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**THE IMPORTANCE OF
WORKER VALUE ADDED:
DETROIT'S REAL LESSON
FOR AMERICAN INDUSTRY**

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**The Importance of Worker Value Added:
Detroit's Real Lesson for American Industry**

By James O'Toole and Edward E. Lawler III

The news out of Detroit goes from bad to worse. The automakers formerly known as The Big Three might more accurately now be called The Shrinking Two and a Half. At Ford, General Motors, and Chrysler sales continually trend downward, manufacturing costs rise, and employment declines. As the result of the decrease in the number of cars produced by American manufacturers, membership in the United Auto Workers has dropped from a high of over 1.5 million thirty years ago to less than half a million today. At the same time, auto plants in the U.S. owned by Toyota, Honda, and Nissan have been greatly increasing their production--and their employment of American workers. A variety of factors explain this paradox, but the most important one is seldom mentioned by either American auto companies or the UAW: Manufacturing productivity is greatly determined by the design of jobs and how workers are rewarded.

Motorcycle manufacturer Harley-Davidson is a prime example of an American company that uses employment conditions to boost productivity. Nearly defunct in the 1980s, Harley was resuscitated largely as a result of reorganizing its 5000 unionized employees into self-managing teams, and rewarding them for their ideas and efforts to improve productivity and quality. Current CEO James Ziemer--who started with the company while in high school and who sometimes still wears blue-collar overalls on the job--has negotiated imaginative contracts with the unions representing Harley's workers, agreeing to keep production in the U.S. in exchange for constantly reducing total labor costs through automating tasks and changing work rules. Because Harley regularly reassigns workers whose tasks have been automated to other parts of the company (rather than laying them off) its total workforce has grown to over 9,500, while greatly improving its productivity.

Significantly, in the '70s and 80's, U.S. automakers, and parts suppliers like Delphi, turned their backs on promising efforts to adopt the kinds of practices found today at Harley and in Japanese-owned auto plants in this country. In the early 70s, a joint union/management experiment demonstrated that American workers could produce auto mirrors as productively as their counterparts anywhere in the world--*if* they were appropriately organized and rewarded. In the 80s, Ford's successful introduction of the Taurus was, in large part, due to productivity gains resulting from the setting aside of outmoded work rules. Yet, inexplicably, union leaders ignored such efforts to foster employee involvement, much as unions largely stayed on the sidelines with regard to the equally promising practices of employee stock ownership and gain-sharing.

The failure of unions to support efforts to increase employee involvement and ownership coincided with their unwillingness to speak out on the broader issues of business effectiveness and performance. When foreign competitors threatened the survival of American manufacturers, unions chose to voice traditional employee demands for higher wages, better benefits, and more security. What they failed to provide were effective responses to the challenge of globalization. To be fair, unions suffers from a major disadvantage in dealing with the effects of globalization: when faced with tough union demands, employers increasingly move jobs to other countries.

Nonetheless, union practices and policies contributed, to at least some degree, to the decline of many U.S. rustbelt industries—steel and chemicals, as well as autos. The promising union/management cooperation experiments in those industries in the 1970s were intended to give unions a voice in improving company operations on the theory that workers can't thrive unless their employers survive. But union leaders did not see

cooperation with management as a part of their role, and walked away from the programs. The most recent casualty was the cooperative effort by General Motors and the UAW to create “a different kind of car company” at GM’s Saturn division. After years of backtracking by both the company and the union, in 2005 Saturn was finally and fully reabsorbed as just another part of GM, subjecting the division’s employees both to conventional working conditions and to adversarial labor-management relations.

Today, unions largely have absented themselves from the struggle to save, and to create, good jobs in the U.S. But what about business executives? What lessons have they learned from the manifest failures in the auto industry? Sadly, too many corporate leaders still believe that the way to boost productivity and profits is to continually reduce salaries, benefits, and training expenditures, a strategy that can be taken only so far. At a certain point in a developed society, salaries and benefits can’t be slashed further and, in the long term, comparative economic advantage then must be realized through the effective mobilization of an educated, engaged, and loyal workforce. Indeed, if America is to maintain its precarious position perched atop the world economy, business executives must recognize that providing good jobs is not just a “nice thing to do,” it’s a competitive necessity for both their companies and nation.

A study we recently completed documents that the key to creating good, productive jobs in all industries is to organize work processes and systems in ways that allow employees to contribute significant amounts of “added value” to the products they make and services they provide. When managers give employees the organizational structure, resources, and authority needed for them to contribute their ideas and efforts, American workers, like those at Harley-Davidson, almost always prove capable of

effectively competing against their overseas counterparts. In fact, workers in low-wage countries are out-produced routinely by the ingenuity, initiative, and efforts of their American counterparts who make steel at Nucor, consumer goods at Proctor& Gamble, and high-tech products at WL Gore and Associates. For example, Trek is able to export bicycles to the world because their American workers are empowered, and rewarded, to make continual improvements to their products and work processes. Trek's workplace system creates a constantly rising competitive bar that forces the poorly paid, under-educated, and micro-managed workers making copy-cat bikes in South Asian factories to play catch up.

In our study, twenty-three leading experts from American universities examined findings from over a thousand published research papers, and the evidence turned out to be overwhelmingly consistent: When businesses are managed correctly, the productivity of U.S. workers more than justifies the higher pay, and benefits, they receive compared to overseas workers. Thus, the comparative advantage of having educated, motivated, and committed workers enjoyed by Trek can be realized by a variety of American businesses, high tech and low.

Although American managers often say they would like to pay their employees more, they argue that they can't afford to do so and, at the same time, keep the prices of their products competitive. As one CEO recently explained, "I would treat my employees as well as Starbuck's treats theirs, *if* I could charge the equivalent for my product of three dollars for a cup of *latte*!" But managers who assume that higher profits drive better working conditions may have their logic backwards. Contrary to conventional wisdom, our research identified companies in virtually every industry that are profitable *because*

they provide good jobs. As Starbucks' CEO Howard Shultz explains, the high-quality customer service that makes it possible for his company to charge a premium for its coffee *results from* the investments it makes in employee welfare and training. Ditto the productive contributions of employees at such diverse companies as Costco, UPS, Whole Foods, and Goldman Sachs. By designing work tasks that are challenging, using management systems to share business information with employees at all levels, rewarding individual, team, and organization performance, and investing heavily in the development of their human capital, executives at these companies create the conditions in which workers can add large amounts of value.

Evidence of the positive potential of employee participation doesn't rest on a few company examples. Analysis of the recently released 2002 U.S. Census Bureau's General Social Survey of a cross-section of American workers shows that the greater the extent to which employees participate in profit sharing, stock ownership, and other forms of financial gains that derive from their efforts, and the greater the extent to which they also participate in organizational decision making, the more they are committed to, engaged in, and satisfied with, their jobs.

If America is to compete effectively in world markets, its corporate leaders must strategically position their companies in the right businesses, and then manage their workforces in the right ways. By all indications, American business leaders are more adept at creating business strategies than they are skilled at human capital management. American entrepreneurs are world-beaters when it comes to creating new businesses, and corporate managers are adept at using the latest marketing, financial, and technological practices. However, the nation has a shortage of business leaders who understand the

importance of utilizing human capital to gain competitive advantage, let alone the know-how to do so. In the future, that shortcoming promises to be exacerbated because few business schools today teach aspiring executives how to create the kind of high-involvement organizations America needs to remain competitive in the global economy.

The main lesson to be taken from Detroit's failures is that the ability of American companies to compete in world markets depends on creating conditions in which their workers can add sufficient value to justify their higher wages and benefits, much the Japanese auto manufacturers have done in this country. Until unions and managers understand the necessity of effectively employing the nation's most important resource, the American worker, we are destined to have more Detroits.

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