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BEFORE THE
SUBCOMMITTEE ON SCIENCE, RESEARCH AND TECHNOLOGY
COMMITTEE ON SCIENCE AND TECHNOLOGY
HOUSE OF REPRESENTATIVES
ON

THE HUMAN FACTOR IN PRODUCTIVITY IMPROVEMENT

Mr. Chairman and members of the subcommittee:

I am pleased to be here today to discuss the human factor in productivity. The General Accounting Office has been examining various aspects of the productivity problem for about a decade. With productivity growth virtually stagnant during the last three years, we have watched as productivity developed from a somewhat esoteric area of study to a topic of national concern.

The reasons for this concern are easy to understand. First, the problem of inflation remains an acute one, and the slowdown in

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productivity growth is an important contributor to the problem. Second, there is now a greater understanding that productivity growth has been a major factor in advancing the well being of the American people.

The productivity slowdown has been caused by many factors including capital investment, technology, innovation, work methods, and, of course, the productive quality of the work force. While much is now being done to encourage productivity improvement, most activities are directed toward stimulating capital investment, and introducing new technology, and innovation. An example is the tax package recently signed by President Reagan. One objective of this change in tax policy is to stimulate productivity growth through incentives for saving and for investment in new plants and equipment. The investment of capital and the introduction of new technology each play a part in boosting productivity, but the human resources of the organization are clearly at the heart of any productivity improvement program. Discussions about or efforts to improve productivity, however, often downplay the human factor.

One reason for this is management finds it easier to place the blame for productivity problems not on itself but on Government regulations, tax policy, higher energy and material costs, or unjustified wage increases (although wages have increased less than prices, and real wage income declined 6 percent from 1974 to 1979). Another reason is that the human factor is more difficult to quantify, and thus more difficult to discuss in terms of improvements that may result from changes.

However, even with the difficulty in quantifying the human factor, evidence clearly indicates that efforts to improve productivity by emphasizing the human factor can bring results. Unfortunately, human resources have generally been seen as merely a cost rather than a critical factor in the production process. This attitude limits the options for improving productivity since improvements in technology and equipment will improve productivity only to the extent that employees are able and willing to use them properly.

I certainly do not believe that all our productivity problems can be solved by improving the management of human resources. Nor do I believe technology is the only answer. Both of these approaches to the productivity problem must be addressed together.

It is difficult for an objective observer to understand why the management of human resources is not more prominently featured in efforts by firms to improve productivity. It may be that the role of labor in productivity growth is so fundamental, so obvious, that managers stare right past it. According to the president of the Work in America Institute, the human factor contributes between 10 and 25 percent to productivity growth. People account for 50 percent or more of controllable costs, and in labor-intensive service operations they may account for 70 to 80 percent of all costs.

Today I will address some of the reasons why human resource productivity has not been emphasized in efforts to improve productivity, and the role the human factor can play. I will share with the subcommittee some related findings from our work at GAO,

and will also address the current shortcomings in Federal efforts to encourage improvements in human resource productivity.

One of the main reasons why human resource productivity is not strongly emphasized by U.S. managers is the general attitude of American management itself. There is now a growing consensus, both at home and abroad, that the performance of American management of late has been sorely lacking; that to some extent, management techniques developed by Americans are being ignored here. Further, American corporate leaders have been slow to adapt to the rapidly and profoundly changing work force. No one seriously blames management entirely. But according to a Wall Street Journal report, 80 percent of the top managers at 221 companies cited "poor management" as a major reason for lackluster productivity. This view seems to be supported by Japanese management. For example, the president of Honda has reportedly expressed little concern about the greatly increased capital investment now being made by American automakers. He believes that the key to productivity improvement is management.

The importance of management was also brought out in a recent report prepared for the Department of Transportation that concluded that it is management, and not technology, that allows the Japanese to produce automobiles in many fewer hours than U.S. manufacturers.

It is not as if American management is unable to be innovative, especially in the human resource field. Peter Drucker has observed that "Europe and Japan now have the managerial edge in many of the areas which we used to consider American strengths, if not American monopolies." He has also noted that many of the

effective management practices being used overseas, such as quality control circles, were American in origin.

A major reason why some of these management practices are not being extensively used by American management is that they involve employee participation in management and decisionmaking. Such participation serves to make employees equal partners in the operations of a firm. This is unacceptable to many managers. Yet, this resistance to participative management is in large part the problem.

Trust is lacking in much of American management and this lack of trust has been formalized in the management of human resources. The experiences of many innovative U.S. companies have shown that by demonstrating trust based on mutual respect and commitment in their management style, productivity can be significantly improved. Management style is critical to improving human resource productivity since it creates the environment which allows productivity to flourish.

The many firms stubbornly clinging to old management styles that view workers as mere tools in the production process are not able to realize the many benefits that effective incentive systems and improved labor management cooperation can bring. This point was brought out in a roundtable session we hosted last year. A distinguished group of representatives from business, labor, and academia concluded that quality and productivity problems in American industry were largely management problems; management often did not provide the proper incentives or environment for quality and productivity. They also stressed that decisions should be pushed to the lowest levels possible to

develop more employee involvement and responsibility. Of course this would also mean that management must share information with workers, divide with them the gains resulting from increased participation, and work harder to ensure job security.

Historically, management and workers have had different goals: Managers strive for productivity improvement, i.e., raised output with reduced labor input; workers mainly seek increased pay and improved job security. Though workers and unions are aware that increased productivity in the long run also benefits workers as reduced costs insure new orders, jobs, and the company's ability to pay increased wages and benefits, they are more concerned with what affects them directly and are generally indifferent or at times hostile to management's unilateral attempts to increase productivity.

But these different goals can be reconciled when workers are given the opportunity to share in the increased productivity they create. Workers once concerned only with their own direct interests become concerned about all areas which affect input and output. In this sense, their interests become the same as management's. Both gain and lose together.

In a New York Times article, the economist Lester Thurow stated that:

"To generate high productivity growth, management is going to have to change the systems of work incentives confronting labor so that there is a direct correspondence between those things that are good for society--higher productivity--and those things that are good for the

individual--a higher income. America does not have to adopt the Japanese incentive system, but it does have to work out the American equivalent. "

In our study entitled "Productivity Sharing Programs: Can They Contribute to Productivity Improvement?," we documented some of the benefits that can result from a productivity bonus program that includes all employees. In these programs, firms agree to share productivity savings with the work force. To date, we have distributed over 9,000 copies of this report; almost entirely at the request of private firms.

Productivity sharing is based on three common sense concepts:

1. The best and most cost-effective way to improve productivity lies in the ideas and involvement of all employees.
2. Employees are more productive if their contributions to productivity improvement are recognized, and if they share directly in the benefits.
3. The basis for rewarding productivity must be fair to all, easily understood, and tamper proof.

We found that many firms with productivity sharing programs realized significant savings in work force costs as well as such nonmonetary benefits as reduced turnover and absenteeism, and fewer grievances. Annual work force savings at 24 firms we visited averaged about 17 percent. To cite some specific examples:

--A manufacturing firm with approximately 2,000 of its 2,300 domestic employees covered by a

sharing plan saved an average of 24 percent of participating work force cost in the last 5 years with its plan. Annual savings ranged from 20 to 35 percent. A company official stated that savings resulted from implemented employee suggestions and from the increased productivity of employees who were "working smarter and harder."

--At another manufacturing company, 215 of the 225 employees were covered by productivity sharing. Average savings over the latest 5-year period was 14 percent of work forces cost and ranged from 11 to 18 percent. Improved employee performance and less resistance to labor-saving approaches were described as important factors influencing savings.

--A company of about 600 employees had a history of poor union-management relations. With a number of unresolved grievances and a major strike threatening, the company turned to the formation of a labor-management committee at the urging of a community labor-management coordinator. It was agreed that one way to turn around the company's low productivity rate and poor labor-management relations would be to implement a productivity sharing program. Such a program was established in 1978 and during the last two years, labor-management relations have improved dramatically and productivity has improved 17 percent annually.

It is very significant that the key obstacle we identified to the effective implementation of these programs was management

resistance to the basic concept of sharing decisionmaking and productivity gains--another indication of the lack of trust.

While productivity sharing programs can produce significant benefits when properly implemented, they represent only one approach to employee motivation. Certain nonmonetary programs that reward employees with time-off or other benefits have also been effective. The main point is that effective incentive systems that bring together the goals of labor and management can increase productivity.

Implicit in these incentive programs is the understanding that no employees will be laid off or fired as a result of productivity improvement. Firings and layoffs are management statements that employees are not expected to have the same goals as management; that labor is simply another tool in the production process and not a partner with management in that process. Not surprisingly, this approach often results in labor's disinterest in the firm's profitability. What I am talking about here, of course, is a fundamental part of improving labor-management relations.

The traditional adversary relationship between labor and management is a great hindrance to productivity improvement. Both labor and management lose in the adversary process. Labor and management must realize they are both part of the same organization, and their livelihoods are dependent on the success or failure of the organization. One effective approach to building needed labor-management cooperation is the use of labor-management committees. These committees--which can exist

within a firm, an industry, or a community--are effective because they

- enable employees to feel more involved in the firm and more in control of their own work,
- draw on the on-the-job knowledge of workers, and
- allow labor and management to solve many problems in a nonadversary environment.

Examples of successful labor-management committees in firms abound. One of more frequently cited success stories is General Motor's Tarrytown, New York assembly plant where a quality of work life program broke down many traditional barriers between labor and management with impressive results. While measurement of the results is difficult, absenteeism dropped from about 7 percent before the program to between 2 and 3 percent after. Registered grievances dropped to 32 after the program from a high of about 2,000 for a similar period prior to the quality of work life program. Once the poorest in quality performance, the plant is now among the top GM plants.

Labor-management cooperation can also significantly influence productivity when it goes beyond the firm level. In 1979 we visited area-wide labor-management committees in Jamestown and Buffalo, New York, Clinton County, Pennsylvania, and Cumberland, Maryland. These committees work to improve the labor relations climate and economic health of their communities by supporting plant level committees, helping to end long-term strikes, working to attract industry, and examining economic development problems. They have all experienced considerable success.

For example, in Buffalo, labor and management leaders established a committee in 1976 after five years of serious job losses and a leading record in working time lost due to strikes. The committee played a major role in reversing Buffalo's economic decline. From 1976 to 1979, total employment increased 10 percent; adding almost 50,000 jobs. Working time lost due to strikes fell steadily.

Industry cooperation at the local or national level can address important issues that are beyond the scope of any single firm. We are currently examining the effectiveness of Federal efforts to improve productivity in two industries--railroads and construction. These efforts include the promotion of labor-management cooperation. The Federal Railroad Administration (FRA), for example, has established labor-management projects at several rail terminals. These projects require several railroads and unions to cooperate. Steering committees, composed of representatives from labor, management, and FRA, implement experiments to address particular problems that impede productivity. The results are evaluated and, if successful, may be adopted by the railroads.

The construction coordinating committees, established by the Department of Labor in five cities, bring together labor, management, and officials from Federal, State and local Governments. The primary purpose of these committees is to reduce seasonality--that is, level out the construction year peaks and valleys so that employment and equipment utilization can be stabilized. In addition, the committees discuss Government regulations and other issues that may be impeding productivity growth.

The Federal role in labor-management cooperation is understandably limited. The Government, however, can and has been instrumental in the development of some labor-management committees through the provision of seed money, information, and technical assistance. We have supported the Federal Mediation and Conciliation Service's grant program for labor-management committees and hope funding will be continued in fiscal 1982.

In my opinion, the main reason that labor-management committees have not been more widely used is that the arrangement generally becomes acceptable to labor and management only as a last resort. If such committees could be formed under favorable conditions, they would help diffuse many issues before they become problems.

Another area where management style affects human resource productivity is in the application of automation and technology. It is critically important that management considers the needs of blue and white collar workers affected by the introduction of new technologies. If employees are considered merely another element of the production process, rather than a resource with a stake in the company, the best equipment and technology will not produce as intended.

Labor generally has not resisted automation and robotics when they have relieved workers from hazardous, dangerous, or monotonous jobs. But as more sophisticated robots are developed and widely adopted, greater numbers of workers may be displaced. This raises a number of questions. How many jobs will be lost and, by the same token, how many will be created by the new

technology? And how will management deal with labor's fears of displacement to ensure acceptance of the machines?

A need for new skills will accompany any new jobs created by automation. Other skills will become obsolete. Who is defining what kind of skills will be needed and who will be responsible for assuring that the required shift occurs with a minimum of social cost?

The move toward high technology also will affect employees other than production workers. Advanced management information systems may threaten middle management positions. And robots on the production line need fewer supervisors than their human counterparts. Just how will automation thus change the character of the labor force?

We at GAO are now studying who in Government is addressing these questions. So far we have found that little is known about how rapid or severe job displacement due to automated technology will be. The Department of Labor generally assumes that the future trend will be similar to the pattern of automation in the 1960's when there was an abundance of new jobs caused by economic growth and little resistance to change. However, as the Joint Economic Committee's 1981 midyear review of productivity noted, a stagnant economy such as we have now causes resistance to new technology and a much stronger incentive to preserve existing jobs.

In addition, preliminary results from a study at Carnegie-Mellon University indicated that the significance of robotics lies not so much in the actual numbers of workers displaced, but in their geographic location. The study estimates that today's robots

could replace 4 to 7 percent of the manufacturing work force. However, the study also notes that 25 percent of all manufacturing jobs are located in five states--Ohio, Indiana, Illinois, Michigan and Wisconsin. In the metal working industries--which are most susceptible to robotics--50 percent of all production workers are located in these five states plus New York and California. Unemployment in most of these states is running higher than the national average.

We have also found that the Government places little emphasis on retraining in its employment programs. For example, CETA focuses primarily on the structurally unemployed. Only a small percentage of available funding is allowed by law to be used for retraining workers threatened with lay-offs. In addition, it appears that no one is taking available information on the types of skills both created and rendered obsolete and translating it into a definition of educational needs. These points and others will be pursued in our current study of the Federal role in automation and robotics.

We have also looked at the productivity improving potential of office automation for the clerical and professional worker. While the potential of office automation is great, there are many obstacles to its effective implementation. Chief among these obstacles is the worker's resistance to the technology. Unless this obstacle is overcome, the resources spent to procure this technology may be wasted.

For example, the Air Force has effectively used social psychologists to obtain worker acceptance of office automation equipment. Further, in our report entitled, "Federal Productivity Suffers Because

Word Processing is Poorly Managed," we found that a key factor in the initial and continuing success of any word processing system is careful attention to how the system is to be used. The Army's word processing handbook points out that the personnel aspect of word processing--people and procedures--accounts for 85 percent of a system's success or failure, with people the most important factor.

Our current study of office automation and its impact on Federal productivity is providing further evidence of the importance of the human factor. We have found that private firms that successfully automate office systems and improve productivity carefully consider human resource needs and concerns prior to system implementation.

As we have shown in this discussion, the main impetus for improving the human factor in productivity will come from the private sector, with minimal Government involvement. It must be recognized, however, that the Federal Government already plays a significant role that has a pervasive effect on the Nation's productivity, both directly through ongoing programs administered by individual agencies, and indirectly through taxes, subsidies, regulations, fiscal policies, etc. Of particular concern to us at GAO is the lack of focus at the Federal level regarding productivity improvement. We are not calling for increased intervention in the economy, but we do believe the Government should better plan and focus its own efforts to encourage private sector productivity growth.

According to the Office of Management and Budget (OMB), Federal agencies spent about \$36 million in fiscal 1980 on human resource productivity programs related to protection and improvement of the quality of working life, the utilization of employee skills, and improving labor management relations. The Department of Labor was given specific leadership authority in this area.

Our 1980 report on Labor's productivity activities showed that the Department of Labor had:

- not assessed private sector needs to determine what Federal actions should be taken to improve productivity;
- not developed a Department-wide productivity plan;
- not designated a Departmental focal point to promote and coordinate activities with other agencies; and
- not evaluated its ongoing productivity projects in terms of their impact on productivity.

Having neither leadership nor an overall plan to guide Federal assistance, agencies cannot determine needed projects, the proper level of support, the existence of overlap or duplication, or obtain guidance and information.

We also found that since the Department had no legislative requirement for work in this area, human resource productivity has received low priority. While some good work has been done, notably in the area of building labor-management cooperation, the Labor Department has largely ignored the possible contributions it can and should make to helping improve human resource productivity.

We recommended to the Department of Labor that they develop

specific program goals and objectives for improving human resource productivity, coordinate and monitor the Department's programs in this area, and coordinate human resource programs in other agencies. We also recommended that the Congress enact legislation making the Labor Department accountable to the Congress for the results of its human resource productivity efforts. To date, no action has been taken on either recommendation.

On a broader level, we found the National Productivity Council to be relatively inactive, and it largely ignored the functions assigned to it. It seldom met, did not provide guidance to Federal programs, and did not become recognized as the Government's productivity focal point. This lack of action is difficult to understand since OMB identified over \$2 billion spent in fiscal 1980 on programs directly related to private sector productivity improvement. Although the executive order which established the Council is still on the books, the Council is inactive and the order is likely to be rescinded.

We believe a need remains for an effort to coordinate and guide existing Federal productivity programs and provide a productivity perspective in economic and budgetary decisionmaking.

Such an effort should be established by law, have clear and realistic functions, and be devoted to developing and monitoring a productivity plan and coordinating the national productivity effort at the Federal level. Obviously, human resources management must be an integral part of any program directed at improving national productivity, as must an effort to build a cooperative atmosphere among Government, business, and labor.

In closing, I would like to commend the Chairman and the members of the subcommittee for holding these hearings. The subject matter is of great importance to our economy and competitiveness and yet is often overlooked. I believe that the Congress can help by publicizing the importance of productivity and demonstrating during the hearings that the ability to improve productivity exists and great potential is waiting to be tapped. The committee may consider holding regional hearings on this topic or encourage other committees to hold hearings on other aspects of human resource productivity such as training and automation. We, of course, would be pleased to assist the Committee in any way we can.

In summary, actions to improve human resource productivity must include three basic elements

- the development of a nonadversary relationship between management and labor,
- the sharing of the benefits of productivity improvement, and
- a thorough change in management style based on trust in which the traditional top-to-bottom form of decision-making is replaced with one based on participation.

To put it bluntly, capital and technology by themselves produce nothing. A machine, a process, or a system may be ever so brilliantly contrived, but it is no more effective than the people operating and managing it want it to be, or know how to make it.

American managers must stop blaming declining productivity on Government and economic conditions. They must look at their management styles and then work with their employees to jointly

improve productivity. Neither management nor labor nor Government can solve the productivity problem alone. Only through a combined effort, based on common interest and mutual trust, will the obstacles to productivity improvement be overcome.