creativity and thinking are totally stifled, then interest is withdrawn and feelings of involvement are minimized. Another consequence may be that if opportunity to participate actively in the thinking aspects of work is denied and this is coupled with strong pressures for output, people will find ways to be creative, applying their talents to slow down production and to frustrate the goals of the organization."

One of the long-term consequences of the 9,1 managerial style during the past three or four decades has been unionization. Not that unions are solely a result of 9,1 management. "But," says Blake, "win-lose struggles between unions and managements frequently center on aspects of 9,1 management that are resisted and resented by wage personnel."

In the top left corner of the graph is the 1,9 managerial style. This orientation also assumes that production requirements are contrary to the needs of people. Here, however, the attitudes and feelings of people take precedence over production. Relationships between people are seen as all-important. Harmony and happiness are the goals. A 1,9 manager wants to be pals with everybody. He feels that if people are happy at work they will produce like contented cows. Music is piped in to get people's minds off work. The company house organ emphasizes over company social gatherings and togetherness. Everybody belongs to one big happy family.

The 1, 9 manager's goal as manager is to maintain production at a rate no higher than that which promotes satisfaction and security among organizational members. He tries to lead rather than to push. Good working conditions and congenial co-workers are very important because they promote morale, he feels. Everybody enjoys long coffee breaks and the manager is "one of the boys."

Conflict is smoothed over. Disagreement, negative emotions, rejection and frustration are avoided. "Unable

to use stern and harsh methods of having his wishes acted upon by subordinates, the (1,9) supervisor is likely to appeal to feelings and to reason," says Blake. "But, the insecurity behind his own adjustment is likely to show through. As a result, and after brief efforts at reasoning, reconciliation through appeasement is the likely next quick step."

A subordinate is careful not to bother his boss with problems in a 1,9 oriented company. He plays down "bad news." But if a problem arises that needs the attention of his boss, the subordinate first ensures that his boss "got out of the right side of the bed."

"Creativity often is the product of strong mental independence, intellectual nonconformity, and clashes of opinion, or all of these," says Blake. "As a result, creativity is not likely to be a value toward which a manager with a 1,9 orientation strives."

Three Strategies for Using Hierarchy
(Under 9,9 Concepts)

<i>Action Indicated</i>	<i>One-Alone</i>	<i>One-to-One</i>	<i>One-to-All</i>
Time	unavailable	available	available
Judgmental competence	full	insufficient	insufficient
Pooling of information	none needed	vertical only	needed
Whose problem is it ?	mine	his	ours
Can others add anything	no	yes	yes
Involvement commitment	no significance	helpful- essential	necessary- essential
Implications for others	none	present	present
Understanding by others of purpose	no problem or can be assumed	needed	needed
Coordination of effort	unnecessary	vertical and necessary	horizontal and necessary
Followup	unnecessary	necessary	necessary
Teaching application	none	present	present

One danger of 1,9 managerial style, warns Blake, is that it can be as effective in stifling creativity in the R & D field as the harsh, authoritarian 9,1 style of managing.

"When resistance and antagonism are generated (by 9,1 harshness), management, in an effort to avoid losing people, swings in the 1,9 direction. The assumption then becomes that the best way to manage is to create good working conditions and to declare hands off with respect to work direction, especially in creative areas. Thus, a country club atmosphere is produced, where the kind of disagreement, intellectual non-conformity and clash of ideas needed for creative and innovative work is absent."

A 1,9 managerial style is most likely to be prevalent in a company operating on a cost-plus basis or where profits are so easy to make that operating efficiency is not important, and in which there is little or no competition forcing the company to operate efficiently.

The long-term consequences of 1,9 management is that in a profit-motivated economy, the 1,9 oriented companies that can be overtaken by more production oriented competitors, go out of business.

"More important," says Blake, "is the threat they create toward the long-term erosion of a free-enterprise way of economic life. A deep underlying attitude of 1,9 management is aptly expressed by the motto: 'Nice guys don't fight'."

Managing only to survive

In the lower left corner of the grid is the 1,1 managerial orientation. This style couples low concern for production with low concern for people. But the 1,1 manager doesn't manage. He is "lost" among people. He tries to be present but not seen. His only purpose is to survive within the organization. He makes minimal administrative moves—usually those sufficient to get the boss off his back. He will ignore mistakes by subordinates—unless

the mistake is of such magnitude that he might get blamed. Then he tries to place the responsibility anywhere other than himself.

The individual oriented in such a way is waiting for his pension. His goal is to keep his nose clean, stay inconspicuous, and hope that nobody will even notice him. He tries to keep himself isolated from both his boss and his subordinates. He files disturbing memos away and forgets them, and avoids conflict wherever possible. If conflict is unavoidable he will maintain a strict neutrality. Even if his boss bawls him out he is silent and unmoved.

"Better ask Joe; he knows more about it than I do," or, "I haven't had time to make a proper study of the problem," are common 1,1 answers to queries.

However, the work-oriented 1,1 man can be extremely creative—outside working hours. He may hold an administrative position on a curling club, or a town council, etc. His creativity in the work setting is directed towards self-preservation. His actions are not actually anti-organizational. They are simply non-organizational.

"The 1,1 approach is unnatural," says Blake. "It comes to those who have accepted defeat. For example, sometimes in both industry and government a 1,1 orientation can be found where a person repeatedly has been by-passed for promotions. Rather than look elsewhere, he adjusts in the work setting by doing as little as possible, seeking satisfaction elsewhere. He might say, 'The work isn't too bad. We like the town. We have a comfortable house. I'm marking time until my retirement. I hope my chair doesn't break down'."

In the middle of the grid is the 5,5 managerial style—moderate concern both for production and people. Under this orientation, a manager pushes for production, but, at the same time, takes people into consideration. He tries to strike a balance by being "fair but firm". He stays on middle ground. He watches the way the wind is blowing and his actions with those at higher levels are

likely to be characterized by doing what is politically expedient. In finding solutions to production problems involving people, the 5,5 manager listens to what everybody has to say, carefully tests courses of action, then comes up with the solution that will get the job done without stirring up too much trouble. However, he doesn't necessarily find the best way.

This managerial style leans heavily on tradition and past practices. It is prevalent in old-line, long-established blue-chip companies encrusted with rules, regulations and precedents handed down from previous generations. Subordinates are not likely to be managed in a direct, personal way. A 5,5 manager might say: "It has to be this way because that's what the rules say," or, "that's the way the company wants it done."

Don't shoot too high

Says Blake: "Organizations that are managed by 5,5 orientations are likely to be viewed as quite bureaucratic, since rules, regulations and red tape frequently appear to be an end in themselves. They become "sacred cows". Under such conditions, managers become "administrators" in the sense of managing paper rules and regulations—not people or problems of production.

Many aspects of organizational life encourage a target of mediocrity, particularly in larger, older, blue-chip organizations. Young members are told: "Pace yourself, don't shoot too high or, in the event of failure, you will stand out in comparison with the person who set attainable goals for himself." Pressures toward conformity surround the person or group who would otherwise strike out for higher goals of work performance.

In dealing with conflict, a 5,5 oriented manager doesn't think it wise to confront it head-on. He likes cooling-off periods and breathing time. He splits and compromises. For example, a common solution under 5,5 management is to use transfers to get rid of people who fight or "don't

fit in". There is no effort to confront the reasons for the difficulty.

In the upper right corner of the Grid is the 9,9 style where high concern for production is coupled with high concern for people. This is the most effective style of all, maintains Blake. Organization and individual purpose are seen as interdependent and able to mesh with one another.

"There is a basic need of people that is met by the 9,9 theory," says Blake. "This need is to be involved and committed to productive work. Thus the situation is one in which the capacities of individuals to think creatively --to come up with new ideas--are utilized. Commitment comes from having a stake in the outcome of interdependent effort.

Working together toward goals

"One major difference between 9,9 and other managerial styles is in goal setting and its use as a basic management approach to a great variety of problems. Linking individual effort into organizational purpose(s) through goal-setting is a significant force in organizing, measuring, motivating, coordinating and controlling people and their actions."

Under a 9,9 orientation, the major work units are seen as teams—the sales team, the production team, etc.; the supervisor-subordinate pairs; and the individuals considered singly.

Blake feels that a good analogy for considering boss-subordinate relationships under 9,9 is to examine the concept of the football team :

"A football team has hierarchy," he says. "The coach has overriding responsibility. The quarterback calls the play within a generally pre-arranged plan which has flexibility to meet unforeseen difficulties. A football team has task specialization and division of labor. Each person

shoulders a different part of the total job, with each having 100 per cent responsibility for success of the whole.

"But, if the coach did as some industrial managers do, he would disregard, even prevent team action based on synchronized effort of all from emerging; pay little attention to pair action (quarterback-center); and hold each person responsible for his job as though there were no team effort and as though there were no pair relationships."

But the concept of team action in a 9,9 orientation is even far more complicated than this. To have every person in a company interacting on all problems is as ineffective and unnecessary as is the failure to involve people in problems where they should legitimately be involved, Blake feels. To operate most effectively a 9,9 manager uses the most appropriate problem-solving strategy. He can formulate the issue in one of three different ways: One-alone (in which he makes the decision without prior consultation); one-to-one (in which he consults with another involved person before making a decision); and one-to-all (in which he discusses the problem with all those legitimately involved before coming to a decision).

Under 9,9, the boss is seen more as an advisor, coach, and consultant regarding problems than as an agent of authority in the 9,1 sense, a cheer-leader in the 1,9 way, a 1,1 message carrier, or a 5,5 splitter.

"Rather, he is a source of perspective, a teacher, and an individual who enables performance improvement and personal-organizational growth and development of those at lower levels to happen," says Blake.

When can we get together?

Communication in a 9,9 managerial system is open, authentic and candid. There is levelling—full disclosure. The goal is to be able to talk candidly—and negatively when necessary—and be heard. When a subordinate makes a mistake, the typical attitude of the 9,9 manager might be: "Tough luck. It's embarrassing, but the thing to do is to

study the problem and learn from it. When can we get together?" Or, when policies or procedures are violated, (not to foam at the mouth like the 9,1 manager or change the policy for the sake of keeping people happy like the 1,9 manager): "I discuss violations with those involved in order to diagnose what the problem is. If the procedure or policy is obviously inappropriate, steps are taken to change it. If misconduct, what motivated it needs understanding before corrective action is taken."

A 9,9 manager places high value on getting sound creative decisions that result in understanding and agreement. In doing so, he listens for and seeks out ideas, opinions and attitudes different from his own. Although he is likely to have clear convictions, he responds to sound ideas by changing his mind.

Blake also identifies a number of mixed grid theories—managerial styles that incorporate two or more of the basic approaches to management already discussed. These styles may be used either simultaneously or successively in conjunction with one another.

Perhaps one of the most prevalent of the mixed grid styles is organizational paternalism. In paternalistic organizations, concern for people is expressed through taking care of them. The company's attitude approximates that of a welfare agency. Excellent benefit programs, good pay, recreational facilities, even low cost housing are handed over to employees as a kind of fatherly bribe in return for hard work and obedience.

"In the paternalistic style, the work situation approaches 9,1 conditions in terms of direction and control," says Blake. "But this is coupled with the 1,9 style of concern for the well-being of people."

But the price of paternalism is "anti-paternalistic revolt," warns Blake. "Under a paternalistic managerial style, the formula for concocting hate consists of arousing frustrations under conditions of dependence."

From one Extreme to Another

Another wide-spread managerial style employing mixed grid theories is what Blake calls the **Wide-Arc Pendulum**. This style consists of cyclical swings in management policy of alternately tightening up and then easing off the pressure on employees. When profits fall off, top management puts 9,1 pressure on to get quick production results. The common consequence is that relationships become disturbed and production suffers. Management then swings to a 1,9 approach to restore confidence, that management cherishes human values. Production suffers again and so another 9,1 tightening up process takes place.

The same effect occurs in many companies whenever a recession overtakes the economy. "When recession conditions hit the economy as a whole or at an individual production location, feverish activity intended to produce a profit improvement can be seen" says Blake. "But as soon as economic health has been restored the efficiency control programs tend to fade out and frequently uneconomic practices creep back in." However, "Effective management rarely lets this kind of cyclical wide-arc pendulum swing develop," says Blake. "It avoids these kinds of erratic fluctuations by keeping lean and hungry."

A third mixed grid theory is counterbalancing. Line management is 9,1 oriented, but to safeguard against resentment, a staff organization such as the personnel department is assigned to keep its finger on the pulse of the company. With a 1,9 orientation, its purpose may be to smooth over conflict generated from the 9,1 line production pressures.

Perhaps the most mixed-up style, yet one that is more common than realized, is what Blake calls the "Statistical 5,5". Here, the manager's personal philosophy is that "all people are different and must be treated accordingly. Thus he manages according to what is more 'acceptable'—whether or not it is appropriate," says Blake. "If a subordinate wants to be left alone, he is left to fend for

himself, as in 1,1. If the subordinate seems to want warm, friendly relations, he is given warmth and friendship, as in 1,9. If the subordinate wants to fight with no holds barred, as in 9,1, the supervisor responds with a "tough" attitude. If the subordinate avoids conflict and wants to compromise, the supervisor responds in kind as in 5,5, and so on."

This inconsistent behavior averages out at around 5,5, says Blake. "Yet, the supervisor sees little or no contradiction in his actions."

Blake feels that the dominant managerial style of every man in an organization can be identified somewhere on the grid. But he warns of managerial facades—putting up a false front. "The common goal behind a facade seems to be to achieve personal goals, most likely in the areas of control and mastery over situations and people or through acceptance by others. People are brushed aside or used to advantage. The facade permits this fact to be obscured, however. The manager who uses facades is not contributing fully to organization goals."

Through a Grid program, an organization's dominant managerial style can be identified. Through the educational steps of a Grid project whereby all or most of the company's managers and supervisors are exposed to the program, the organization's managerial effectiveness can be improved.

Five good reasons why

Blake lists several purposes of such scientifically approached organization development:

1. To replace common-sense-based, or the "hunch" type of management assumptions, with systematic management concepts that increase individual involvement, commitment, and creativity toward sound problem-solving and production.
2. To replace unproductive thought patterns within each individual with mental attitudes that result in a better identification of problems and novel solutions.

3. To replace interpersonal and intergroup blockages that prevent effective discussions with interpersonal openness and candid communication that can sustain sound deliberation and insure effective problem-solving between individuals and groups.

4. To replace organization traditions, precedents, and past practices which stifle productive effort and creative thinking with standards and values that promote efforts of excellence and innovation.

5. To resolve problems preventing attainment of organization competence by—

- (a) Defining what the problems are ;
- (b) Designing solutions to them ; and
- (c) Insuring their elimination by executing the plan(s).

Why should a company want to go to a 9,9 style of managing?

“A primary condition is when a competitive advantage can be gained by an organization managed in this way,” says Blake. “The combined efforts of committed people through better management is the only advantage still to be realized by organizations in certain industries. A reason is that capital investment, facilities and processes, technological knowledge and skills, all tend to be relatively equal across certain organizations.

“Thus, the only way to gain a significant competitive advantage is through better management.”

Improving Employee Productivity Through Work Planning

Edgar F. Huse and Emanuel Kay

There can be no doubt that the past 20 years have witnessed increased interest in the use of various methods and techniques for appraising an employee's performance and communicating the results of that appraisal to him. Most companies have formal performance appraisal programs of one kind or another, and some large decentralized firms use several different approaches. Such programs are designed to achieve certain objectives and do so with varying degrees of success. It is often suggested that these programs provide:

1. More systematic and objective measures of performance than would otherwise be available.
2. A convenient method for correlating performance with pay and thus for getting positive motivation from salary rewards.
3. A procedure to insure that each person receives "knowledge of results" so that he knows what he has done well and where improvement is needed.
4. A source of data which can be of use when making decisions concerning promotion, training, reassignment, discharge, or other management action directly affecting an employee's career.

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Amidst the high interest and enthusiasm for performance appraisals, there has appeared lately a growing body of criticism and dissatisfaction. Analysis of the performance appraisal process by many experts has suggested a number of negative effects. Professor Rensis Likert, director of the University of Michigan's Institute for Social Research, summed them up nicely when he observed: "The fundamental flaw in current review procedures is that they compel the superior to behave in a threatening, rejecting, and ego-deflating manner with a sizable portion of his staff."

A searching look at our various experiences with performance appraisals in the General Electric Company a couple of years ago also led to the conclusion that things were not all what they might have been. There were indications of reluctance on the part of many supervisors to conduct appraisals. Employees often approached the interviews with more dread than enthusiasm or even curiosity. Rather strong control measures were needed to keep the appraisal programs going. The question arose as to why supervisors were resisting a technique that was designed to help get improved performance from employees—and why employees obviously resented a system devised to help them improve and get ahead.

To gain fuller understanding of the appraisal process, a study was conducted to examine some of the psychological effects of performance appraisal interviews and performance improvement planning discussions between supervisors and their subordinates. The study was conducted at the General Electric Company's Small Aircraft Engine Department plant at Lynn, Massachusetts, which was known to have a well-administered appraisal program. Supervisor-subordinate pairs were observed in regularly scheduled performance appraisal and goal planning discussions. The subordinates were interviewed before and after the discussions to obtain their reactions to the interviews and to get other before-and-after measures. For half of the group, supervisors were instructed to permit a high

level of subordinate "participation" in performance improvement planning, while, for the other half, supervisors were instructed to use a nonparticipative approach. A follow-up check was made 12 to 14 weeks after the performance appraisal and goal planning discussions to determine the degree to which performance improvement had been achieved.

Briefly, the findings of the study were as follows:

1. Most subordinates felt they deserved more favorable appraisals and greater salary increases than they actually received.
2. Criticisms of performance typically resulted in defensiveness on the part of the subordinates. The more criticisms or "improvement needs" the manager cited in appraisal discussions, the more likely the subordinate was to be defensive and to reject the manager's help.
3. The *more* criticism and defensiveness observed in the appraisal discussions, the *less* performance improvement was noted 12 to 14 weeks later.
4. The use of praise had no measurable effect on employee reactions to criticism or on subsequent job performance.
5. Appreciable improvements in performance were realized *only* when specific goals were established with time deadlines set and results measures agreed on. Regardless of how much emphasis the manager gave to an improvement need in the appraisal discussion, if this was not translated into a specific goal, very little performance improvement was achieved.
6. Subordinate participation in goal planning resulted in improved subordinate attitudes pertaining to man-manager relations, but little difference in degree to which goals were achieved.

This research study shed some light on the problems associated with the appraisal process. It appeared that attempts by the supervisor to help the employee by criticizing his performance and pointing out areas where improvement was needed underlay most of the difficulty. Employees tended to resent and reject such criticism, with the result that the appraisals were not always pleasant or productive of improved performance. Little wonder that supervisors resisted this activity. Not only did they have to face unpleasant interviews, but they had to do so with little expectation that they would obtain improved performance as a result.

Following this study, management at the Small Aircraft Engine Department asked for the development and evaluation of an appraisal method which would primarily be concerned with performance improvement. The research on performance appraisal had clearly demonstrated that no one technique could achieve all of the performance appraisal "objectives." Therefore, it was agreed that other objectives normally associated with the performance appraisal process—such as justification of salary decisions, personnel development, and documentation for personnel files—should be dealt with separately and by other means. This chapter, therefore, will concentrate on the development and use of the work planning process to improve the productivity of exempt employees.

How Work Planning and Review was Developed

In order to get work done, there is always some form of work planning going on. Every supervisor gives task and work instructions to his subordinates. Every supervisor has some sort of system to check the work of his subordinates and make sure that work is being done properly. Nearly every subordinate will, at times, ask questions about work assignments or offer suggestions to his supervisor. Most supervisors and subordinates spend a fair amount of time together in the normal course of the daily work, and they can discuss job duties and job

tasks with each other. However, because of certain difficulties inherent in the supervisor-subordinate relationship; because of operating problems, pressure of business, and "crash programs"; because of the well-known problems in communication—because of these, few supervisors make optimum managerial use of time spent with subordinates.

At the same time, most subordinates want to do a good job. Most of them often feel that they do not fully understand what it is that the boss wants. They want a better feel for how they are doing. Almost every subordinate wants to have feelings of accomplishment, interesting work, and additional responsibility. They want to be able to offer suggestions upward and to have these suggestions weighed carefully, even though they may not be accepted. In other words, supervisors want to do a better job of managing, and subordinates want to improve their own work performance. The question is, "How do we set up conditions whereby people can be helped to do a better job?"

We had hoped that our performance appraisal process would help in this respect. Research indicated that it did not. We found that the biggest problem was the self-conflicting role of the supervisor as a counsellor and the supervisor as a judge. Because performance appraisal was so closely tied to subsequent salary action, the supervisor was being forced to play the role of judge with regard to salary action, while at the same time and in the same place he was expected to play the role of a helper in terms of advising the employee on how to improve his work performance. These two roles are incompatible. For this reason, in the new approach, they were separated. The next step was to ask "How can we provide a climate in which our managers can act as helpers to improve work performance?" The answer was *work planning and review*.

What is Work Planning and Review ?}

The work planning and review process consists of

periodic meetings between a man and his supervisor. The meetings are oriented toward the daily work and result in mutual planning of the work, a review of progress, and mutual solving of problems which arise in the course of getting the job done. The process does not involve formal ratings. Rather, it provides the basis for the man and manager to sit down informally, discuss the job to be done, and then (1) agree on a plan and (2) review progress.

The process was designed to take advantage of known principles which relate to certain conditions necessary for subordinate motivation and job growth. They are not exhaustive but do include the essential ingredients which must be present for best manpower utilization. The three basic motivational principles are :

1. An employee needs to know what is expected of him.
2. An employee needs to know how he is doing.
3. An employee needs to be able to obtain assistance as needed.

Exhibit 1 diagrammatically shows how these principles apply to the job. Let us now explore how work planning and review fits these principles.

An employee must know what is expected of him. This principle can be subdivided further as follows :

1. Work performance is appreciably improved when the man knows what results are expected. Work planning and review sessions provide the man with information regarding the results expected, the methods by which results will be measured, the priorities, and the resources available.
2. Work performance is appreciably improved when the man knows how he can appropriately influence the expected results. The process is sufficiently flexible to permit the man to have some say about the results expected, the methods

by which results will be measured, and the priorities. The degree of influence exercised by the man will vary according to the situation.

An employee needs to know how he is doing. This is the most important (and basic) of the three principles. Learning (job improvement) takes place most effectively when the man has the opportunity to compare his performance (successes as well as problems) against agreed-upon measures. There are several important corollaries to this principle:

1. Knowledge of results must be as precise and specific as possible. Work *planning* develops specific, measurable goals. Work *review* allows the man and manager to review results against the specific goals.
2. Knowledge of results must be as immediate and relevant as possible. The flexibility of the process enables the supervisor to have review sessions when most appropriate, and the discussion can be limited to *only* those items of performance which are relevant to the on-going situation or have just been completed.
3. Knowledge of results which comes from the man's own observations is more effective than knowledge of results obtained from someone else. When the goal measurements have been made specific, the man can more objectively evaluate his own progress. In addition, the supervisor can use the flexibility of the process to encourage this.

In summary, the work planning and review process is specifically designed to give knowledge of results which is objective, timely, and flexible enough to permit self-assessment. Either the man or his supervisor can schedule a review session when either feels it is most appropriate, thus allowing for *immediate* knowledge of results.

An employee must be able to obtain assistance when and as needed. For the employee to improve job performance, he must be able to obtain assistance, coaching, and guidance as needed.

First, the employee must feel free to request assistance when necessary. Employees will ask for assistance *only* when they are not “punished” for such an action—for example, when this is not seen as an admission of weakness or as ultimately resulting in criticism.

Second, the supervisor must feel free to offer assistance as necessary. At times, every supervisor sees a need to give assistance to a subordinate. This may come in the form of pointing out mistakes, suggesting a different approach, or in any one of a number of ways. To be most effective, this *must* be done in a constructive rather than threatening fashion. He must avoid causing a defensive reaction from the employee which would only reduce his effectiveness.

Third, to establish this climate, the supervisor must act as a *helper* rather than a judge. In work planning and review sessions, the emphasis shifts from the judging implicit in appraisals to concentration on accomplishing mutually acceptable goals. The emphasis is shifted from the weaknesses of the man to a job-centered operations approach. A climate is established for the employee to receive assistance when and as needed. In other words, work planning and review is a process which establishes a climate of *mutual* cooperation. Instead of stressing or accumulating past mistakes or successes to justify a salary action, the man and supervisor should use the review sessions as opportunities to learn how to improve future work performance. Instead of dealing in subjective opinions, praise, or criticism, they should mutually search for better measurements of mutually acceptable goals. The subordinate is a partner not a defendant.

How do you do Work Planning ?

Experience with the work planning and review cycle has demonstrated that supervisors typically go through a

process of experimentation before they settle on a method of doing work planning which is most effective for themselves and their subordinates. Because concentration is on the basic concept rather than on any particular technique, such experimentation is encouraged and fostered. In other words, the specific technique should not transcend the *basic purpose*—improving work performance. To this end, supervisors are encouraged to experiment and modify the process so they can do their own best job of applying the three basic motivational principles.

However, discussions with supervisors applying the concept indicates that some simple do's and don'ts considerably shorten the process of experimentation. As Exhibit 1 illustrates, the first motivational principle requires developing mutual understanding between the man and his supervisor as to what is expected. This consists of two closely related parts, (1) outlining the job to be done and (2) outlining achievement measures or yardsticks to determine when a job has been done well.

The job to be done. The job to be done stems from two different but related sources : the job description and company needs. The job description usually changes infrequently. It summarizes the overall responsibility of the job and the individual. On the other hand, company needs are constantly changing. This is reflected in the changing tasks that individuals must do.

The supervisor has a twofold responsibility in defining the job to be done. He must be sure that specific tasks and projects contribute to company needs. He must also make certain that he and his subordinate develop the fullest possible understanding about the job to be done. One good method of increasing understanding between employee and supervisor is to have the subordinate prepare a list of suggested goals and commitments prior to the planning session. Then, in the session, the two can discuss the goals and make whatever changes may be necessary to reflect the supervisor's ideas.

Here are some do's and don'ts in outlining the job to be done :

DO :

- Insure supervisor-subordinate agreement on major plans and tasks.
- Make plans specific rather than general.
- Relate work plans to business needs.
- Change work plans to conform with changing business needs.
- Have the subordinate develop his own work plans when he is capable.
- Keep it as informal as is practicable : Jot down work plans rather than have multiple carbons made.

DON'T:

- Try to set work goals too far in advance.
- Make activities, responsibilities, or tasks too broad.
- Become overinvolved in completing forms; instead, concentrate on mutual understanding.
- Be inflexible about changing work plans in response to need.

The job well done. Identification of the specific goals, tasks, or activities is only the first part of implementing the principle of "knowledge of what is expected." The second part is to develop achievement measures or success criteria.

These measures help both parties to determine when a job is done well and to outline areas where improvement in work performance seems needed. These measures must be outlined in advance so that both participants can agree with them. Developing achievement measures is easier said than done. They must be carefully designed to answer the question for supervisor and subordinate, "How will we both know whether the job has been done well?"

WORK PLANNING AND REVIEW

("Psychic Income")

PRINCIPLE I

PRINCIPLE II

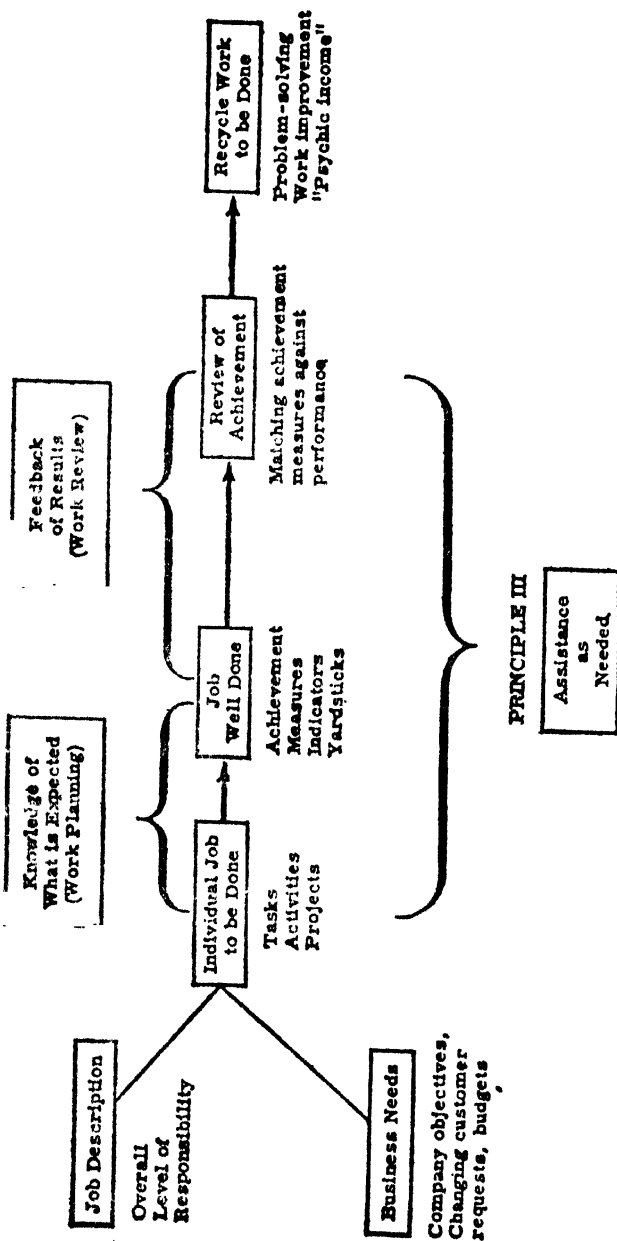


EXHIBIT 1

The yardsticks, or success measures, should be specific to the task and should be as objective as possible. However, good judgmental, subjective measurements are better than poor objective measures. Time deadlines are, of course, one type of measurement, but they should be used alone only when they are the only factor of job success. If the subordinate develops his own work plans for the supervisor's review, he should develop the results measures at the same time.

DO :

- Be sure the measures cover the whole project.
- Make certain that achievement criteria are spelled out clearly before the employee starts the task.
- Make sure that supervisor and subordinate agree on the yardsticks *before* the job is started.
- Make measures as specific as possible.
- Make measures as objective as possible.
- Be willing to change measures if the task or conditions change.
- Approach from a positive, rather than negative, direction.
- Identify factors that can be used to improve job performance.

DON'T :

- Use time deadlines only. They are only part of a job well done.
- Develop the measures as a way of "trapping" the subordinate.
- Make the yardsticks too broad or general.
- Become overinvolved in completing forms ; instead, concentrate on mutual understanding of what is expected.

In summary, the steps in work planning are :

1. Have the employee develop a set of work goals *and* measurements. (The supervisor may omit this step if he wishes to do this himself.)
2. Schedule a planning session.
3. During the planning discussion, insure that supervisor and subordinate come to a *mutual* agreement on tasks, due dates, and measures of achievement.
4. After the planning session, write down the finally agreed-upon goals and yardsticks. The supervisor and the employee each keep a copy.

How do you do Progress Review?

As Exhibit 1 illustrates, work progress review involves implementing the second principle, "feedback of results." It is an integral part of the job cycle. After the project is finished, subordinate and supervisor go over their previously agreed-on goals, measuring performance against the yardsticks which were established in the work planning session.

To the extent that the work planning was done well, progress review is easy. The secret lies in developing good achievement measures. When these are done well, the review process follows almost automatically. In fact, the subordinate usually has a pretty good idea, before the review, how the supervisor will feel about his work. When the achievement measures are poor or consist only of time deadlines, the review stage cannot contribute to increased motivation or improved performance.

It is extremely important that the work review session does not become a judging session. Instead, the emphasis should be placed on an objective, job-centered discussion of the extent to which goals have or have not been met, and the reasons why. Overemphasis on rigid measurement and goal attainment will destroy the mutual problem-solving

climate. In these sessions, the supervisor must act as a helper, not a judge.

On the basis of the review, corrective action can be taken when needed, goals can be reset, and new goals established. This completes the work planning and review cycle. In brief, the review steps are as follows :

1. Several days in advance of the review session, the employee should be asked to review the goals and measures of achievement and be prepared to discuss progress, problems, solutions, and possible new goals. Concurrently, the supervisor should be doing the same thing.
2. In the discussion, the employee should be encouraged to summarize his progress, status, problems, and solutions. The supervisor introduces his own comments as appropriate. A discussion of both points of view should be encouraged so that there can be complete mutual understanding of progress and what the next steps should be.
3. If the discussion uncovers major problems of development needs, these should be stated in the form of new written goals.
4. At the meeting, update and add new goals as necessary.
5. Remember : the review session is not a performance appraisal. It is a review of progress with an emphasis on the joint solution of problems involved in getting the job done.

DO :

- Use review to improve performance.
- Use review time to discuss achievement against the performance measures.
- Use review time to recycle and replan work.
- Use an informal, rather than formal, approach.

- Use review to encourage rather than criticize.
- Use review to provide assistance in improving performance.
- Review work whenever appropriate, rather than at fixed periods such as at the completion of a project or specific tasks.
- Encourage subordinates to initiate their own reviews if they feel confident in this role.
- Establish a climate in which supervisor and subordinate can mutually agree on results accomplished, problem areas, and future needs.
- Remember that the purpose of a review is to obtain mutual knowledge of results for the purpose of improved performance.

DON'T :

- Approach in a punitive, rather than encouraging, manner.
- Put off reviews to predetermined fixed dates.
- Always try to review the whole job at a time. Review specific activities.
- Discuss personal characteristics. Concentrate instead on the job and ways to help improve job performance.
- Conduct reviews in a formal, stilted manner. The object is to help improve performance, not to lecture or patronize.

A Word about Details

The exact timing of work planning and review sessions is determined by the individuals involved and the exigencies of the job. Work planning should take place often enough to ensure mutual understanding of what is expected. Review should be done often enough to ensure that both parties agree on the results. Participants most likely will want to talk about specific projects or tasks from time to

time, rather than about the total job. Some tasks have a very brief time cycle and might call for fairly frequent informational sessions. Other tasks or projects may have a fairly long time cycle and will be discussed at less frequent intervals.

In other words, the specific timing of review sessions will vary with the situation, the job, and the individual. As the supervisor becomes more relaxed in his approach, he will find himself jotting down plans and achievement measures during regular daily and weekly contacts with his subordinates.

Forms were developed in General Electric as a guide for use in work planning and review. Some typical ones are illustrated in Exhibits 2, 3, and 4. These forms were developed as an aid to help supervisors get started on work planning. Experience has shown that many supervisors prefer to develop their own forms or to modify a form already in existence, and this practice is encouraged. Forms are not a major factor in work planning and review, but they are useful as recording devices. In general, best

GE 505 (4-55)		PART I—WORK PLAN		DATE PREPARED: _____	
EMPLOYEE: _____			MANAGER: _____		
PROJECTS AND ACTIVITIES TO BE CARRIED OUT — •		ACHIEVEMENT MEASURES DUE DATES		PRIORITIES	

•) IF YOU ARE USING A DIFFERENT WORK PLAN FORMAT WHICH BETTER SUITS YOUR REQUIREMENTS JUST STAPLE IT TO THIS PAGE.

DC 550 (1-48) PART II-A -- PROGRESS REVIEW DATE: _____		
PROGRESS TO DATE	PROBLEMS	SUGGESTED ACTION TO BE TAKEN
(CHECK ONE) MANAGER'S COPY _____ EMPLOYEE'S COPY _____		

EXHIBIT 3

results are achieved when supervisors are given wide latitude in the type of form.

The purpose of work planning and review is to improve productivity. In order to achieve such additional supervisory objectives as justification for salary decisions, personnel-file documentation, and person-centered development discussions, separate procedures have been developed and implemented apart from the work planning activity.

The fundamental concept of the work planning and review process is contained in the three basic principles outlined above. To the extent that work planning is implemented without regard to these basic principles, it becomes less effective. In other words, techniques should never be allowed to transcend the basic purpose. A rigid and unsympathetic approach, hasty implementation through managerial edict, slavish allegiance to forms—all these are evidences of overemphasis on "technique" and will surely cause work planning to fail. Therefore, implementation should be preceded by a careful re-reading of the do's and don'ts.

It was felt strongly that the installation of a costly personnel program should be accompanied by the research necessary to assess its value.

The benefits of the work planning and review program were determined by comparing it with the annual comprehensive appraisal then still in effect through much of the Department. Prior to any change, a large and representative sample of the exempt nonsupervisory employees in the Department completed and signed attitude questionnaires. This survey provided baseline data against which to evaluate attitude changes. The work planning and review program then was introduced in half of the Department. Fifteen months after it was introduced, some 150 employees were selected at random and interviewed, and the original questionnaire was readministered to them. Those interviewed were selected from the same group (1) who had previously completed the signed questionnaire, (2) who had held the same job, and (3) who had the same supervisor. Slightly more than 41 per cent of those interviewed had made the switch to work planning; the rest still were being given the traditional annual summary appraisal.

Both groups were found to be equal in all respects on the "before" questionnaire. However, they showed marked differences on the "after" questionnaire. Generally, the results show positive and significant gains by the work planning group as measured by the questionnaire. The performance appraisal group showed no change in any of the areas measured. The results for each area measured by the questionnaire are as follows :

1. *Help received from manager in doing present job better.* This area encompasses one of the basic objectives of the annual comprehensive appraisal. The work planning group showed highly significant (in a statistical sense) positive gains in employee perceptions of the amount of specific help given by the manager (supervisor) in improving employees' performance on the present job; the

acceptance by managers of new ideas and approaches ; the expertness of managers in planning work ; help received from managers in making better use of their ability and experience ; and increase in challenge and stimulation of interest in their subordinates by the managers.

2. *Mutual agreement on job goals.* On the first questionnaire, department employees reported that while many of the goals for their jobs were about what they ought to be, *some were not what they should be.* Thus there frequently was a situation in which an employee lacked complete identification and involvement with what he considered to be the goals and requirements of his job. On the second questionnaire, the work planning group moved in the direction of greater identification and involvement, with most reporting that the goals for their jobs were very much what they, individually, thought they ought to be.

3. *Future improvement and development.* Another of the major objectives of the performance appraisal program was to lay the groundwork for future improvement and development. In this area the work planning group reported positive and significant increases, specifically in regard to knowledge of specific future improvements expected of them and help received from their managers in planning their future development.

Two interesting points stem from these results : (1) future job development and future improvement were highly interrelated and tended to be seen as one and the same, and (2) work planning did appear to deal with future job development even though it was designed primarily to deal with shorter-range job activities. Thus work planning resulted in significant gains toward a goal usually associated with the annual comprehensive performance appraisal program, while the appraisal program itself had no effect in this respect.

4. *Participation in job-related decisions.* Previous research in General Electric on the performance appraisal

interview indicated that any change in the manager's practices regarding subordinate participation in planning job goals following a poor appraisal resulted in poorer job performance. Thus it seemed important for the manager to be consistent in his practices relating to subordinate participation. In this study, the work planning group reported a slight increase in participation in making job related decisions. Therefore, it appears that work planning did not, in the eyes of the subordinates, bring about any major changes in the manager's approach to managing. This indicates that work planning can be implemented successfully under a wide range of managerial styles.

5. *Attitudes toward performance and appraisal discussions.* The work planning program was adopted to avoid some of the problems associated with the attempt to provide an opportunity for the manager and subordinate to discuss performance in a constructive manner through the comprehensive performance appraisal discussion. Some similar problems might be anticipated, nevertheless, since the work planning program does not eliminate all discussion of performance results. The review-of-progress part of a work planning session would seem to be, in effect, a type of performance appraisal discussion. Therefore, one of the basic considerations in evaluating the work planning and review approach was to examine reactions to discussions of performance results.

Members of the work planning group showed positive and significant improvement in their attitudes toward discussions of performance. Specifically, they reported increases in their appraisal of (1) the skill of their managers in discussing job performance ; (2) the value of these discussions as a means of helping them to improve their performance ; (3) the fairness of these discussions ; (4) the extent to which the discussion permits a good exchange of views and opportunities to reach a clear and mutual understanding of where improvement is needed ; and (5) the desirability of performance discussions. Review discussions associated with the work planning approach

appear to have taken on increased value with subordinates in the direction for which the annual summary appraisal was intended.

6. *Evidence relating to performance improvement.* During the follow-up interview, persons who had switched to work planning were asked :

1. In thinking of your most recent work planning and review session, what were two or three of the things which you and your manager felt could be done to improve results ?
2. What action have you taken along these lines ?

Persons who had been using the annual appraisal were asked :

1. What were the two or three major criticisms brought up by your manager in your last appraisal discussion ?
2. What actions have you taken to improve in these areas ?

For interviewees in both groups, an attempt was made to elicit evidence of specific actions that had been taken to improve performance. The result of the comparison follows :

1. Both groups recalled about the same number of required improvements.
2. The needed improvements mentioned by the work planning group referred, in almost every instance, to specific improvements in job performance, whereas improvements mentioned by the performance appraisal group were more general and referred more to personal characteristics—for example, “be more aggressive” and “get along better with people.”
3. The work planning group could cite specific actions they had taken to improve performance on

70 per cent of the improvement needs mentioned, while the performance appraisal group could cite specific actions to improve on only 40 per cent of the items.

In other words, in addition to the dramatic changes in employee attitudes toward supervisory practices, the work planning and review process resulted in a significant improvement in the specific actions taken by employees to improve their performance.

Evidence from this study showed the work planning approach to be significantly more effective than the annual comprehensive performance appraisal interview in improving employee attitudes concerning the help the employee receives from his manager that makes him more effective on his present job ; mutual agreement between man and manager on job goals ; plans for future performance improvement and personal development ; and the constructive nature of man-manager discussions of the employee's job performance.

While the effects of the program on job performance were not measured as precisely as were attitudes, evidence was found to show that significantly greater action to improve performance was taken in response to work planning than was taken under the annual appraisal program. Based on this evidence, and a 15-month direct experience with the program, management decided to install the work planning and review program across the entire department.

As has been noted, an employee needs to know what is expected of him, obtain feedback of results, and get assistance as necessary. Work planning and review is a flexible way of establishing and continuing the job cycle necessary to get the work done, integrate the efforts of individuals and different components of the business, and increase individual motivation. It is a method whereby

man and manager can *mutually* establish the objectives of the job, plan what is to be done, insure that the work is done, and evaluate the results and re-set the goals. In short, work planning and review provides the following advantages :

1. A constructive climate for the man and his supervisor to mutually solve the problems involved in getting the job done.
2. A means of assuring that business needs are translated into specific work items for the individual.
3. A practical way of quickly changing the direction of individual work plans to meet changing needs of customers and the business.
4. Assurance that the employee's abilities, skills, and interests will be reflected in the work he does and the way he does it.
5. An increase in the help employees receive from their supervisors in planning their future development.
6. Dramatic positive changes in attitudes and morale.
7. Significant increases in specific actions taken by employees to improve their performance.

Worker Participation on Production Problems : A Discussion of Experience with the "Scanlon Plan"

—George P. Shultz

The idea of participation as a principle of organization has produced exciting and spectacular results. Most recently, for example, Stuart Chase wrote in the January, 1951 issue of *Personnel* about "joint committees which can take output right through the roof by releasing energy and intelligence in the rank and file which hitherto had been bottled up." Other statements by managements, workers, and union leaders have been as extravagant and as enthusiastic.

These testimonials to achievement emphasize the importance of examining further the participation idea. That is the purpose of this article, in which, after brief introductory comment, these five questions will be explored: (1) What is the meaning of participation? (2) How were Scanlon's ideas developed? (3) What are the sources of productivity increases? (4) What obstacles to success may be identified? and (5) How may the gains from participation be shared?

The idea of participation as a principle of organization is not a new one. It has roots, after all, in the ageless

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democratic ideal. It is expressed in our cultural emphasis on the dignity of the individual and on the value of freely stated opinions before a decision is reached. In the management of our industrial enterprises, also, workers have long been and are now consulted intermittently on immediate production problems. But the rise and the strength of the American labour movement give testimony that the emphasis in industry has usually been the other way around; on the unquestioned authority and ability of management to make correct and acceptable decisions. As this philosophy was once stated "All that a man wants, is to be told what to do and to be paid for doing it."

The idea of worker participation on production problems, of democracy in industry is, basically, then, an old one, yet one that challenges a traditional management philosophy. Thus, the *fundamental premise* of the participation idea, just the opposite of that quoted above, might be stated in this way: The average worker is *able* to make and, given the right kind of circumstances, *wants* to make important contributions to the solution of production problems. If you cannot accept this premise, you need consider this question no further.

Joseph N. Scanlon, now on the staff of MIT's Industrial Relations Section and formerly Director of Research and Engineering for the United Steelworkers of America (CIO), is a leading advocate of *participation* as a basic principle of organization. With his help, an increasing number of companies and unions are adopting this as a guiding principle in their operations. The experiences in these cases, which represent a wide variety of industries and of cost and production conditions, will form the basis for our discussion here. We will be talking exclusively about things that have happened, about facts, about the achievements of people who have worked together.

What Does "Participation" Mean?

At plants where Scanlon's ideas are being followed, people say that they are operating "The Scanlon Plan."

That is a deceptive label. Scanlon offers no rigid formula, no panacea that will solve all your problems, no new production methods to revolutionize your industry. Quite the reverse. Success from participation stems from hard work and from willingness at all levels of the management organization to face criticism. Using the Scanlon Plan, people learn that solutions to their problems lie within their own organization, not with outside experts. The ideas on production methods and the problems of the business as seen by workers, by foremen, and by top management are laid before members of the organization. The constructive efforts, mental as well as physical, of everyone are solicited. Each individual, then, has the opportunity and feels the obligation to work for the best interests of the group. This is what "participation" means—not only strong criticism of many established practices, but positive and constructive suggestions for improvement.

This is not a limited concept. Workers cannot be expected to "participate on safety but not on scheduling." Many people are talking these days about the importance of "giving workers a sense of participation in the business." They may, for example, distribute copies of the company's annual report to the employees, accompanied, perhaps, by a letter from the president describing one of the company's new products. I am not saying that this is bad; but it is not what I mean here by participation.

The following example will perhaps be useful as an illustration of this point. Not too long ago, a group of about eight workers and their union business agent came to see Scanlon. They were worried people. Their company owned five plants, and the one they worked in was the oldest, the least efficient. As one of them put it, "We've seen these other plants and we know that we're the worst. If business gets bad, we're sure to go." The president of their company had made a number of widely-quoted speeches emphasizing the need for giving workers a "sense of participation." These particular workers thought that they had something to contribute, and they had heard that

Scanlon talked about "participation" too. Would he help them? Well, he might, but what did they have to contribute? Were they just talking or could they be more specific? Raising this question was like opening the flood-gates. The rest of the morning was spent listening to them discuss the mistakes that management made, the unnecessary waste of materials, the possible improvements in methods. The stories were detailed and convincing. Surely they would startle and inspire any company president who talked about participation. They did not inspire this one, though they may have startled him. He stated, in effect, that it was his job to manage this business and that he was paid well to do just that. He was sure the foremen would be glad to get these suggestions, but neither he nor the foremen could discuss them further. After all, he could not give up his management prerogative.

In order to have participation, then, management must be willing to discuss the real problems of the business not just the peripheral details of car pools and company picnics. That does not mean that management need give up its decision-making authority to the vote of a group of workers. But it must be willing to discuss relevant problems and decisions and to accept with good grace, at least, suggestions which promise to be productive.

How Scanlon Developed his "Plan"

The story of how this form of participation developed might well begin with Scanlon's background as a cost accountant, industrial engineer and steel worker; but, for our purposes here, we may start with his experience as president of a local union back in 1937. The Steelworkers' Organizing Committee was still really fighting for union recognition in the steel industry. This was a company, however, in which there had been no great difficulty in the organization of the employees. The management didn't vigorously oppose it; they may not have welcomed it enthusiastically, but there were none of the animosities that so frequently grow out of organizing situations.

Wage demands were the order of the day. But the company whose employees Scanlon had organized was in a poor competitive position and was faced with the possibility of liquidation. None of the local people knew what to do about their plight, so they turned naturally to their national office. Clinton S. Golden, an official of the union, tells the story of what happened in this way:¹

One day a very unusual thing happened. A committee came in from this steel company, bringing with them the president of the company. This committee started to unfold the story. What are we going to do? We don't want to lose our jobs, we like our community, we get along reasonably well with the management. Under this set of conditions, we want the union, we want the wage adjustments; how are we to survive?

"Well," I said, after the situation had been fully discussed, "I haven't got any blueprint to pull out of the drawer and hand you. The union hasn't got any money in the cash box to take out and turn over to you to modify your plant. I think you can be saved, but you will have to save yourselves. There isn't anybody else that can save you. You will have to do it yourself." At the risk of being misunderstood, I continued, "I am a workman—a machinist by trade. I have worked in lots of places and left some in a huff. As far as I know, all the firms I have worked for are still in business and probably some have made a dividend since I left; but I have never worked in a place that was so well managed that I didn't think it could be improved. As I have listened to your story, I think this observation applies to your company. Maybe you don't know how poorly it is managed. My advice to you is, go back and try to enlist the interest of every employee in an effort to save your company. I don't care how humble his assignment or position, every employee has something to contribute to this effort. Now you go back, talk it over among yourselves, develop some

¹These events were related by Mr. Golden at a conference on the Scanlon Plan held at MIT on April 19-21, 1951.

method for reaching down into the mind of each employee and see what he has got to propose that may possibly result in a reduction of cost or improvement in the quality of the product. See if you can come out in a spirit of teamwork, of working together to save your company."

The sparkplug of this committee was Joe Scanlon. They went back with as little advice as that. And they did develop a way of reaching down tapping the experience and ideas of every employee, including the common laborer. When they began to get this outpouring of criticism and comment, they began then to find out how much these men knew about the things they were doing, and when these ideas and suggestions were translated into a program of action, they resulted in reduced costs, improved quality of the production, and a solvent company.

As this experience became known in the industry, companies in similar circumstances asked the union to give them that kind of help and cooperation, with the result that Scanlon was called in to the national headquarters of the Steelworkers' Union. His job of showing people the value of their own resources and of the participation of everyone in the organization took him to some 50 companies. This experience served to turn belief into a sure knowledge; there is within the work force an untapped reserve of productivity of major proportions.

The accomplishments of these companies and union members during the adverse years of the late 30's were spectacular, but they left two major questions unanswered. These companies and workers had developed a cooperative relationship when the very survival of their jobs depended on it; but, without the survival motive, could that kind of relationship be developed? Further, these were companies where efficiency was poor at the start. Suppose this idea were tried in an efficient plant when workers were not afraid of losing their jobs. Could the workers make a significant contribution?

Toward the end of World War II, an opportunity was presented for answering these questions by the experiences of the Adamson Company, a small unionized concern reputedly the most efficient in the storage-tank industry. Mr. Adamson, the company president, had ideas which paralleled Scanlon's. Together with the employees of the firm, they worked out a method for sharing the gains from productivity increases (a method which officials of the War Labor Board accepted as paying bonuses *only* to compensate for increases in productivity). They set up "Production Committees" of management and worker representatives and Adamson himself presided over a "Screening Committee" which discussed and decided on major policy questions. This was a company, then, which had made a profit even in 1932, which paid high wage rates, and which was acknowledged "the best" from the standpoint of efficiency. During the first year of participation under the Scanlon Plan, the workers' average bonus (productivity increase) was 41 per cent. According to Adamson, he made two and a half times the profit he would have made had he remained at the previous level of productivity.²

Following this experience at the Adamson Company, other companies and unions have successfully applied this principle of participation. The case of the Lapointe Machine Tool Company, described in the January, 1950, issue of *Fortune*, is probably the most widely publicized; but the Scanlon Plan is now operating in such diverse industries as furniture, silverware, steel fabricating, printing rubber processing, corrugated paper containers, and radio and television. The companies range in size from 60 employees to 5,000 and include multi-plant as well as single-plant concerns. Close contact with these cases provides convincing evidence that the essential condition for success is not survival, not big bonus money, certainly

²For more information on this case, see Joseph N. Scanlon, "Adamson and His Profit-sharing Plan," pp. 10-12, AMA Production Series No. 172, 1947; and John Chamberlain, "Every Man a Capitalist" *Life*, Dec. 23, 1946.

not "inefficient" plants, but willingness and desire to have all members of the organization participate in solving its problems.

What are the Sources of Productivity Increases?

Are people working that much harder? Are these new ideas from the work force as revolutionary as all that? These are questions quite naturally raised by everyone who hears of results like those achieved at Adamson and Lapointe. They are good questions and deserve a careful answer. People may not be working harder, but they are certainly working more effectively. Conscious restriction of output by individuals and groups gradually disappears, a helping hand is offered when the going is tough, and workers no longer take their major satisfaction from fooling the boss and killing time in the washroom. New ideas contributed by workers, often simple and "obvious" once they have been presented, are also an important source of productivity gains. After all, the worker is *much* closer to his job than anyone else, so he naturally has ideas of his own about it. But it would be a mistake to assume this to be a complete accounting. At least four other ways in which productivity is improved can be identified. I would like to give you an illustration of each one, taken from the experience of a printing company.

1. *Old ideas that have previously been impossible to implement become readily acceptable after coming forth as worker suggestions.* The following is an example:

One of the pressroom employees pointed out that waste paper was now being crumpled up and thrown in a basket in preparation for salvage. Everyone conceded that, if this paper could be salvaged in flat form, its value would be much higher. Management had been aware of this possible saving but had been unable to enlist the cooperation of the employees in keeping the stock flat. A committee member pointed out the reason for the lack of cooperation; workers felt the foreman was trying to check on them to see how much paper they wasted. Consequently

through various subterfuges they made it impossible for him to police his system. With the suggestion and impetus coming from the employees themselves, however, there was no trouble in getting the waste paper placed in flat form on pallets located at appropriate places in the press-room.

2. *When management has an idea or a program for plant improvements, it can take them to the people affected and ask for further suggestions and comments.* The result is a better program and a more acceptable program as well. Here is an example.

In the process of binding a sewed book, a group of loosely sewed sixteen or thirty-two-page "signatures" must be brought together in stiff form and rounded in the back as preparation for putting on the cover of the book. This stiffening is provided by the application of glue to the back of the book, and it must dry at least one hour before the backing machine is used. For many years the gluers had placed their work on movable tables which were then pushed to the backing machine. Before the installation of the participation plan, the company's Planning Department had decided that these tables should be replaced by a series of fixed conveyors. This conveyor system was explained to the superintendent and foremen involved, and a blueprint of the proposed conveyor system was placed on the bulletin board in the department. However, the employees were told by the foreman that they were not allowed to look at this bulletin board except on their own time—that is, during the lunch hour. They were not told what the blueprint was all about, and they did not understand that it involved a drastic change in the layout of their workplace.

During the holiday of Christmas week, 1948, the conveyor was installed. The employees, several of whom had worked for the company for 20 to 25 years, were amazed when they came back from vacation and found their work-place totally changed. They did not like the

conveyors from the moment they saw them, and when the lack of the flexibility in the conveyor system produced confusion and frustration for management, the employees were delighted. They drew a large X on the window and, when asked what this X meant, replied, "It marks the spot." "What spot?" "The spot where the conveyor goes out!"

Before the conveyor was installed, production in the department had been averaging over 500 books per hour per work team and, in some months, had even exceeded 600 books. During the first 10 months of 1949, production dropped to an average of about 450 books per hour per team and in some months went below 400 which was a new low for the department. The employees in the Bindery brought the inadequacies of this conveyor system first before their Production Committee and then before the Screening Committee. The Planning Department tried hard to defend its baby. A group from the Screening Committee, including the plant manager, however, looked at the operation and decided unanimously that the conveyor system did not provide the conditions under which high production could be achieved.

Essentially, the conveyor system would work well only when an ideal set of scheduling conditions were possible, and the Planning Department agreed that such ideal conditions were the exception rather than the rule. The Screening Committee ordered the conveyors removed, and the department went back to the old system. On the second week after going back to the old system production was back up to 525 books per hour per team and has since been maintained at approximately that level.

In contrast to this experience is the installation of a conveyor system after the plan had been in operation for two months. As in the former case the Planning Department had an idea for the rearrangement of the machines and the use of a conveyor to facilitate certain transport problems. In this case a blueprint was made and posted

on the bulletin board, but the employees stated that they could not read the blueprint and that, therefore, they could make very few, if any, suggestions about the proposed plan. Consequently, a small-scale model or templet of what the layout would look like under the new plan was placed at a central location in the department. The employees still, however, made practically no suggestions about the new plan.

One afternoon a member of the planning group happened to be in the department and started discussing the proposed layout with a few of the employees. After he had criticized the proposal in a number of respects, a great many comments were made both by the foreman and by the employees. These comments were gathered together and a Production Committee meeting was held, attended by the Industrial Engineer responsible for the proposal. At this meeting the employees and the foreman joined together in strenuous criticism of the conveyor part of the plan. After about two and one-half hours' discussion, the Production Committee agreed that the rearrangement of the machines would be beneficial but wanted the engineer to reconsider several aspects of the conveyor system.

About a week later, another meeting was held and the Production Committee agreed to a modified version of the conveyor system with the understanding that it would be installed in such a manner that they could make changes fairly easily. Subsequently, the Production Committee did make several important changes, especially in the manning of the new system. The drastic revision in the department layout and the revised conveyor system are now accepted as an improvement by the workers and the foremen concerned and the productivity of the department has been increased by about 20 per cent.

3. *When a particular problem arises of concern either to one department or to the plant as a whole, it is possible to communicate the real nature of the problem to the people*

involved. Given such a sense of direction, individual and group efforts often provide important contributions to an effective solution. The following is an example.

The long-term problem in the Press-Room was loss of work to outside manufacturers who, because of their clearly superior equipment, could presumably turn out the work more cheaply than it could be done at the plant on old flatbed presses. One of the chief losses was the approximately two million workbooks a year contracted for by an outside press. With their own bread and butter at stake, the Press-Room Committee investigated the relative cost of doing the work at the plant as against sending it outside. They found that the outside price was \$ 15.90 per hundred for a particular order and that the Planning Department figured the cost of doing this job in the plant was \$ 21.55 per hundred, a differential of \$ 5.65 for each 100 workbooks. Using these figures as a point of reference, the Production Committee showed management how the plant costs could be brought down to \$ 17.65 per hundred. This tremendous saving was the result of two factors : (1) the elimination of unnecessary operations, and (2) reductions in the estimated time requirement on the operations that were performed. By further investigation into other books of this type, the Production Committee found that certain administrative costs that were properly incurred by the company were not allocated to outside work. Further, extra costs incurred by the company as a result of sending the work outside (for example, trucking cost, and extra paper used by the outside plant) were not counted at all when considering the outside bid. Finally, it was found that the reduction of in-plant overhead cost per unit resulting from the possible increased volume was not being considered. When all these factors were taken into consideration, it was found that a specific 50,000 workbook order could be produced at the plant for 50¢ per hundred cheaper than it could be printed outside—a figure 28 per cent under management's original cost estimate. This was just the first specific order of a large number which could be examined carefully by the management in close

collaboration with the Production Committees and which might be returned to the plant.

4. *Management tends to improve in the performance of its own functions.* There are two reasons behind that improvement. In the first place, individuals in the management hierarchy are put more clearly "on the spot". Repeated mistakes get a thorough airing, with the result that supervisors are kept on the alert. Second, management gains much more reliable information about the way the plant is actually operating. Thus, it is able to improve the performance of its functions because it has more and better information upon which to base its actions. Here is an example :

One of the departmental Production Committee's most vigorously-pressed suggestions concerned the scheduling of jobs. Workers complained that they often set up their equipment as scheduled, only to find that the particular paper needed for that job was not yet on hand. Though paper for other jobs was apparently available, they could not make a switch since setup time was generally great. This complaint involved people outside the department, however, so the Production Committee could do little about it themselves. They passed it on to the top Screening Committee, a group which included the company president.

The head of the scheduling department, of course, felt particularly concerned with this complaint, and so he did some "homework" in preparation for the meeting. For each job, the worker turns in to the scheduling department a time slip, on which is tabulated the total elapsed hours in terms of "running time," "delays," and so on. The department head examined his file of these slips thoroughly and found that there was actually very little delay due to "insufficient paper." When the question came up in the meeting, he triumphantly produced these "facts" and discounted the complaint as of minor importance. This disclosure was greeted with an embarrassed silence. After a long half-minute, one of the workers spoke up : "Those time slips are way off. We fill them out. We

were told by the foreman that he would get in trouble if we showed that delay time, so we usually added it to the running time. We've been doing it that way for years. We had no idea you were using the slips as a basis for planning."

Further discussion brought out that the schedulers were using the time slips, not just as a check on coordination between paper storage and production department, but also as a basis for calculating the running times on different types of jobs. Now, with a newly reliable source of information, the scheduling department is able to work much more effectively.

The examples which we have examined here will, it is hoped, serve to illustrate the variety of ways in which productivity may be increased under a "participation" plan. They should serve as well to point up more clearly the meaning of "participation" and the powerful potential of this idea. Some of the things that have happened in Scanlon Plan situations have been genuinely dramatic; many more have been unspectacular and even commonplace to an outsider—but every one of those events has been representative of the tapping of resources which management, by and large, has neglected in past years.

Two Obstacles to Success

None of us, I am sure, will conclude that these results have been effortlessly achieved or that the installation of this "plan" proceeds without obstacles and problems. The two questions most probably in the reader's mind now are, in fact, "How can individual workers be persuaded to adopt the constructive attitude indicated by the preceding examples?" and "How can the union be induced to cooperate so whole-heartedly with management?" Experience indicates that these two problems, while significant, may not be so great as management initially assumes. Where management accepted the union without reservation and understood the union's objectives and way of operating, the union has cooperated and grown stronger in the process. The parties have cooperated on problems of

productivity, while still continuing to bargain collectively over wages, hours, and working conditions. And, as they found their ideas welcomed and accepted, workers have gradually assumed a more and more responsible attitude toward production problems. Even in a plant with eight different unions representing the work force, these "union" and "worker" obstacles have not been insurmountable.

But two other obstacles, often overlooked by management, have been most troublesome. These obstacles are (1) the initial loss of prestige and consequent opposition of middle and lower management people and (2) the inability of the organization to make important decisions on an explicit basis.

1. *Meeting Resistance of Supervisors.* Successful installation of this plan reorients completely the job of supervision. Whereas foremen and superintendents may have previously been accustomed to complete authority over technical production decisions, those decisions must now be made after consultation with the employees. In many cases, such consultation shows up previous practices as illconsidered at best and just plain stupid at worst. That kind of dramatic exposition, often not put too diplomatically by the employee, may undermine the personal security of line management people. Many of them try initially to suppress the efforts of the Production Committees, and only forceful and prompt action by top management makes the continuance of Committee efforts possible. Others react with lengthy rationalization, explaining why none of the employees' suggestions can be carried out or asserting that the ideas have been in their minds a long time, but that the employees would not cooperate in carrying them out.

Clearly identified, this obstacle can be dealt with effectively. First of all, *top management must be unambiguously committed to the operation of this plan.* Foremen must not be allowed to retaliate against members of departmental Production Committees or to break up meetings of these Committees. Where sabotage of the plan is open, management must be prepared to fire the

foreman as a last resort. Second, and more important in the long run, top management must use incidents where friction between workers and supervisors occurs as an opportunity for re-orienting the supervisor in his attitude toward his job. This educational approach has its positive side as well. When a department presents an unusual number of good suggestions, top management might well commend the foreman or, at the very least, not criticize him for "being shown up by the workers."

Finally, if initial difficulties can be surmounted, successful operation of the plan gives to the supervisory force a constantly accumulating number of convincing experiences. They see things happen that seemed impossible under the old circumstances. They come to know their people better and are accepted by their people as a member of a team with a common goal. Their contribution as coordinator and organizer of the work is more fully appreciated. In short, they find that the plan gives to them a superior method of solving their daily production problems.

2. "*Finding the Boss.*" Many organizations have developed the habit of postponing decisions wherever that is possible. Rather than decide the issue and risk being proved wrong, management may often decide not to decide, to await further developments. But by the time these developments have occurred, there is no decision left to make: there is only one alternative. This implicit type of decision-making, more widespread than we might care to admit, is not consistent with successful operation of the plan. Suggestions pour in, routines are questioned, issues are laid out on the table where all can see them. If no action is taken, dissatisfaction grows and the people rapidly lose their interest. Why should I make suggestions, they say, if nothing is done about them? This difficulty in "finding the boss" is usually of special significance in multi-plant operations, where all or most authority may lie beyond the bounds of the particular plant.

This does not mean that management must always go along with the ideas of the work-force. In many

instances, the question is one of judgment, and the boss must be the judge. As one worker put it, "That's really what we're paying him for." What the workforce does demand is an opportunity to be heard. Given that opportunity, they want decision, not procrastination. In other words, the organization must have a boss, but the boss must be accessible to the organization.

Sharing of the Gains

Continuing results cannot be expected without some method for a sharing of the gains from increased productivity. A monetary incentive is, of course, of real importance, especially in situations where survival is not in question. But that is not the only reason for attaching a financial incentive to this plan. In addition to the positive-incentive aspect of monetary payment, the need for some *quid pro quo* is strong. As one worker put it, "I'm too old to be chasing a carrot around, but, damn it, if we do something that's worth something, we want to be paid for it." Second, the existence of a measurement of productivity gives the workers a sense of direction and accomplishment which they could not otherwise get. They know, in other words, what is "par" for this course and whether or not they have fallen short of or improved on this standard of accomplishment. Finally, discussion of changes in the measure of productivity often illuminates the problems of the business dramatically. If productivity is down, something will be learned by finding out why it is down. Knowing why, workers do not lose faith and interest as a result of periods in which no bonus is paid. Changed or difficult circumstances are discovered and treated explicitly. Thus, discussions can be a rich source of new ideas, facilitating necessary adjustments.

What kind of measurement should be used? Generally speaking, incentives such as profit-sharing are too broad. The measure should be related more closely to the productivity of the participating group. Only on the basis of the group's efforts should it be rewarded—not on the basis of fortuitous price changes or inventory speculations.

This goal has led, wherever possible, to the use of a ratio relating the payroll of the group to the sales values of production (sales revenue plus or minus real changes in inventories of finished goods). A bonus is paid when, with a given payroll, the group produces more than the "norm" production value. This method does not, of course, give an exact and scientific measure of productivity. *There is no such measure.* It does give, however, a rule of thumb that is roughly accurate and is easily understandable. Members of the participating group know what went into the original calculation, and so, if basic conditions change, they will agree to revise the norm. For example, changes can be made in the event of revisions of product prices, basic wage rates, or major machine installations. Experience with such rough measurements and with changes for good and proper reasons has been uniformly successful. Thus the "formula" works, not because it is precise and invulnerable but because the parties approach the problem of sharing the gains with understanding, good faith, and mutual trust.

Conclusion

Our discussion here has centered on the tangible results of real participation. We have talked about bonus payments and about higher profits. We have touched on the difficulties of getting started and on the fruits of success, in terms of specific suggestions and accomplishments. If you were to visit one of these "participating" plants, to talk with workers and union and management officials, I am sure you would be told about those achievements. But, as you left the plant, I doubt that you would be thinking of the tangible gains. Your thoughts would be focused, rather, on the enthusiasm with which your questions had been greeted, on the knowledge of the business displayed throughout the plant, and on the pride with which accomplishments were described. You would say to yourself, "Here are people at work, not resentful and suspicious, not just here because they have to earn their living. They are enjoying their work. They are participating."

Building Viable Systems and Procedures

*Some Human Problems for Management in
Developing Countries*

—A. Fonseca, S. J.

Among the many problems that constantly demand the anxious attention of managers in developing countries where industrial traditions are unstable and still fluid, recognition of unions and the claims of job security are issues that can have explosive consequences, if no established systems and procedures of tackling them have been created. Since the dynamism of social change is rapidly transforming some of the existing social structures and eliminating others altogether through the process of technological innovation, managers must keep an open mind and adjust themselves to changing situations as they arise. Very often the new techniques of production will induce a change in the traditional relationships among a variety of occupational grades, and also indirectly bring about new pressures within the establishments particularly at the human level. Such mounting pressures will require shrewd handling by management so as to escape the sudden disruption of established good relations within the enterprise. In this state of affairs, it is hardly possible to prescribe a solution that may be applied indiscriminately to every human relations problem as it arises. Each

situation is unique and requires its own specific remedy. Only general norms or principles can be laid down which will have to be applied with discretion after taking all the circumstances into consideration.

Recognition of Unions

Modern management simply cannot afford to do without the trade union, even if the trade union is weak and is likely to be superseded by another. Blind opposition to or neglect and rejection of the union will never serve the ultimate purpose of all business organizations, which is consistent service of the customer and the public. Fundamental to the framing of a policy on trade union recognition is a new awareness of the characteristics of modern business enterprise. It is recognized that :

1. The enterprise is an entity distinct from the persons who establish it, and possesses a certain autonomy of its own.
2. It always has as its purpose the production of a good or a service primarily for the public and only indirectly for the agents of production.
3. Despite the diversity of functions within the enterprise, it is a community in the sense that it requires a relatively small or large group of persons linked together by a single purpose for its productive functioning.¹

For management, the last characteristic is the crucial one, and should dictate the kind of policy it must evolve in its dealings with the work force.

One of the fundamental rights guaranteed to the workers is the right to form a trade union. It is the trade union that represents the workers at the bargaining table. The implications for the need to recognize the trade union are therefore obvious. To weld the enterprise into a community, the goodwill and enlightened participation of

¹*Economic et Humanisme*, November-December, 1962, pp. 5-8.

the trade union is absolutely essential in every management decision that concerns the welfare of the enterprise and of the workers. It is in this manner that trade union recognition becomes the first step in the establishment of the community spirit within the enterprise, and leads to the development of collective bargaining.

Foreign experience

In the United Kingdom, the recognition of trade unions by employers has become customary. No legal duty however is imposed on the employers either to recognize or to bargain with the unions, except in the case of the public corporations which administer nationalized industries. All the same since collective bargaining is the accepted procedure for settling almost the entire gamut of relationships between employer and employee within the industrial enterprise, the recognition of a trade union as the bargaining counterpart is generally taken for granted and followed by the vast majority of employers.²

To be recognized, however, the trade unions must fulfil certain conditions. One of the most essential is that they must represent a substantial proportion of the workers in the industry. As a matter of fact, the prevailing network of unions has been established and functioning satisfactorily for quite some time, so that no change is envisaged except perhaps in some minor field of industry. However splinter unions are generally discouraged.

On the other hand, the experience of the United States has been different. In the first place, representative unions are elected as bargaining agents by secret ballot, and secondly, employers are bound by statute to recognize that union which wins the ballot. It is the National Labour Relations Board erected under the Wagner Act of 1935 and later retained under the Taft Hartlery Act of 1947 that administers these provisions for union recognition. Often the Board is asked to intervene or supervise the

²Cf. Terms and Conditions of Employment Act, 1959.

elections unless the employer informally agrees with a particular union that he is convinced represents the majority of the workers. If, however, the employees ask the Board to intervene, they must have at least 30 per cent of the workers on their side.

Bargaining unit

A practical difficulty that may arise at this juncture is the choice of the bargaining unit. Should the industrial unit, the craft unit, the plant unit or a sub-division of these be the most appropriate unit for collective bargaining? In the U.S., the National Labour Relations Board takes into account the unit that has evolved in collective bargaining over the years.³ The Board cannot under the law compel professional workers unless they agree to form a unit with other workers. Similarly, craft unions may be given the preference to split away from a bigger unit. Watch and ward staff in an establishment cannot belong to the same union as the other workers.

No new elections may be held within 12 months of any valid election. If a contract exists, it must be allowed to expire before application is made for decertification of the union, provided the contract is not for more than two years. The Board must make quite sure that the union is no longer sufficiently representative to act as the exclusive bargaining agent.

Individual employers are not faced with problems involved in the recognition of a union as a representative bargaining agent in countries in which the trade union movement and the employers' organizations are highly centralised and bargaining is carried on for the whole profession or industry at the regional or national level. This practice is particularly well developed in Western and Northern Europe. In the Scandinavian countries, for instance, the central workers' and employers' organizations have concluded basic agreements which are in fact treaties of mutual recognition and which have subsequently been confirmed

³*Labour and the Law*, C.O. Gregory, Norton and Co. p. 227.

either by legislation or the law courts. Similar agreements also existed, especially in the inter-war years, in other European countries such as Belgium, France and Germany. At the present time, the trade union movement is so powerful and so centralized in most European countries that problems of recognition by individual employers rarely arise.⁴

The law and union recognition

Whether managements should be compelled to recognize unions or accept them voluntarily as partners to collective bargaining has been a problem for Indian industry for over two decades. Already in 1943, Dr. B.R. Ambedkar, the then member for Labour in the Central Legislative Assembly, had introduced a Bill providing for the Compulsory recognition of unions. His justification for the measure was that "recognition by statute will at least clarify the position and give organized and well-conducted trade unions the status they deserve." The Bill was eventually shelved because the employers rejected the idea that recognition by means of compulsion would lead to harmonious relations between employers and employees. They also made it clear that the trade union should be sufficiently representative, *i.e.* its membership should not be less than 25 per cent of the total number of workers to be considered for recognition.

However, government brought up the same idea in attempting to deal with the problem when the Indian Trade Union (Amendment) Bill was introduced in the Central Legislative Assembly on February 21, 1946. A Select Committee suggested that the Bill be amended so that the Labour Court in deciding the representative character of the union should have regard to the percentage of the membership, and it should also have the power to decide the recognition of the particular union which satisfied the criterion and not merely recommend the matter⁵ to the appropriate government.

⁴Cf. *Collective Bargaining*, International Labour Office, Geneva 1960, p. 29.

Though this bill was passed in November 1947 and received the assent of the Governor General, the Act has never been enforced. A further attempt was made by the government to enforce the 1947 Act through two other bills, viz. the Labour Relations Bill and the Trade Unions Bill, 1950, which contained a reference to union recognition of the registered union that had the largest membership. But the bills were never passed.

In the meantime, quite a number of States had sought to regulate industrial relations within their territories. The most important of these is undoubtedly the Bombay Industrial Relations Act, 1946, which contained elaborate provisions for the recognition and rights of unions. Similarly, the Madhya Pradesh Industrial Relations Act, 1960, set down a 25 per cent membership of the total number of workers as the lower limit for the representative union, the Bombay Industrial Relations Act, when the entire industry was concerned, on the contrary, required only 15 per cent for the same purpose.

The Code of Discipline

Under the Code of Discipline, the voluntary recognition of unions was sought to be enforced. The Code came into force on July 1, 1958, and it outlines the reciprocal obligations of managements and unions towards each other. One of the important obligations of managements was the recognition of unions, which fulfilled the required criteria. Where there was more than one union, a union claiming recognition should have been functioning at least for one year after registration. This criterion did not apply in case there was only one union. Further the membership of the union should cover at least 15 per cent of the workers in the establishment concerned. Membership should be counted only of those who had paid their subscriptions for at least three months during the period of six months immediately preceding the reckoning. A union could however claim to be recognized as a representative union for an industry in a local area if it had a membership of at least 25 per cent of the workers of that industry

in that area. Where there were several unions in an industry, or establishment, the one with the largest membership was to be recognized. Once a union had been recognized there could be no change in its position for a period of two years. A representative union for an industry had the right to represent the workers in all the establishments of the industry. If a union of workers in a particular establishment had a membership of 50 per cent or more of the workers of that establishment it had the right to deal with matters of purely local interest, *e.g.* handling grievances pertaining to its own members. Trade union federations not affiliated to the four central organizations of labour would require to be dealt with separately.

Among the most important rights of the recognized union under the Code of Discipline was the right to enter into collective agreements with employers on general questions concerning the terms of employment and conditions of service of the workers in an establishment or in the case of a Representative Union, in an industry or a local area. Implied in this major advantage was the right to collect membership fees on the premises of undertaking, to make use of the notice board, to handle grievances of members with the employers, and to hold discussions with union members within the premises of the undertaking. Non-recognized unions were denied such facilities, one of the main reasons being to prevent the formation of splinter groups, and thus weaken the majority union.

Somehow the voluntary spirit of the Code of Discipline has failed to produce an improvement in the process of establishing an easier means of dialogue between management and labour. Instead as a result of increased legislation, a series of systems of procedures at various levels has been elaborately devised. Thus to quote the words of the Report of the Study Group on Industrial Relations (Western Region), set up by the National Commission on Labour, "The Labour Administration conciliation, arbitration, secretarial officers, ante-chambers" of

ministers and politicians have become the areas in which the present systems and procedures are found to be workable...Very little of creative industrial relations can take place within the precincts of factories or industries. Because of this fact, the large mass of workers and management personnel, who are directly and deeply involved in the industrial relations process have very inadequate perception of realities because they can see very little happening at their own perceivable levels."⁵

Verification

It is accepted in India that in order to ensure collective bargaining, representative unionism as the sole collective bargaining agent has to be provided for. In other words, the workers must freely and consciously choose a representative union to be their sole bargaining agent. The manner or techniques for choosing such a union has raised much controversy among the unions themselves.

According to the Indian National Trade Union Congress membership of the union should be the basic criterion in selecting the representative union. The alternative method of secret ballot is dangerous and misleading. The other trade union federations on the contrary prefer the secret ballot for determining the representative quality of the union. Arguments for and against each method of selection have been advanced by the respective protagonists.

In 1960, a detailed procedure laying down the different steps that a Labour Commissioner has to take when verifying the membership of a union seeking recognition under the Code of Discipline in Industry was spelt out by the Government of India and agreed to by the national trade union federations. According to this procedure, on receipt of a representation from a union for recognition

⁵Report of the Study Group on Industrial Relations (Western Region), National Commission on Labour, pp. 34-35.

the Central/State Implementation machinery has first to ascertain

- (a) the names of the unions functioning in the establishment
- (b) whether any of the unions functioning in the establishment was responsible for an established breach of the Code during the past one year, and
- (c) whether the existing recognized union, if any, had completed a period of two years of recognition.

This procedure involved among other things production of a list of the membership of respective trade unions before the government authority within the stipulated period, checking of subscriptions paid by members of each trade union, personal interrogation of workers denied membership of a particular union, etc. The results of the verification have to be intimated to management which has to accord recognition to the majority union.

Certain drawbacks of the verification method have been pointed out by its opponents. According to them, verification of membership is a farce and its results are rigged up by the official machinery in order to favour the I.N.T.U.C. There are various ways of inflating the membership figures. For instance, money collected as membership fees from non-existent members is spent on union activities. It is not easy for Audit to find out the correctness or falsity of such a statement of accounts. Another method is to collect membership fees from the employer for workers who are members of some other unions. In this way, the membership of a particular union is boosted up for claiming recognition. Finally, if the entire body of the workers is to be represented by the recognized union, a membership check is not an appropriate way of ascertaining preferences of the workers. For this reason, the recognized unions are not able to carry rank and file with them, and therefore the collective agreement with such a union may fail to be implemented.

Secret ballot

The second alternative is the secret ballot. The question immediately arises : who should vote ? Should the opportunity to vote be made available to all workers or only union workers ? This problem can easily be solved by a reference to the function of the bargaining entity on the workers' side. A collective agreement implicates the entire group of workers in the respective industry or enterprise or local plant. It appears evident therefore that all the workers should be permitted to exercise their right to choose the union that should represent them at the bargaining table.

Those who oppose the use of the secret ballot do so on the ground that such a procedure leads to disruption of union solidarity and favours the demagogue and the leader who promises most. Actual membership of a union is a far better check for knowing which union the workers favour.⁶ But to these objections one may answer that if the democratic procedure of the secret ballot is being successfully used at the political level, why cannot it produce the same result at the level of the enterprise ? Again a union that is strongly entrenched by reason of its large membership need not fear the secret ballot.

Possibly, both methods should be used for the time being, or prolonged indefinitely, according to needs of the situation. But they cannot be dispensed with altogether. Where there is only one union in an industry or enterprise, membership of the union could be verified by the Registrar of Trade Unions or an independent authority and the certificate issued by him should be conclusive for the employer. But when there are several unions, then only those with a duly verified membership of a fixed percentage, say 20 per cent, or more of the workmen in an ascertainable work group would have the right to stand as a 'candidate' in the election for ascertaining which

⁶Cf. Note on the Question of Recognition of Union by N.S. Deghpande, in *Report of the Study Group on Industrial Relations (Western Region)*, National Commission on Labour, India.

union should be the recognized bargaining agent. An aggrieved union may appeal to the Labour Court against the result of the ballot.

The bargaining unit

Another problem that has not so far been settled in the framework required for smooth collective bargaining is the choice of the bargaining unit. How should the bargaining unit be determined? Should the bargaining union be recognized unit-wise or industry-wise? Again this will depend on the industry concerned or on the respective establishment. Certain industries in India like the cotton textile industry in Ahmedabad or Bombay have developed industry-wise bargaining areas within the respective cities. On the other hand, a national industry, like the railways, may require a bargaining agent at the workers level to deal with issues that concern all the railways. It is also quite possible to find individual self-contained enterprises which would require a local bargaining agent to represent their workers. Special craft unions and technicians' unions may be allowed to preserve their identity, and in certain cases be recognized as bargaining units. Or while retaining their identity, such unions may be represented by a majority union of general workers who will represent them at the bargaining table.

A further query at this point may be raised. Should recognition of the bargaining unit by management be made statutory? Or should it be left to the voluntary decision of the employer? The Study Group on Industrial Relations (Western Region) suggested that the important matter is not the recognition of unions but rather bargaining in good faith. It is the latter which should be made compulsory. Unfortunately, nothing is said about how to implement this suggestion effectively. But obviously, if managements are not wide awake enough to the dynamic changes going on around them that impel them to accept the new procedures for establishing a stable relationship with their employees, the government may statutorily enact recognition of unions as bargaining agents by management.

Job Security

In a developing country with 'unlimited supplies of labour' like India, the insistence on security of employment has been one of the major hurdles in any programme of modernization or the change-over to automation. The problem of redundant labour has resulted in the tightening of those labour laws which deal with discharge or dismissal of the workmen. On the other hand, a recession in industrial development and business in general may compel an employer to retrench or lay off some of his workers even against his own wishes.

Dismissal

It is accepted in many countries that the employer may not dismiss a worker without a serious reason. His decision is liable to be subjected to the review of the industrial courts or some judicial authority who may or may not approve of his action. In the developed countries, while the employer's right to hire and fire is recognized, and is written into the collective bargaining agreement, all the same he must state the reason for dismissal and must obtain the prior approval of the union. However, the practice is that even if wrongfully dismissed, the employee has only the right to claim compensation but not to be reinstated in his job. In India, on the contrary, the dismissed worker may be reinstated in his job by the courts.

The statute safeguarding the worker's right to reinstatement is the Industrial Employment (Standing Orders) Act.⁷ Under this Act, it is generally provided in the Standing Orders that no worker can be discharged without giving at least 14 days' notice or pay in lieu thereof. Even if the employer has full justification for terminating the services of the worker, the latter can immediately have recourse to conciliation or adjudication, in which case the employer will have to establish *bona fides* of his action.

⁷Cf. Industrial Employment (Standing Orders) Central Rules, 1946, Section 14.

In case the courts are not satisfied, the worker may have to be reinstated.

Dismissal is not the same as discharge. In the case of dismissal, a worker must violate one of the misconducts listed in the Standing Orders, and regarded as of a serious nature meriting disciplinary action in the form of suspension or dismissal without notice. Such a worker may either be suspended from service for 4 days and loses his wages for that period, or else he may be summarily dismissed without notice or compensation *in lieu* thereof. In either case the management is required to follow a strict procedure of enquiry which is intended to ensure that the workman concerned has an adequate opportunity to rebut the charges against him.

Closely linked with dismissal and discharge is the *domestic enquiry*. Whenever a workman has committed a misconduct which in the opinion of the management merits dismissal, e.g., theft, assault, etc., a lengthy procedure has been designed to any hasty decision or injustice being done to the presumed offender. Management must hold a preliminary inquiry into the alleged offence. If a *prima facie* case has been established against the worker, he should be given a charge-sheet setting out exactly what acts or omissions were committed, and what was the alleged misconduct. An independent officer should then be appointed to enquire into the offence. After considering his report, management may dismiss the worker if his guilt has been established.

It is expected that the domestic enquiry should conform to principles of natural justice, i.e., it must be fair and proper, that both management and workers may call witnesses, cross examine them and adduce such other evidence as they feel necessary to prove their case. If the procedure followed during the domestic enquiry is faulty or defective, the order of dismissal may be set aside by the courts.

Further safeguards against unjust dismissal have been written into the Industrial Disputes Act.⁸ During the pendency of a dispute before the conciliation officer or the adjudicators, prior permission is required from them to discharge or dismiss a worker guilty of misconduct connected with the dispute that has been referred to them. In cases of misconduct not connected with the dispute, an employer may discharge or dismiss an employee provided he pays the employee a month's wages and makes an application to the authority for approval of the action taken by him.

Officers of a registered trade union fall under the category of 'protected workmen'. They are protected against victimization by management, and in their case an express permission in writing from the labour court is essential either to alter the service conditions or punish a 'protected' worker. This permission has to be applied for whether the misconduct is connected with a dispute or not.

Finally, an Industrial Tribunal may reverse the decisions of management if it finds a lack of good faith on the part of management, if the worker has been victimized, or if management is found guilty of violating any principle of natural law, or when the finding is based on false evidence.

Retrenchment

With rapid technical innovation, a surplus of labour is bound to arise frequently. A mobile labour force is therefore part of the flexible equipment of a modern industrial society. So long as labour is in high demand, a mobile labour force and its leaders will not mind a change of occupation, provided the index of unemployment does not register a high percentage than what the community considers permissible.

⁸Cf. Industrial Disputes Act, 1947, Section 25-C.

In the developing countries, employers are not free to make the necessary manpower adjustments because of the serious unemployment situation. The Industrial Disputes Act of 1947 has several provisions to safeguard retrenched employees. Only employees who have put in continuous one year of service in enterprises employing 50 or more employees are covered by the Act. The retrenched worker must be given one month's notice, or pay in lieu thereof.⁹ He must also be paid monetary compensation at the rate of 15 days' pay for every year of service put in by him in the establishment. Moreover, the workers' rights to provident fund, gratuity and leave remain unaffected by his retrenchment. In the case of a future vacancy he might be re-employed in the same enterprise.

Regarding retrenchment procedures, the principle of "last come, first go" should be followed. This rule of seniority must be faithfully applied except in special cases where the employer thinks otherwise, or the union agrees to a different procedure. In any case the employer is expected to give reasons for any change in the retrenchment procedure.

Rationalisation and automation

In India, 'rationalisation without tears' has become the consecrated procedure for the introduction of new automatic machinery or any technical innovations that are capital intensive and bring about labour redundancy.¹⁰ In other words, technical labour-saving changes can be made, provided the enterprise does not get rid of those of its personnel who are rendered surplus by the change. These must be absorbed in some of the other departments of the industry, either by an expansion of the industry or by re-training the workers to new jobs in the same industry. There is no need however for the industry to engage new hands. Its own surplus personnel may be used to fill up

⁹Cf. Ibid. Section 25-F.

¹⁰Cf. Recommendations of the 15th Session of the Indian Labour Conference, 1957 and the 24th Session of the Indian Labour Conference 1966.

the vacancies. The same principle applies with equal force to the introduction of automative machinery in the firm.

Normally it is expected that in actual practice the existing employees will not be discharged or their individual earnings reduced. Further, advance notice of three weeks to three months should be given to the unions before a change is effected.

The law also provides for payment of compensation to workers who are "laid off". The employer may be compelled to do so if there are shortages of power, coal or raw materials. Compensation equal to 50 per cent of the total basic wage and dearness allowance for every workday for which the worker is laid off has to be paid to him.¹¹ If the employer has to close down his undertaking because of a decline in demand, shortage of raw materials, power and fuel, accumulation of stock, expiry of licence or for financial difficulties, the state comes to the assistance of the unemployed workers by legal enactment compelling employers to treat them on the same footing as workers who are retrenched and are entitled to similar terms of notice and compensation.

From all these provisions and safeguards, it is clear that the Indian worker is well protected against the insecurity of his job. It is true that such security has engendered a feeling of excessive self-confidence in the employee. Discipline on the shop floor suffers seriously and the rate of productivity tends to fall. This is a consequence that managers must always be prepared to face and know how to tackle firmly and tactfully. In India the right to hire and fire an employee is so hedged in with safeguards, that managers have to tolerate from their workers behaviour that few managers in Western countries would accept.

On the other hand, the prevalence of such legal obligations curtails management's power to victimize their

¹¹Op. cit. Section 25-C.

workers. In a developing country, with an age-old tradition of paternalism, managements tend to act in many irrational ways, one of the most common being the vindictiveness with which they can pursue any employee who dares to question their authority. This is what precisely takes place when the trade union invades the factory. It is obvious that the role of the autocratic leader often played by well established managements must give way to the democratic attitude and the readiness for dialogue which is the only kind of leadership and communication that men will tolerate today except under extraordinary circumstances. But such an approach must studiously be cultivated to ensure good human relations in a changing cultural climate.

Flexibility

One must therefore re-emphasize the need for flexible attitudes on the part of top and middle managements in matters concerning discipline and control within the enterprise. Despite all the present defects and weaknesses of the large majority of Indian trade unions, experience shows that a strong, united and responsible trade union and a collective bargaining system that functions properly can be a powerful asset to peaceful industrial relations and gainfully assist the growth in productivity. But the formations of such a trade union rests equally on the shoulders of management and of the workers. To contribute their share of the responsibility, managers need to adopt flexible attitudes and abandon in particular authoritarian types of leadership. The technological revolution of our times has deeply affected the sociological relationship in the work place. In developing countries, political ideology has wrenched the workers movement towards instability and irresponsible behaviour. Labour legislation in its turn has helped produce a legal bias in the minds of the trade union leaders.

In dealing with their workers, managers will therefore have to be keenly aware of these two pressures as specific

dimensions of an existential situation they must face. It is only in boldly tackling their role in the technological world as leaders in a common enterprise for the development of man and the satisfaction of his needs that they will survive. No other objective will ever justify or sustain their right to manage.

Accounting for Human Resources

—R. Lee Brummet, William C. Pyle, and
Eric G. Flamholtz

One of the important current developments in modern organizations is the refinement of measurement techniques and quantitative analyses which contribute to a scientific approach to management. Financial planning and control practices and accounting measurements are recognized as critical for the successful operation of a large organization. Yet accountants continue to ignore one of the most important resources of an organization—*its people*.

A forthright attack on this problem is now underway in an effort to develop concepts and techniques basic to *human resource accounting*. New approaches, new viewpoints, and new understandings are necessary but the potential is great. Personnel, financial, and general managers alike, are reacting enthusiastically.

Human resource accounting is *the process of identifying, measuring, and communicating information about human resources to facilitate effective management within an organization*. In a particular organization, it involves measurements of the acquisition cost, replacement cost, and economic value of human resources, and their changes through time.

The research project reported in this paper is being conducted under the auspices of the Centre for Research on the Utilization of Scientific Knowledge of the Institute for Social Research at the University of Michigan. Reprinted from Michigan Business Review (March 1968) with permission of the publisher.

The Need for Human Resource Accounting

Business managers do not have adequate tools for evaluating changes in the human assets of their organizations, for measuring the effectiveness of human asset investments, or for optimizing in the allocation of human resources. Managers make decisions which have important ramifications with regard to human resources without information and analytical tools relevant to such decisions. Decisions involving recruiting, hiring, training, supervising, evaluating, rewarding, developing, promoting, transferring, replacing, and discharging people are made almost continuously. Persons within an organization often react to perceived changes of management behaviour by increasing or diminishing their performance. However, these perceptions and resultant attitudinal patterns are not being measured and communicated to improve managerial effectiveness. The aim of human resource accounting is to satisfy these needs.

In the management of non-human resources, it is accepted practice for the firm to estimate the acquisition costs and relative values of alternative investments which might be chosen to achieve the objectives of the enterprise. One machine, for instance, may require an outlay of \$ 120,000 with an estimated return of 25 per cent while another may require an investment of \$ 75,000 and return 18 per cent. Once a particular investment decision has been made, managers are held responsible for effective utilization and maintenance of the resources placed under their control.

Unfortunately, this level of sophistication has not been extended to the human resource management process. Outlays which are intended as *investments* in human resources are not recognized as such by accountants despite the fact that expenditures in recruiting, hiring, training, developing, and organizing employees into effective work groups provide *long-term* benefits to the organization. The failure to recognize these investments as organizational

assets represents a serious void in the information to be used in making rational management decisions.

Investments are typically made in training production workers and sending managers to executive development programs without a systematic evaluation of the expected benefits to be derived in relation to costs to be incurred. Similarly, outlays are made for projects that require new investments in non-human as well as human resources. A firm may intend, for example, to increase its capacity by 40 per cent to meet a rising sales demand. Yet while managers can identify the physical assets which furnish its present capacity and can project what new investments will be required in plant, machinery and equipment, they may not be able to determine what new investments will be required in human resources. Although it may be known that the production force will have to be increased by 20 per cent, it may not be known what it will cost to recruit, hire, train, and organize these workers into a viable unit.

Conventional accounting systems fail to provide information to enable management to determine whether investments in human resources are being maintained and effectively utilized. Managers' decisions may range from those which are direct attempts to enhance the value of the firm's human resources to those which systematically liquidate them in order to show greater short-run profits.¹ In any case, these conditions are not revealed in conventional accounting reports. Management has no means of either measuring its investment in human resources or of determining whether their value is increasing, decreasing, or remaining unchanged.

Further, management does not know whether the firm is allocating its human resources in the most profitable way. For example, a decision to utilize the firm's research staff on one of a number of projects should consider the

¹Rensis Likert *The Human Organization: Its Management and Value* New York : McGraw-Hill, 1967, pp. 101-115.

firm's investment in its researchers, and the projects should be expected to generate a return on this investment as well as its physical assets. Unfortunately, management has no method for determining the yield or return the firm's human assets are contributing to earnings.

As the magnitude of financial commitments of organizations to acquisition, improvement, and retention of human resources increases, an assessment of this investment increases in importance. A growing number of corporate managers are becoming aware that their present accounting systems are not adequately meeting their need for such information.

Neglect of Human Resource Accounting

There are several reasons why outlays made as investments in human resources have been traditionally treated as "consumption" rather than "capital" expenditures by economists, and as "expenses" rather than "assets" by accountants. Investments in people have seemed more tenuous than investments in physical assets, and accountants have chosen to ignore their investment character. This treatment is also attributable, in part, to the difficulty of distinguishing between the future benefits of the outlays made for recruiting, hiring, training, and developing people and the portion consumed currently. Further, "people" do not fit intuitive notions of the nature of assets. "Assets" are "things of value owned," according to conventional accounting and our culture has placed constraints on willingness to imply ownership or to place a monetary value on people. People cannot be "bought" and "sold" as is possible with inanimate objects.

It is important to note that investments in human resources have been treated as expenses rather than assets not because they fail to meet the criteria for classification as assets, but because of a conventional bias which limits the concept of "assets" to tangible things. With some exceptions, accounting has reflected a hesitancy to treat "intangibles" as assets, and human resources which are

subject to only limited control by managers carry a connotation lacking in tangible substance.

Research in Human Resource Accounting

Research in human resource accounting focuses upon three broad objectives:

1. The development of a human resources accounting system;
2. The formulation of a body of generalizations about the ways in which information provided by a human resource accounting system can be used; and
3. The development of a set of generalizations about behavioral impact of a human resource accounting system on people.

The initial phase of research involves the development of a human resource accounting system itself. This suggests the need for a body of theory or generalizations for identifying and tracing human resource costs, a set of guidelines for accounting for these costs as assets and expenses, a set of accounts for classifying and reclassifying human resource costs, statements for reporting, and tools for the analysis and interpretation of such statements. Development of human resource accounting systems in a number of different firms will provide the means for accomplishing these objectives while providing useful data for each participating company.

Once human resource accounting systems have been designed and installed in a number of organizations, the second stage of the research may be undertaken. This phase will involve monitoring the way in which the system is being used in order to increase knowledge of the application of the system. Although a number of potential uses of the system are currently anticipated, more will be learned about the specific ways in which human resources information may be used in decision-models. Simulations may be conducted to determine to what extent decisions

involving people will be modified if information about human resources is added to decision-models. New tools will be developed for use in decisions concerning human resources. Systematic decision-models may be developed to provide a human-capital budgeting system for use in evaluating alternative investment opportunities in human resources.

The third phase of the proposed research will be aimed at developing a body of generalizations about the behavioral impact of a human resource accounting system on people. The basic thrust of this research will be to determine how people react to being viewed as assets or resources of an organization with a monetary figure designated as the firm's investment in them, whether knowledge of the firm's investment in an individual will affect an individual's attitude toward the organization or his motivation and productivity, and the ways in which knowledge of differential investments in people will affect relationships among peers and between superiors and subordinates.

Conceptual Foundations of a Human Resource Accounting System

For various conceptual purposes it is useful to view human resources in two broad categories—those which are internal to the firm and those which are external. Internal human resources include individual employees and groups of employees. External human resources include the firm's customers, major suppliers and distributors, and stockholders. The firm invests in each of these groups with the expectation of deriving future benefits in return. Investments are made in training employees and organizing effective work groups, in developing product recognition, acceptance and insistence by customers, in building relationships with suppliers or distributors and in developing and maintaining stockholder loyalty. At present, research efforts are being focused upon the firm's internal human resources. In a particular organization, the foundations of a human resource accounting system rest

upon measurement of the acquisition cost, replacement cost, and economic value of human resources, and their changes through time.

The Acquisition Cost of Human Resources

Human resource accounting will make it possible for a company to determine the magnitude of its *investment in people*. Since human as well as physical resources are used in generating income, they should be included in the asset base used to calculate rates of return on investment. Knowledge of the investment in human resources will also serve as a basis for evaluating returns from particular investments in human resources. For example, many firms now invest heavily in formal training programs but have no means for evaluating their payoff or return on investment. In addition, the firm's investment in its human organization may exceed that of all its other assets combined, and while efforts are made to maintain the future service potential of physical assets, deterioration of human assets may go unnoticed. Knowledge of the amount of the firm's investment in human resources should encourage managers to protect this investment as they would their tangible physical assets. Losses from turnover will be quantified to indicate costs to the firm.

The Replacement Cost of Human Resources

Knowledge of the cost of replacing the firm's existing human organization may also suggest to management the importance of maintaining human resources. In addition, replacement cost of particular human resources may be helpful in making decisions as to resource utilization or planning for replacement of human resources. For example, in planning for replacement of human resources it may be helpful to know what it would cost to recruit, hire, and train managers to their present level of familiarity and proficiency. If standard costs of recruiting, hiring, familiarizing, and training individuals are made available, the personnel function may find this information helpful in planning and budgeting for replacement and development of human resources.

The Economic Value of Human Resources

Human resource accounting should also provide information useful in comparing the value of human resources with the cost incurred in acquiring them. It should facilitate the evaluation of alternative strategies in terms of their impacts on the value of human resources and, in turn, upon future earnings.

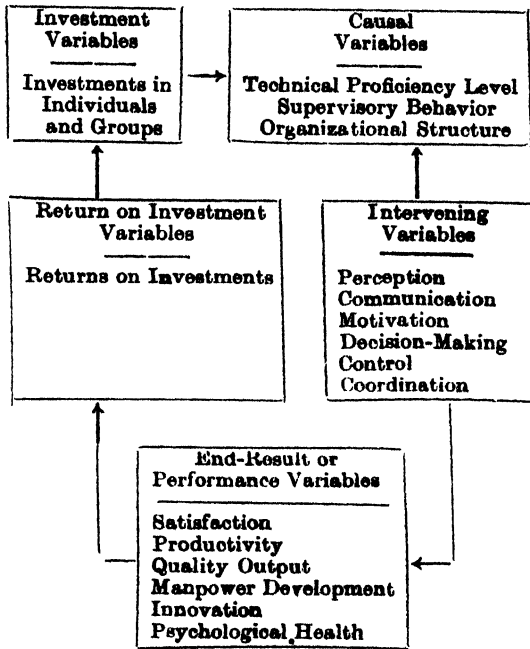
Estimates of the current value of the firm's human resources might be developed in several ways. The results from one approach can serve as a check on those obtained from others. One method is to undertake periodic measurements of the behavior of managers and supervisors, their level of technical proficiency, the resulting motivations, loyalties, and behavior of subordinates, and the communication, decision-making, and control process of the divisions or profit-centers included in the study. Statistical analysis of variations in leadership proficiency levels, motivational, attitudinal, behavioral, and performance variables may yield estimates of expected future returns, which can be discounted to determine the present value of human resources. A simplified illustration of these concepts and their interrelationship is shown in Figure 1. The underlying theory which is the basis for this approach is presented in Likert's *The Human Organization : Its Management and Value*.

An alternative method of valuing the firm's human resources might involve the discounting of forecasted earnings to determine the present value of the firm, and then the allocation of a portion of this value to human resources according to their relative contribution using the ratio of investment in human resources to total resources. Other possibilities include the use of goodwill valuations from capitalized differential earning power, or capitalized wage and salary payments adjusted for relative efficiency,² or by managerial estimates of replacement cost.³

²R. H. Hermanson, *Accounting for Human Assets*. East Lansing, Michigan : Michigan State University, Bureau of Business and Economic Research, 1964.

³Likert, *op. cit.*, p. 103.

FIGURE 1



Trends in the value of human resources should also be useful as a measure of managerial effectiveness. They should provide an additional measurement to supplement "net income" as an indicator of management performance.

Research in Progress

Since October 1966, the authors have been engaged, along with executives of R. G. Barry Corporation,⁴ in the development of what is believed to be the first human resource accounting system. This system of accounting for investments in managers was put into operation on January 1, 1968. The Barry Corporation's 1,100 employees manufacture a variety of personal comfort

⁴The management group from R. G. Barry actively engaged in this research effort include Gordon Zacks, President; Robert L. Woodruff, Jr., Director of Personnel; Edward Stan, Treasurer; Richard Burrell, Controller; and Peter Seldin, Personnel Assistant.

Items, including foam-cushioned slippers, chair pads, robes, and other leisure wear, which are marketed in department stores and other retail outlets under brand names such as Angel Treds, Dearfoams, Kush-ons, and Wrap-sak. The corporate headquarters and four production facilities are in Columbus, Ohio. Several other plants, warehouses, and sales offices are located elsewhere. The firm has expanded from a sales volume of about \$5½ millions in 1962 to approximately \$13 millions during 1966.

A simplified model of the human resource accounting system developed at the R. G. Barry Corporation is shown in Figure 2. Its elements can be outlined briefly. First, an attempt has been made to identify human resource acquisition costs and separate them from other costs of the firm. Rules and procedures have been formulated to distinguish between the asset and expense components of human resource costs. Human resource investments are then classified into functional groupings called "functional asset accounts" such as recruiting and acquisition, training, and familiarization, which are, in turn, allocated to personalized accounts for individual employees. Rules and procedures have also been developed for measuring human asset expirations which are recorded as amortization or as losses.

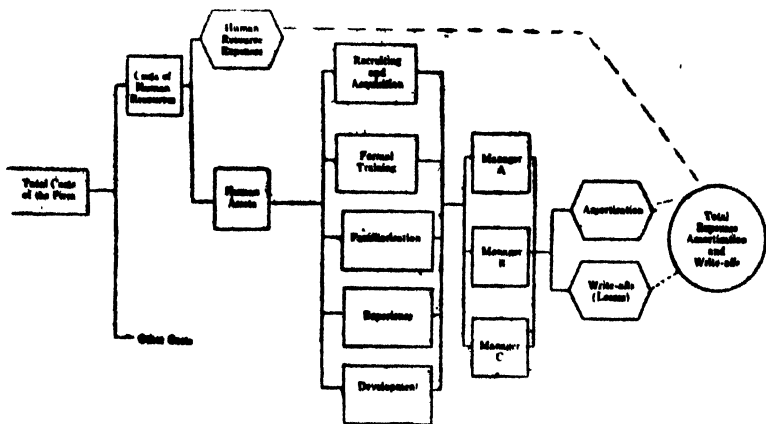
Beginning balances in personalized asset accounts have been established for some 90 members of management on a replacement cost basis. In the future, the system may be enlarged to include other levels in the organization.

The function of human resource accounting is to serve as a managerial tool. It aims to provide management with relevant, timely, quantifiable, and verifiable information about human resources to improve the quality of managerial decisions. Although familiar accounting concepts and terminology are involved, human resource accounting is not designed to be acceptable for use in published financial statements, or to be acceptable for tax purposes. Thus, the research is not constrained by law or accounting conventions. It requires no changes of laws

nor any change in conventions of accounting as a reporting function in society. Its use may, as a practical matter, require some rethinking on the part of accountants. However, it can and should be accepted by accountants and financial officers of organizations because of its impressive possibilities.

Although the full development and acceptance of human resource accounting within organizations should not be expected within a few years, the relevance and usefulness of potential results of research in the field cannot be denied. We believe a useful start has been made.

FIGURE 2



Appendix 1

AIMS AND PRINCIPLES OF PERSONNEL POLICY FOR INDUSTRIAL ORGANIZATIONS

A. AIMS

- To enable the organization to fulfil or carry out the main items which have been laid down as the desirable minima of general industrial employment policy.
- To ensure that the employees of an organization are fully informed on these main items of policy and to secure cooperation in their attainment.
- To provide within the organization such conditions of employment and procedures as will enable all employees to develop a sincere sense of unity with the enterprise and to carry out their duties in the most willing and effective manner.
- To provide the organization continuously with adequate competent and suitable personnel for all levels and types of occupations required.

B. PRINCIPLES

- To establish and maintain a Personnel Management Function, responsible to the Chief Executive and adequately financed for the fulfilment of its responsibilities.

As a corollary, the broad lines of the Personnel Policy of the organization should be defined by the Board of Directors on a parity of importance with other major aspects of policy.

- To guarantee to all employees a right of personal and confidential access to the Personnel Executive (s) or the Executive acting in that capacity.

● To afford the greatest possible degree of stability in employment. This implies :

- (a) Opportunity of permanent and continuous employment for competent employees.
- (b) Adequate and objective methods of selection prior to engagement and of review during employment.
- (c) The provision of appropriate training facilities (within or without the enterprise) to enable employees to secure the competence required :
 - (i) for effective performance of duties ; and
 - (ii) for promotion when so selected.
- (d) The filling of senior vacancies by up-grading and promotion, so long as actually or potentially competent candidates are available.
- (e) A guarantee against unfair dismissal.
- (f) Adequate consideration of the influence on employment of the organization's policies and plans regarding production and distribution, so as to avoid employee displacement so far as that is at all possible.

● To observe the recognized standards of Fair Wages. (This would not preclude the determination of standard Job Classifications and Base Rates or the operation of Output and other Bonus Schemes, provided they fall within the definition of Fair Wages).

● To guarantee fairness in the maintenance of discipline and to encourage employees to accept responsibility for discipline.

● To maintain a high level of working conditions, but regarding as a minimum the fulfilment—in letter and spirit—of the Factories Acts and other industrial Legislation and Regulations, with particular reference to adequate provision for the prevention of accidents, the rendering of first-aid, and the safeguarding and maintenance of health.

- To establish effective procedures for regular consultation between management and employees in a genuine desire to keep employees fully informed of all matters bearing on their employment and to enable them to contribute to the effective management of the enterprise.

- To welcome and accord full freedom of association in membership of trade unions, but to accord equality of treatment to members and non-members alike.

- To assist employees in the development of social, educational and recreational amenities and to encourage their collaboration with nationally or regionally established facilities ; also to avoid the provision of facilities as an inducement to employment.

- To maintain these aims and principles of Personnel Policy without discrimination—though with the necessary differences of application — in respect of all types and grades of employees, using that term in its widest sense.

Appendix II

Checklist of Employee Relations Policies

● Is there any arrangement for the employee who is not subject to collective bargaining to discuss matters relating to salary, raises and compensation?

● Are rank-and-file employees given the opportunity to meet senior executives? It is necessary that these executives know what the employees think of their supervisors and the company's plans and policies.

● Has the company any procedure to attend to individual and collective grievances?

● Do top executives and other senior officers ever go round the offices and plant to remove feelings of isolation and insularity on the part of the employees and also to remain in touch with realities of work on the shop floor?

● Is an employee (regardless of his position) who is constructively critical of some aspect of the efficiency of the company rebuked and told to mind his own business or is he respected for his criticism?

● Has the company any practice to single out exceptionally good workers for praise and reward? Is the yardstick to single out such employees known to all employees?

● What is done by the company to foster understanding and co-operation among various departments? Lack of co-operation and co-ordination is the principal cause of ill-will among company departments.

● Are there any safeguards against nepotism, corruption, racial or religious prejudices among supervisors, foremen and section heads?

● Does the company stand by the employee in circumstances such as illness, accident, bereavement etc.?

- Have the employees access to information relating to the progress and future plans of the company? Do they know the significance of their work in the end-product of the company?

- Does the company operate a regular training scheme to prepare employees for promotion to higher posts. Is there any procedure to check whether the employee is making an endeavour to improve his ability? How is the new employee introduced to the company and instructed on his duties?

- Has the company a system of salary by grades on the basis of job classification?

- Has the company a scheme to meet the financial emergencies of the employees? Do employees raise high interest loans from outside sources?

- Are there some employees who, because of their long period of service and their position in a key department, such as wages, behave as owners of the company and try to bully and badger the employees?

- Are the company's rules more often broken than observed? Can these rules be observed by human beings? Is there a system of periodic review of these rules by a committee fairly representative of the employees of the company?

Using Company Records to Check Personnel Practices

RECORD

SOME METHODS OF ANALYSIS

- | | |
|--|---|
| Employee turnover record | Analyze record for causes of employee's termination of service. Correlate data with sources of applicants, tests used in selection and placement, sex of employees, length of service, departments, and occupations. Check to see if turnover should be reduced. Also ascertain methods for cutting turnover. Compare with other firms. |
| Absenteeism record | Check for possible causes of absenteeism. Correlate with age, occupation, and length of service of employees to see if any pattern is disclosed. Other items such as religion and community events may also be analyzed. |
| Accident frequency and severity | Compare departmental records for indications of problems in certain departments. See if time of day or length of day affects accident rates. Also compare with other firms. Show savings in reduced number of accidents. |
| Scrap-loss record | Discover whether scrap loss is reduced by better training or different types of training. Compare with past scrap records. See if use of tests in placement of employees reduces this figure. Compare records to see if employee-rating plans help reduce scrap costs. |
| Employee requests for transfers | Correlate with training received, sex, length of service, placement methods, type of work, and supervision received. |

- Grievance records** Analyze subject, handling, cause, costs, and employee characteristics to effect reduction in number of grievances. Show savings in time lost in handling grievances. Check frequency of grievances to locate trouble spots and to make necessary changes in company policies or union agreement.
- Personnel inventories** Compare the number of employees required to handle certain functions with the number used for the same functions in other concerns. Check ages of personnel to see if young replacements are available for key jobs. See if employees are being trained for advancement. Also prepare for possible draft calls for employees.
- Time standards and output records** Compare with other companies and with past records to judge effects of methods in improvements and training.
- Job specifications** Compare minimum personnel specifications before and after job analysis to see if savings have been effected in hiring employees with lower personal and job-skill requirements. See if better placement and less training time are required since the system was installed.
- Costs of recruitment of employees** Study sources from which employees were drawn and correlate with success on the job to see if some sources should be dropped or other sources added.
- Test scores before and after training** Check to see if there is an improvement in employee's knowledge as a result of training. Correlate with success on the job in order to check validity of tests and value of training.
- Personal employee records** Determine by sampling if records are up to date and if they are used in making transfers and promotions.

- Costs of training methods** Compare unit costs with other firms and costs before and after changes. Balance costs against savings from increased output, lower overhead, reduced accidents and turnover, etc.
- Employee use of services such as publications, cafeterias, recreation centers** Determine whether percentage of employees using services is increasing or decreasing. Decide whether the service should be continued or changed. Check possible interrelationships of grievances and services, output and services.
- Arbitration awards** Classify the subject, contract clause, and employees involved to determine needed changes in personnel policies or practices.
- Payroll data** Compare with other companies in the vicinity and in the industry to see if wages are in line. Check effects of wage incentives on output, quality, and inspection costs.
- Health records** Analyze causes of illness to check defects in working conditions. Compare with general population and other firms. Compare with morale scales to see if health has affected morale or morale has injured health.
- Suggestion records** Study to determine what percentage of employees are handing in suggestions, what type of suggestions. Check to see if more employees should participate. Estimate savings achieved.