ANNUAL SUMMER MANAGEMENT CONFERENCE

WORKBOOK 7

university of california

berkeley and los angeles

The Seventh Annual

S U M M E R   M A N A G E M E N T   C O N F E R E N C E

Ahwahnee Hotel,

Yosemite National Park,

August 31 - September 3, 1955.

Presented by the Institute of Industrial Relations, Schools of Business Administration, and University Extension, Los Angeles and Berkeley. Work book

U N I V E R S I T Y   O F   C A L I F O R N I A

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W E L C O M E

The University of California, represented by the Schools of Business Administration and the Institute of Industrial Relations on the Berkeley and Los Angeles Campuses and University Extension, cordially welcomes you to the Seventh Annual Summer Management Conference.

Increasingly, we at the University have found this annual conference to be an important occasion. It is an opportunity for an exchange of information and ideas between members of the faculty and businessmen, and also among the business leaders themselves. Just as it is desirable that members of the business community should know the results of research and thinking of the academic community, so too is it essential that the teachers on the University staff should be kept abreast of new developments, problems, and the opinions of you people who are making decisions in the management field. Further, it is important that management executives should have an opportunity to get away from their work places in order to think about and discuss with others the problems which they are dealing with from day to day.

The theme for this year's conference, "management and a World In Change," is particularly timely because of the many new and far-reaching economic and industrial relations developments in recent months. General sessions on the government's role in the American economy, issues in anti-trust policy, merit employment and industrial democracy are planned to furnish a background for discussion in the workshop sessions. Experts and University faculty members will lead more detailed discussion on the guaranteed annual wage, automation, trends in executive appraisal, pension plans, industrial retirement and on other topics. In these sessions it will be possible for the conferees to share their experiences and views on these problems. The varied background of the discussion leaders and panel members, and your own experience in dealing with the problems in these fields, will furnish an opportunity for the participants to gain new insights and clarify their thinking. We urge that you participate fully in all of these sessions.

The University is happy that you have been able to join us here and we hope that you will find the conference as stimulating an experience as we have found these associations with you to be in the past years.

E.T. Grether, Dean, School of Business Administration, University of California, Berkeley

Arthur M. Ross, Director, Institute of Industrial Relations, University of California, Berkeley

Neil H. Jacoby, Dean, School of Business Administration, University of California, Los Angeles

Edgar L. Warren, Director, Institute of Industrial Relations, University of California, Los Angeles

PURPOSE AND FUNCTION OF THE INSTITUTE OF INDUSTRIAL RELATIONS

Few Areas in the domestic social life of the nation are vested currently with greater public concern than the field of industrial relations. The development of better relationships between organized labor and organized employers, and the integration of these relationships with the interests of the individual citizen and the nation as a whole, constitute one of the most serious problems facing our economic and social system today.

The Legislature of the State of California expressed its desire to contribute to the solution of this problem when, in 1945, it established an Institute of Industrial Relations at the University of California. The general objective of the Institute is to facilitate a better understanding between labor and management throughout the state, and to equip persons desiring to enter the administrative field of industrial relations with the highest possible standard of qualifications.

The Institute has two headquarters, one located on the Los Angeles campus and the other located on the Berkeley campus. Each headquarters has its own director and its own program, but activities of the two sections are closely integrated through a Coordinating Committee. In addition, each section has a local Faculty Advisory Committee, to assist it in its relations to the University; and a Community Advisory Committee composed of representatives of labor, industry, and the general public, to advise the Institute on how it may best serve the community.

The program of the Institute is not directed toward the special interests of either labor or management, but rather toward the public interest. It is divided into two main activities: investigation of the facts and problems in the field of industrial relations, which includes an active research program and the collection of materials for a research and reference library; and general education on industrial relations, which includes regular University instruction for students and Extension courses and conferences for the community.

C O N F E R E N C E   S T A F F

GAIL CONZETT, Secretary-Stenographer, Institute of Industrial Relations, University of California, Berkeley

EDWARD L. HEARSEY, Formerly Assistant Director, Management Programs, Institute of Industrial Relations, University of California, Los Angeles

ABBOTT KAPLAN, Associate Director, Institute of Industrial Relations and Assistant Director, University Extension, University of California, Los Angeles

BURT W. MILLER, Coordinator of Management Programs, Institute of Industrial Relations, University of California, Berkeley

ARTHUR M. ROSS, Professor of Business Administration and Director, Institute of Industrial Relations, University of California, Berkeley

JUDY SAGER, Secretary-Stenographer, Institute of Industrial Relations, University of California, Los Angeles

ROBERT F. SMITH, Assistant Director, Management Programs, Institute of Industrial Relations, University of California, Los Angeles

VIRGINIA B. SMITH, Principal Extension Representative, Institute of Industrial Relations, University of California, Berkeley

ELLIOT STANFORD, Workbook Editor, Institute of Industrial Relations, University of California, Los Angeles

EDGAR L. WARREN, Director, Institute of Industrial Relations, University of California, Los Angeles

CONFERENCE ADVISORY COMMITTEE

K. K. ALLEN, Manager of Industrial Relations, Southern California Edison Company, Los Angeles

EDMUND BRIGGS, Personnel Director, Pacific Telephone and Telegraph Company, Los Angeles

VINCENT H. BROWN, General Manager, San Francisco Retailers' Council, San Francisco

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I. M. FERGUSON, Assistant to the President, Western Pacific Railroad Company, San Francisco

S. A. HALGREN, Vice President, Carnation Company, Los Angeles

H. C. McCLELLAN, President, Old Colony Paint Company, Los Angeles

LON R. McINTIRE, Manager of Personnel, Pacific Electric Railway Company, Los Angeles

EDWIN McWAIN, General Personnel Manager, Pacific Telephone and Telegraph Company, San Francisco

ROBERT L. RASCHEN, Supervisor of Employee Relations, Federated Employers of San Francisco, San Francisco

T. R. SANDBERG, Director of Manufacturing, Cutter Laboratories, Berkeley

WILLIAM H. SMITH, Director of Research and Analysis, Federated Employers of San Francisco, San Francisco

LEE STOCKFORD, Corporate Industrial Relations Advisor, Lockheed Aircraft Corporation, Burbank

WILLIAM G. STORIE, President, San Francisco Employers' Council, San Francisco

R. C. THUMANN, Director of Labor Relations and Personnel, Pabco Products Incorporated, Emeryville

RAYMOND H. TISCH, Industrial Relations Manager, Nordstrom Valve Division, Rockwell Manufacturing Company, San Francisco

EDWARD E. TUTTLE, Executive Vice President, Essick Manufacturing Company, Los Angeles

TIPS TO CONFEREES ABOUT THE CONFERENCE PROCEDURES.

The following information and suggestions are offered in the expectation that they will assist you and the Conference Staff in helping the program run smoothly:

Badges: There will be many visitors at the Ahwahnee Hotel who are not connected with the Conference. So that conferees may be identifiable to one another and to the staff, please wear your badge to all Conference Programs.

University Staff Members can be identified by the gold star on their badges. Those who are also members of the Conference Staff may be identified by the blue center in their star. If you have any questions or suggestions, please feel free to go to any Staff member. If he can't help you he will refer you to someone who can.

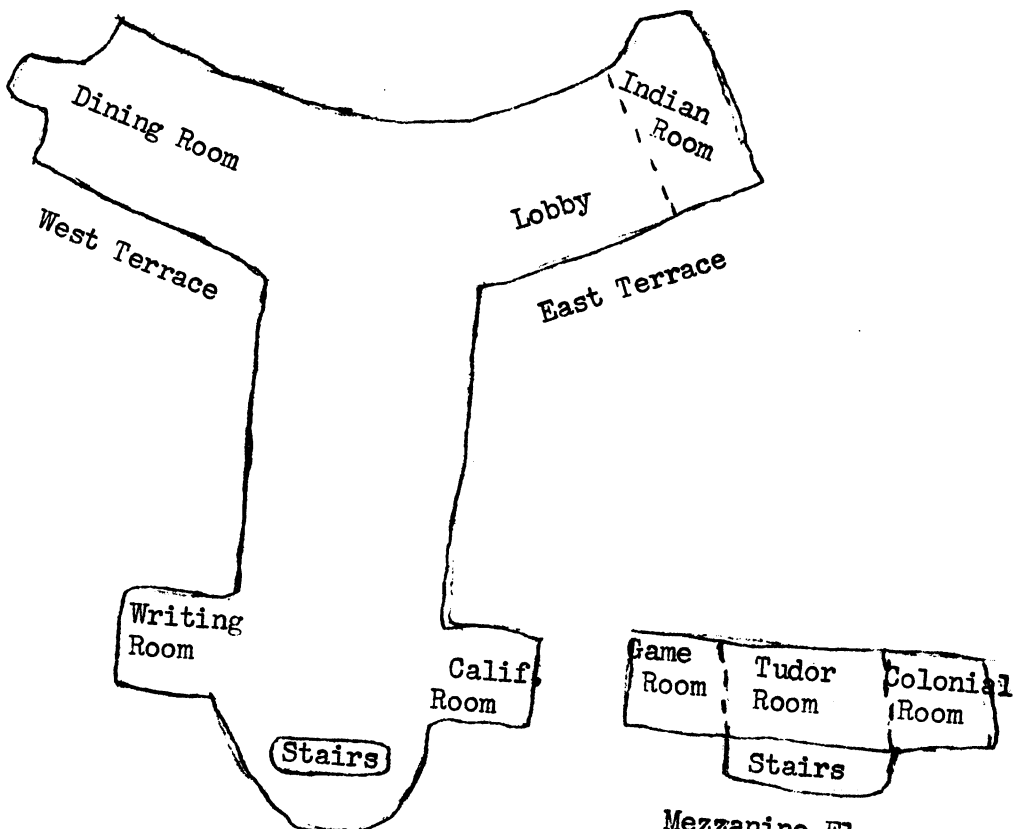
Schedule: Please be prompt in your attendance at the various sessions. Mealtime at the Ahwahnee is calculated to be a leisurely and pleasurable period. To enjoy it to the full and still be on time at the Conference sessions, it is suggested that you go to the dining room at the times shown on the Schedule.

The Workbook: This volume has been put together to give you a permanent record of the Conference. We have tried to get, in advance, a summary of points of view and ideas to be covered in the various sessions. The workshop chairmen prepared the material provided in the workshop sections of the workbook. It has not been possible to get, in advance, resumes covering all of the general session talks. Blank sheets are provided throughout the workbook for use in taking notes.

Informal Discussions: In the evening, after the firefall, opportunities will be provided for groups to get together and discuss topics of mutual interest. These discussions will be announced at the evening meeting. If you would like to get a group together to discuss some subject, talk to one of the Conference Staff members (gold star, blue center) who will help you arrange it and see that a meeting room is available.

Checkout Time: Checkout time at the Ahwahnee is 2:00 p.m. Please advise the hotel as soon as possible of any change in your anticipated departure, etc.

LOCATION OF MEETING ROOMS



Mezzanine Floor

Suggested Activities for Wives and Guests of the Conferees

TO: Mr. George Oliver, Traffic Manager, Ahwahnee Hotel.
FROM: Kit Whitman, Social Director, Ahwahnee Hotel.

The following are a few suggestions that may be helpful to the wives and guests of the conferees attending the Seventh Annual Summer Management Conference at Yosemite, from August 31st to September 3rd.

AN EASY walk to the Yosemite Government Museum. Daily lecture at 11 a.m. by the Park Naturalist.

GOLF AT the Ahwahnee Pitch and Putt Golf Course. Balls, tees, and scorecards are available at the Greenskeepers. Course is open from 8 a.m. to 6 p.m. daily.

TENNIS. On the Ahwahnee courts.

TWO HOUR GUIDED horseback riding from Yosemite Stables. Morning and Afternoon.

PING PONG in the Ahwahnee Game Room.

RIVER SWIMMING in the Merced River at the foot of the Ahwahnee gardens; also, pool swimming at both Camp Curry and Yosemite Lodge...one mile approximately.

BICYCLES ARE for rent at either Camp Curry or Yosemite Lodge.

INFORMAL BRIDGE, canasta and scrabble may be played in either the California Room, or the Solarium......OR

JUST PLAIN RELAXING in the sunshine on the lovely Ahwahnee East Terrace.

THE AHWAHNEE GIFT SHOP offers all the newspapers, popular magazines, and it also has some drugs. The Yosemite OLD VILLAGE, (approximately 1 mile and a half away) also carried most White Stag sport clothes as well as JEANS for riding!

It is suggested that the ladies bring comfortable shoes for walking which is always a popular pastime in the Valley. For example, a walk to Vernal Falls bridge is delightful!

DAILY TOURS, either in company busses or in private cars to such not-to-be-missed spots as the Mariposa Grove of Big Trees and Glacier Point are highly recommended.

Suggested Activities (Continued)

AFTERNOON TEA is served daily from 5 p.m. to 5:30 p.m. on the Ahwahnee East Terrace.

MOTION PICTURES of the Valley nightly at 9:05 p.m.

DANCING and cocktails in the INDIAN ROOM nightly after viewing the FIREFALL from the Ahwahnee East Terrace at 9 p.m.

I will be most happy to help the ladies in any way at my desk in the Main Lobby. AND, I would like them to know that we supply baby-sitters if needed by parents attending the Conference.

S C H E D U L E   O F   E V E N T S

Wednesday - August 31, 1955

3:00 p.m.	Registration	Lobby
5:00 p.m.	Reception	Indian Room
6:30 p.m.	Dinner	Dining Room
8:00 p.m.	Opening Session Arthur M. Ross Abbott Kaplan	Tudor Lounge
9:00 p.m.	Firefall	Terrace

Thursday - September 1, 1955

7:30 a.m.	Breakfast	Dining Room
8:45 a.m.	General Session	Indian Room
	Neil H. Jacoby: *The Government's Role in the American Economy*	
	Eward T. Grether: *Preserving Competition: Issues in Anti-Trust Policy*	
10:15 a.m.	Coffee	East Terrace
10:30 a.m.	Workshops	
	The Guaranteed Annual Wage	Game Room
	Recent Trends in Executive Appraisal	California Room
	Gaining Acceptance of New Ideas and Methods	Colonial Room
	Collective Bargaining Under The Railway Labor Act	Writing Room
12:00 noon	Lunch	Dining Room
1:30 p.m.	Workshops	
	Morning workshops repeated in same rooms	
3:15 p.m.	Recreation	
6:30 p.m.	Dinner	Dining Room
8:00 p.m.	General Session	Tudor Lounge
	Ralph L. Inglis: *Basic Concepts in Merit Employment*	
9:00 p.m.	Firefall	Terrace
9:15 p.m.	Informal Discussions	California Room Colonial Room

SCHEDULE OF EVENTS (cont'd)

Friday - September 2, 1955

7:30 p.m.	Breakfast	Dining Room
9:00 a.m.	General Session	Indian Room
	Arthur M. Ross: Benjamin Aaron: Undercurrents in Labor-Management Relations	
10:15 a.m.	Coffee	East Terrace
10:30 a.m.	Workshops	
	Automation	California Room
	New Developments in Pension Plans	Game Room
	Problems in Industrial Retirement	Colonial Room
12:00 noon	Lunch	Dining Room
1:30 p.m.	Workshops	
	Morning workshops repeated in same rooms	
3:15 p.m.	Recreation	
6:30 p.m.	Dinner	Dining Room
8:00 p.m.	General Session	Tudor Lounge
	H.L. Nunn: The Whole Man Goes to Work	
9:00 p.m.	Firefall	Terrace
9:15 p.m.	Informal Discussions	California Room Colonial Room

Saturday - September 3, 1955

7:30 a.m.	Breakfast	Dining Room
9:00 a.m.	General Session Leonard Woodcock: From Labor's Point of View	Indian Room
10:15 a.m.	Coffee	East Terrace
10:30 a.m.	Roundup Speakers and Chairmen	Indian Room
12:00 noon	Lunch	Dining Room

GENERAL SESSIONS

THE GOVERNMENT'S ROLE

IN THE

AMERICAN ECONOMY

presented by

NEIL H. JACOBY
Dean, School of Business Administration, University
of California, Los Angeles

September 1, 1955 Indian Room

<u>biographical sketch:</u>

Neil H. Jacoby has been Dean of the School of Business Administration, University of California at Los Angeles, since 1948. In 1930 he received his A.B. from the University of Saskatchewan, and in 1950 he was awarded an L.L.D. He received his Ph.D. from the University of Chicago in 1938.

From 1933 to 1936 Dean Jacoby was Supervisor, Legal and Research Division, State Department of Finance. Following this he was for one year the Chairman of the Saskatchewan Taxation Commission. In 1937 he became Manager, Research Department, Lawrence Stern and Company in Chicago. From 1938 to 1948 Dean Jacoby was at the University of Chicago, first as Assistant Professor of Finance, and later as Professor of Business and Economic Policy. During his last six years there he was Vice President of the University. From 1940 to 1945 he was a member of the Research Staff, National Bureau of Economic Research and since 1942 has been a member of the Research Advisory Board of the Commission for Economic Development.

The year 1953 saw his appointment as member on the President's Council of Economic Advisors; also in that year he was a member, American Economics Association, Royal Economy Advisors. He is a member of the American Economics Association, Royal Economy Society, and the National Tax Association.

He is author of several books, including <u>Business Finance and Banking</u> (with A. J. Saulmeir, 1946) and has been a member of the Advisory Commission and Editorial Board on Petroleum Industry Studies, Yale University Press, since 1950.

THE GOVERNMENT'S ROLE IN THE AMERICAN ECONOMY

I. *Laissez Faire* - versus Interventionism - A False Issue

II. Government's Dual Role Under the Employment Act of 1946

1) Government's Direct Role

   a) Management of Government Expenditures

   b) Management of Government Revenues

   c) Management of the Budget -- Surplus or Deficit

   d) Management of Borrowing -- The Public Debt

2) Government's Supporting Role -- Fostering Private Enterprises

   a) Strengthening the floor of personal security

   b) Building the National Stock of Public Assets

   c) Flexible Regulation of the Money Supply

   d) Structuring the Tax System to Encourage Enterprise

   e) Fostering Investment in Plant and Equipment

   f) Maintaining Vigorous competition

III. How Well Has Government Played its Role?

1) The Initial Years of the Employment Act

2) Federal Actions in the 1953-54 Setback and Recovery

3) The Moral for the Future

PRESERVING COMPETITION:
ISSUES IN ANTI-TRUST POLICY

presented by

E. T. GRETHER

September 1, 1955 Tudor Lounge

biographical sketch:

E. T. Grether is Dean of the School of Business Administration, University of California, Berkeley Campus. Also he is Chairman of the Governor's Study Commission on Unemployment Insurance, and he was sometime Director, Economic Management of the National Security Resources Board.

One of his major continuing interests has been the relationship between government and business, and it is on this that he is speaking at the current Summer Management Conference. Dean Grether is, in addition, past Director of the Institute of Industrial Relations at Berkeley. He studied at the University of Nebraska and at Berkeley and Heidelberg. In 1953 he was a Visiting Lecturer at the Stockholm School of Economics.

PRESERVING COMPETITION: ISSUES IN ANTI-TRUST POLICY

The United States has been almost unique among the nations of the world in its endeavor to preserve effective competition in the production and marketing of goods and services. In recent years, some other nations are beginning to follow our leadership in this respect. It is highly important, therefore, in terms of our position of world leadership, as well as our own internal problems and needs, to understand the important issues.

So called "anti-trust" legislation and regulation is the basic instrument for the endeavor to maintain competition in the hands of private enterprise in American markets. The basic act is the Sherman law of 1890, amended and supplemented by other acts. Over the years a very complex system of regulation has arisen out of a host of court decisions, administrative rulings (as by the Federal Trade Commission) and special enactments. All of these matters and issues were brought to a focus again by the publication in March 31, 1955 of the "Report of the Attorney General's National Committee to Study the Anti-trust Laws." At the time the Attorney General's Committee was announced, President Eisenhower stated that he hoped this report would "provide an important instrument to prepare the way for modernizing and strengthening our laws to preserve American free enterprise against monopoly and unfair competition."

Some of the leading issues under the program of preserving free competition will be discussed briefly in the perspective of the analysis presented in the report of the Attorney General's Committee, including:

(1) Size of firms and methods of growing big, especially through mergers.

(2) The problems created by the dominance of a small number of firms in many industries, especially the important issue of "conscious parallelism of action."

(3) Vertical integration up-stream and down-stream in its various manifestations.

(4) Distributive price controls, especially resale price maintenance under Fair Trade contracts.

(5) Price discrimination, especially as regulated under the Robinson-Patman Act.

(6) Geographical pricing, especially the basing point system.

(7) The special exemptions granted to certain groups or industries, as organized labor and agricultural co-operatives.

(8) The relative reliance upon outright prohibitions (the so-called *per se* violations) as opposed to "the rule of reason" approach.

The final and fundamental issue involves the relative faith and confidence of Americans in free private enterprise and our ability to maintain such a system on an effectively workable basis.

At present we are on a higher plateau of confidence in free private enterprise than in many years. The acid test will come, however, when prosperity and employment weaken. Hence a crucial issue is the relationship between national programs and policies to maintain prosperity and employment at high levels and those intended to preserve an effective competitive system.

BASIC CONCEPTS

IN

MERIT EMPLOYMENT

presented by

RALPH L. INGLIS

September 1, 1955 Tudor Lounge

<u>biographical sketch</u>:

Ralph L. Inglis graduated from the University of Washington in 1928 with a major in Economics; his post graduate work there was in law.

His entire business career, beginning with the Associated Indemnity Corporation in San Francisco, has been in the field of insurance. Briefly, the highlights in his career are as follows:

1937 - Vice President of the Associated Indemnity Corporation, Eastern Department, with headquarters in New York City.

1947 - Vice President of the four companies of the American Associated Insurance Group in St. Louis, Missouri.

1950 - Returned to the Pacific Coast as Vice President of the Pacific Indemnity Company.

1952 - Since January, 1952 he has been the President and a Member of the Board of Directors of the Founders' Insurance Company of Los Angeles.

Mr. Inglis is a Director of the Pacific Insurance and Surety Conference, and last year was its President. He serves on the Board of Governors of the Pacific Coast Insurance Advisory Association and of the Western Insurance Information Service. For the past two years he has represented Southern California insurance on a committee of businessmen actively interested in the cause of Merit Employment.

T H E   W H O L E   M A N   G O E S   T O   W O R K

presented by

H. L. NUNN

September 2, 1955 Tudor Lounge

biographical sketch:

Henry L. Nunn was born in Bonham, Texas, and received his formal education in the grade schools of that state.

Early in his career he joined C. A. Jones, now wholesaler of furs, Dallas, Texas. At the age of 25, he was factory office manager for Roberts, Johnson, and Rand Show Company in St. Louis, now known as the International Shoe Company. Two years later he was made superintendent because of his ability to work amiably with labor. In July, 1910, he accepted a position as superintendent of a shoe factory in Milwaukee, Wisconsin; and after two years, he and some of his former associates organized the Nunn-Bush Shoe Company in June 1912.

He was President of Nunn-Bush until January 1, 1949, at which time he abdicated this position to serve on the company's official Advisory Board. Under Mr. Nunn's leadership the company inaugurated the "fifty-two pay-checks a year plan" in 1935; perhaps it is now better known as the "Nunn-Bush Share the Production Plan."

The Nunn-Bush plan does not provide for a guarantee of any fixed amount of income. A certain percentage of the sales value of shoes manufactured during a particular time period is placed in a wage fund. Employees with more than one year of service draw regular checks from the fund. Periodically the total drawings are balanced against the amounts paid in and any surplus is distributed. If a deficit results, future drawings may be reduced. Employees' final earnings thus depend directly on the value of the production of the company. The plan is subject to joint agreement between management and the union in the plants. The Nunn-Bush plan guarantees 52 paychecks but the final amount of income involved depends on the company's sales.

After leaving the Company in 1950, Mr. Nunn's book, The Whole Man Goes To Work, was published by Harper & Bros. The Business Leaders Book Club selected it as its Book-of-the-month in March, 1954. Since moving to California in 1953, Mr. Nunn has been occupied quite actively in lecturing and teaching. This coming semester he will be teaching a class in Human Relations in Industry at San Diego.

FROM LABOR'S POINT OF VIEW

presented by

LEONARD WOODCOCK

September 3, 1955 Indian Room

biographical sketch:

Leonard Woodcodk, newly-elected UAW-CIO Vice-President, was initiated early into unionism. His father, Ernest Woodcock, was one of the first members of the Mechanics Educational Society of America, now a CIO affiliate, which organized skilled workers in the automobile industry in the early 1930's before the UAW-CIO existed.

Woodcock was born in Providence, Rhode Island, February 15, 1911. In early 1914 his family went to Germany where his father had a job installing machinery sold by a Providence firm. At the outbreak of World War I, the elder Woodcock, who was at that time a British citizen, was interned in Germany. Leonard and his mother went to England. The family was not reunited until after the war.

As a consequence, Woodcock had his early education in British schools, mostly in Northampton. He came with his family to Detroit in 1926. He studied at Wayne University in Detroit, then called Detroit City College, and in 1933 went to work at the Detroit Gear Company, where he joined an AFL Federal Labor Union, which later became and still is a local union of the UAW-CIO.

He has held on various occasions the following positions: Educational Director of the Wayne County CIO Council; Assistant Regional Director of Region 1D, UAW-CIO, Grand Rapids; Administrative Assistant to Walter P. Reuther; member of the International Executive Board of the Union. His present position as Director of the Union's Agricultural Implement and Aircraft Departments includes responsibility of the Union's affairs in such companies as International Harvester, Allis-Chalmers, North American Aviation, and Continental Motors, among others.

FROM LABOR'S POINT OF VIEW

I. Collective bargaining developments

   A. Automotive industry

   B. Farm implement industry

II. The effect of these developments on the aircraft industry

III. Development of the fringe areas

   A. Guaranteed annual wage (supplemental unemployment benefit plan)

   B. Other fringe benefits

IV. The background of the Union's drive for fringe benefits

   A. Pension plans

   B.. Employment security

   C. Relation of these benefits to public policy

V. Expected future developments

U N D E R C U R R E N T S

I N

L A B O R - M A N A G E M E N T   R E L A T I O N S

presented by

ARTHUR M. ROSS

and

BENJAMIN AARON

September 2, 1955 Indian Room

biographical sketch:

Arthur M. Ross is Director of the Institute of Industrial Relations and also Professor in the School of Business Administration at the University of California at Berkeley. He studied at Harvard and Berkeley and has taught at George Washington University, Wayne University, and Michigan State College, as well as at Berkeley. Mr. Ross served in the Office of Price Administration, the War Manpower Commission, and the War Labor Board during the war. Later he was Regional Chairman of the Wage Stabilization Board; subsequent to that he was Public Member of the National Wage Stabilization Board. Presently he is a member of the President's Atomic Energy Labor Panel. In 1949 - 1950, he was Associate Umpire for General Motors Corporation and the UAW-CIO and has been an Arbitrator for many other industries.

biographical sketch:

Benjamin Aaron has been Associate Research Economist for the Institute of Industrial Relations at the University of California, Los Angeles since 1946. As a graduate of the University of Michigan in 1937, he received his A.B. and then took his L.L.B. at Harvard Law School in 1940, engaging in graduate study at the University of Chicago from 1940 - 1941. He was Chairman of the National Airframe Panel and Director, National War Labor Board, World War II. In 1946, he was a member of the Labor Advisory Commission to the Supreme Commander Allied Power in Tokyo, Japan. From 1951 - 1952 he was Public member and Vice-Chairman, Wage Stabilization Board. Since Mr. Aaron joined the Institute, he has been an Arbitrator and Consultant on Labor-Management Relations. As an Impartial Arbitrator, he served B. F. Goodrich and United Rubber Workers, CIO, from 1950 - 1951. Various fact-finding boards in labor disputes have also enjoyed his services. He is a member of the National Academy of Arbitrators, the Industrial Relations Research Association, and the American Arbitration Association.

W O R K S H O P   S E S S I O N S

Workshop on

COLLECTIVE BARGAINING UNDER THE RAILWAY LABOR ACT

September 1, 1955 Writing Room

Discussion Leader: LON R. McINTIRE, Manager - Personnel, Pacific Electric Company, Los Angeles

Panel: C. A. BALL, JR., Assistant Manager of Personnel, Southern Pacific Company, San Francisco

W. C. SCHOLL, Manager of Personnel, Metropolitan Coach Lines, Los Angeles

COLLECTIVE BARGAINING UNDER THE RAILWAY LABOR ACT

1. The History and Development of the Railway Labor Act:

    (a) The Act of 1888

    (b) The Erdman Act of 1898

    (c) The Newlands Act of 1913

    (d) The Adamson Act of 1916

    (e) Federal Control Act of 1918

    (f) Transportation Act of 1920

    (g) The Railway Labor Act of 1926

2. The National Mediation Board:

    (a) General organization and duties

    (b) Method of handling mediation cases

    (c) Problems of mediation

    (d) Representation disputes

3. The National Railroad Adjustment Board and Its Duties:

    (a) Procedure aspects of the various divisions

    (b) Method of handling disputes

    (c) Time involved in concluding handling

    (d) The functions of a referee

4. Employee Protection in the Railroad Industry:

    (a) The Washington Agreement of 1936

    (b) Functions of the Interstate Commerce Commision in establishing employee protection provisions in various orders

    (c) Sale coordination and changes in organizational structure.

Workshop on

G A I N I N G   A C C E P T A N C E   O F
N E W   I D E A S   A N D   M E T H O D S

September 1, 1955 Colonial Room

Discussion Leader: ROBERT TANNENBAUM, Associate Professor of Personnel Management and Industrial Relations, School of Business Administration; Associate Research Economist, Institute of Industrial Relations, University of California, Los Angeles

Panel: DANIEL P. BRYANT, Vice President and General Manager, Bekins Van and Storage Company, Los Angeles

DONALD L. DELLWIG, Area Personnel Supervisor, Pacific Telephone and Telegraph Company, San Francisco

ROBERT J. O'DONNELL, Personnel Manager, Pacific Press, Incorporated, Los Angeles

OVERCOMING BARRIERS TO THE ACCEPTANCE OF NEW IDEAS AND METHODS

By Robert Tannenbaum

University of California, Los Angeles

The industrial engineer--the person who is interested in time study, in performance standards, in quality control and inspection, and similar phases of our industrial operations--and the line executive are today frequently confronted with the problem of overcoming barriers in introducing new ideas and methods. Because our technology is changing very rapidly and because we are getting increasing know-how, each of you in your work must be faced with the necessity of dealing with change, of getting people to accept some new idea or some new method which you find it desirable to introduce.

In the past, industrial engineers and line executives--let us say when they are faced with introducing a new wage incentive system--have often thought through very carefully the <u>technical</u> aspects of the problem, but they have minimized or overlooked the <u>human</u> aspects. This is understandable in view of the training which many of them have received. In the past, engineering schools have concentrated almost exclusively on the technical phases of the engineer's work. As a result, the engineer has come out of school as a competent technician, but he has not had adequate training in the humanities. He has not had an introduction to the human problems involved in the work situations he will encounter after graduation. Because of this lack of human orientation, the engineer--as he has introduced his new wage incentive system, his new quality control program, or what not--has very often run into considerable resistance. He has found that the idea or method which he has been trying to introduce has not been willingly accepted by those who have been called upon to deal with the change. He has not taken into account the people who must make his new idea or method work.

Now I would like to bring to your attention a statement that has been made by one of your profession, Mr. J. M. Juran, who was formerly with the Western Electric Company and has written in the field of inspection and quality control. This man has said: "The introduction of any new system of operation faces its greatest obstacles in changing the habits of people.... The human problems exceed the technical problems in complexity and in difficulty. Failure to realize the presence and nature of these human problems creates a high risk of failure for the entire undertaking." <u>Failure to recognize the human problems can lead to failure for the entire undertaking</u>. This being a real possibility, it will be worth our while to examine in detail the entire problem of introducing change.

Let us first look at the barriers which people place in our way as we attempt to introduce change into the industrial setting. We may encounter considerable aggression on the part of the individuals who are subject to the change; they may overtly attack us as we try to introduce the change or in other ways become very hostile to us. We may find that the amount of sloppy or careless work increases; we may find apathy, a disinterest on the part of individuals to do that which they are called upon to do; grievances may increase in number. Where a union is present, we may be faced with numerous slowdowns or even strikes. A few studies have indicated that absenteeism, tardiness, and turnover are very definitely methods used by people to deal with a situation calling for them to change.

I would particularly like to concentrate on one type of barrier which has probably been studied in this context more than any of the others. This barrier involves the restriction of output. Those of you who have dealt with performance standards and wage incentive systems are probably familiar with this phenomenon. The staff expert often exercises great care in timing operations, setting standards, and otherwise working out the details of a wage incentive system; and yet he often finds that at least part of the work group forms into what sociologists call an informal group, under a leader of their own choice. This group decides what a fair day's work is and develops sanctions which keep the nonconformer in line. The individual who starts to respond to the incentive that has been provided is held in check by sanctions which the informal group is able to bring to bear against him. This restriction of output device which workers have found useful in combating a wage incentive system has also been used in dealing with other types of change which management has tried to introduce.

Next, let us ask ourselves the question: Why this kind of behavior? Why do individuals set up these barriers in our way making it difficult for us to do the kind of job we think it is important to do in terms of the organizational objectives of the company? In order to get some insight into behavior of this kind, we must first try to understand the needs of the individuals who are actually establishing these barriers. The behavior of individuals, whether it is restrictive or not, results from an effort on their part to satisfy needs which are important to them. These needs lead them to behave in a way that will move them in the direction of what we might call personal goals. Personal goals are those which when attained by an individual will satisfy the need or needs which he feels. Now I would like to contrast for you what I have referred to here as the personal goals of an individual and what we might call the organizational goal of the firm or even of the work group. The organizational goal is that which the manager or the line executive is trying to accomplish by getting the members of his work group to behave in certain ways. It often happens, however, that the personal goal of the individual is not the same as the organizational goal. And so we have a motivational system that follows this pattern: the person's boss tells him, "If you do that which is important to us, namely make possible the attainment of the organizational goal, then we will give you that which is important to you as a personal goal." When people are faced with this kind of a motivational situation, they are rather uninterested in the work that is going on. All that is important to them is that they attain the personal goals that will satisfy their needs. This helps explain why very often workers seem to do the minimum they have to do to get by; and you start asking yourself, as every generation has: "What is happening to people nowadays?; why are they so lazy?; they don't seem to care anymore; their standards are going to pot." Well this is all quite understandable if a person is interested only in attaining a personal goal which is important to him. He quickly tries to figure out the minimum that he has to do to attain that personal goal, to get that pay check or whatever else is important to him; and he does not have any real motivational interest in attaining the organizational goal.

Using this frame of reference in trying to understand why workers set up barriers in our way, let us realize that new ideas and methods almost always at the outset represent a threat to the security of the individuals who will be involved in the change. The individual asks himself as he faces this change possibility: "What does this mean to me?; how is it going to affect me?" And this is what is really important in determining his behavior. He starts to wonder: "Have I been doing a poor job?; is the power or prestige which I now have going to be here after the change has been introduced?; what about the skill which I have spent years developing, is it going to become obsolete?" These are only a few of the thoughts that tend to arise in people's minds as they try to answer the question: "What does this change to me?" The individual is concerned that the change may either make it impossible for him in the future to satisfy certain of his needs or to satisfy them as satisfactorily as he has been able to in the past. And when an individual becomes threatened, he develops modes of behavior (the barriers) to deal with the threat.

There are also certain group implications to what I have been saying. We have to recognize that the behavior of an individual is affected by the impact on him of the group. No individual functions in social isolation; he is always a part of a social group. And very often changes that are introduced have a very important impact on established ways of doing things within a group--on established norms or values which the members of the group have held. When this is true the group reinforces the feelings of insecurity which the individual has and adds to the problems which we face in introducing change.

This being the basis which we use to explain why people behave in the way they do, let us next face up to the question: How do we deal with these barriers? How do we overcome these barriers in order more effectively to introduce the new ideas and methods which seem desirable?

At the outset, I would like to suggest one generalization. Of very great importance is the human atmosphere that exists between the person or persons who are trying to introduce the change and the individuals who are subject to the change. If mutual confidence is not present, if people distrust each other, the strength of the barriers that will be set up will be greatly increased. When a person has a real sense of trust and confidence in another person, he is much more likely to go along with what that other person is trying to do than would be true in the former case.

For people to accept new ideas or methods, there are probably three different things that have to occur. First, it is important that people come to understand the reasons for the change. They have to get some insight into why a change is going to be brought about. Very often in introducing change, line executives or staff specialists will simply announce the change and say: "Here it is, boys; from now on we behave in this way." There is no explanation, no indication to the people involved as to why the change has to be made. Certainly for people not to set up barriers, it is important as a prerequisite that they have some understanding of the need for the change. Second, people have to see that the change is going to be good for them. This point relates back to the question: "What does this mean to me?" If it is not going to involve something better for the individual--or at least something as good--he is apt to resist the change. He is going to want to be assured that there will not be any reduction in need satisfaction as far as he is concerned when the change is brought about. He is going to want to see that the change will at least leave him no worse off than he is right now; and, even better, that it might improve his present situation. Finally, after the individual has obtained some understanding of the reasons for the change and after he has seen what the change is going to mean to him, then generally some new behavior will be called for on his part. He may have to learn some new skills; he may have to develop some new attitudes; he may have to change his whole frame of reference in order to deal adequately with the new situation. But you are going to have to reach the individual at more than the intellectual level; because generally attitudes and skills are involved, and behavioral changes have to be brought about.

What are some of the methods that might be used by you in bringing about change--methods that have a good possibility of at least minimizing the strength of the barriers that are set up in your way? One approach which is very often used (and I rather suspect most of you use it as your principal method) involves selling. After you have worked out your plans, you try to sell them. Sometimes perhaps you go a bit further; and after you have gone through your sales pitch, you give the boys a chance to ask some questions. You try to answer these as frankly as you can. I would like to suggest that while the sales method does have certain advantages in its favor, it has many strong disadvantages. The selling approach is an approach that is aimed at the intellectual level. You are telling someone else what the answers are. The other person is most often a passive listener--a person who is asked to accept that which you are trying to put over on him. We have a lot of research evidence which indicates that even though you may be successful in reaching an individual at the so-called intellectual level, the likelihood is great that you will not reach him at the behavioral level--that you will not have very much impact on the actual behavior that is forthcoming from him.

A second approach which might be used--one which is better than the selling approach in my judgment--is this: you as a staff specialist or a line executive formulate the new idea or develop the new method in advance of approaching the employees. But you recognize that your first formulation of the idea or method is a preliminary one. You make it clear that it is subject to modification after consultation either with individual employees or groups of them or with the union which represents the employees. Consultation with individuals or with groups of individuals, organized or unorganized, is involved here, with the willingness on the part of the changers to listen to what those who are going to be subject to the change have to say, with the willingness to make modifications in the preliminary formulations of the plan on the basis of the material that you get from the people you are consulting. Now it really takes a big person, a person who is big not in stature but in terms of his total personality, to use this approach. When a person gets into a line position or becomes a staff specialist, he often has a feeling that he is supposed to have all the answers, that he is lowering himself in the eyes of others even to suggest that maybe they might be able to offer something that would improve an idea that was developed by him. Well there are a lot of people who are small in this respect, who find it difficult actually to consult those who are down on the firing line, the people who are involved in the day to day operation, the people who after all ultimately determine the success or failure of the change that is going to be introduced. A person who is big enough to use consultation, to recognize that the people on the firing line very often have much to offer that is of value in developing the new idea or method, is much less likely to be faced with barriers than is the seller.

There is a third approach that goes still a step further which I would like to present to you. The second step, already discussed, involves some participation on the part of the people who are subject to the change. The third step involves even more participation. It involves what we might call group decision. It recognizes that if the new idea or method is really going to be accepted, it had better be worked out by the people who are going to have to live with it. It recognizes that if people who are threatened by a change have an opportunity actually to work through from the beginning on the new idea or method in order to assure themselves that their need satisfaction in the future will not be adversely affected, then such individuals will recognize the change as something which is their own, something which has taken into account their feelings in its ultimate design. The point involved here is very well brought out by Alex Bavelas, a professor of MIT, in this way: "The essence of the technique (of group decision) lies in the achieving of acceptance of the change by the group as something that the group itself will do rather than something that will be done to it; and in the establishing of a new frame of reference by decision, and using that decision as the binding force for maintaining the new framework until it 'sets.'" The change is something that is brought about by the group, and the group, because of its participation, will be back of the change.

If you think that this is ivory tower theorizing, let me bring to your attention a very interesting research result--one that stems from a study that was conducted about three years ago in a sewing plant of the Harwood Manufacturing Corporation in Virginia. In this corporation an experiment was set up to try to measure the relative effectiveness of different methods of introducing change. Four groups were selected, four groups that were matched in the important respects. The first group was called a control group. The control group had the change introduced to it in the way which had been customary in the Harwood Corporation. This was the selling approach, with an opportunity for the individuals involved to ask questions. The first experimental group was a group where participation was involved by representation. A few representatives were chosen from this first experimental group. These individuals participated in designing the changes to be made in the job and in setting the new piece rate. After this participation on the part of the representatives of the group took place, the representatives went back to the group, told the group what had taken place and helped train the other members in the new method of performing the work. The second and third experimental groups used total participation. Here every member of each of the groups participated in designing the changes to be made in the job, in setting the piece rate, and in learning the new method of work.

Now what were the results? Prior to the change, all four groups were producing around sixty units per hour under an incentive system where a unit was defined as one minute of standard work. After the change, in the control group production fell down to somewhat below 50 units, climbed up thereafter to 50, and maintained the level of 50 units per hour for the balance of the experiment which was approximately 30 days. Interviews conducted with members of the control group during the experiment clearly indicated that restriction of output was taking place and that fifty was now looked upon by the group as the new standard which the group was going to maintain. Marked expressions of aggression against management occurred, and there were 17 per cent quits during the experiment. The first experimental group, the one that participated through representation, had its production fall to about the level of 40 units, but it quickly rose until about the fourteenth day it passed 60 and continued on up to about 65 units. The two other experimental groups, the ones under total participation, fell down in production on the first day but immediately recouped to the level of 60 and thereafter continued to show an increase, reaching a level approximately 14 per cent higher than their production before the change. Not only was there an increase in production for the two groups that had fully participated, but there was definite evidence of less aggression toward management and also there was no turnover among those people.

There is one last point which I would like to direct at those of you who are the industrial engineers, the staff specialists. Very often the staff specialist attempts to dictate to people in the line. He thus appears to the people in the line as a real threat. He also often has to make sure that he gets credit for the new idea or method that is being introduced. Now I would like to suggest--and there may be many of you who will strongly disagree with this point of view--that the staff specialist will probably function most effectively if he has a strong passion for anonymity, if he recognizes himself as being an aid or assistant to the line executive, if he measures his success in terms of his ability to get the line executive to accept the new idea or method which he is trying to introduce. He will measure his success by the feelings of security that the line people have in dealing with him. If, on the other hand, the line people look on him as being a real threat to them, then I would say the staff specialist is not functioning effectively.

In the past half hour I have tried to point up some of the principal problems that you face as barriers are set up in your way in introducing new ideas or methods. I pointed out to you the kinds of behavioral responses that are forthcoming from people as you try to involve them in change. We tried to get some insight into why people behave in the way theydo; and we tried to see some of the methods that might be used, ranging from the selling approach which is relatively ineffective to the full participational approach which research evidence seems to indicate is the most effective approach. Finally I suggested what seems to me to be the most effective role which the staff specialist can play in his relationship to the line. In conclusion let me say that as staff specialists and line executives I feel that you cannot overemphasize the great importance of the human factor relating to the problems with which you must deal. Never forget that in every problem which you face--whether it is a problem of change or any other kind of problem in which people are involved--the human factor must be taken into account in arriving at an effective solution.

GAINING ACCEPTANCE OF NEW IDEAS AND METHODS

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Workshop on

THE GUARANTEED ANNUAL WAGE

September 1, 1955 Game Room

Discussion Leader: JOSEPH W. GARBARINO, Associate Professor of Business Administration, School of Business Administration, University of California, Berkeley

Panel: J. CURTIS COUNTS, Manager - Employee Relations, Douglas Aircraft Company, Inc., Santa Monica

NEAL HAMMOND, Manager - Industrial Relations, Ford Motor Company, Milpitas

MILTON JEANNEY, Fisher, Neblett and Company, Los Angeles

R. C. THUMANN, Director of Labor Relations and Personnel, Pabco Products, Inc., Emeryville

THE GUARANTEED ANNUAL WAGE

Within the past year the "principle" of individual employer supplements to state unemployment compensation has been introduced into collective bargaining agreements. While in certain companies other types of wage guarantees have been instituted on a much smaller scale, the device of unemployment compensation supplements financed by employer contributions to a trust fund seems to have the potential of mushrooming into a major industrial relations development similar to pension and health and welfare systems. Depending in part on general economic conditions, in the future many companies can count on facing the problem of providing some form of income security for their workers beyond that provided by present programs.

While the plans established or proposed to date vary in many details, the general pattern for the major plans looks like this:

a. eligibility for the plans is determined by seniority with at least a one-year minimum.
b. benefits amount to approximately two-thirds of base pay with unemployment compensation payments to be included.
c. maximum duration of the benefit period set at 26 weeks.
d. financing to be by employer contribution (based on payroll or hours worked) to a trust fund with a maximum set for the size of the fund.
e. administration to be related to unemployment compensation practice and standards.

Many problem areas can be anticipated on the basis of past experience with benefit programs and many more will probably develop as the new contracts come into effect. Assuming that the issue is going to be discussed seriously, some of the questions that might be raised are outlined below:

1. What is the desirable long run relationship between the private unemployment compensation systems and the state system?

Is an expanded state system preferable to supplementing the existing program with private arrangements: How much would such an expanded system cost? Would the pressures for private programs really be diverted by any feasible change in the public system?

Are companies with stable employment records likely to develop and support a policy of permitting a private system to replace participation in the state system?

Is it possible for an employer to shift part of the cost of a wage guarantee to other employers through the mechanism of the state unemployment system?

What are the implications of the long standing issue of "fraudulent payments" under the state program for private supplement systems? Should the state system regulations as to eligibility, administration, etc., be changed in the light of integration with private programs?

Is a private system feasible if the state system does not legalize the payment of state benefits to workers covered by a private plan?

2. If a private program were to be considered, what specific problems should be studied by an individual company?

Eligibility - Should eligibility be based on seniority? How do different policies on seniority districts, bumping, etc., affect potential costs of a plan?

Should certain groups of employees or certain departments, plants, or operations be kept out of the plan?

Should all eligible persons receive the same benefit percentages and duration of guarantee? How can you protect the long service employee from depletion of the fund by shorter service workers?

Financing - How can the potential costs of a private plan be estimated? How large should the fund be?

How can we handle the reduction of benefits if the fund becomes depleted? How should contributions be set? How should benefit payments be set?

Administration - Can small companies handle their own plans? Is an association type plan for an unpredictable risk such as unemployment feasible? On what basis, if any, might small companies group themselves in a pooled plan? How can grievances be handled? How will the appeal system for the state plan be tied into company-union grievance machinery?

What is the relation of the wage guarantee to other benefit programs?

3. What are the probable long term effects of establishing a wage guarantee in a specific company?

Are there significant differences between establishing a wage guarantee plan and giving a wage increase?

Is the existence of such a plan likely to lead to demands for union invasion of company decision-making areas now not bargainable?

Does a wage guarantee affect decisions about "automating" production processes? In which way?

Does a wage guarantee affect decisions on subcontracting or "buy or make" decisions? Are there unstable low profit lines that might be dropped? Is there work now being done by suppliers and outside contractors which might now be brought into the plant? What does this mean to a company which is such a supplier in its wage guarantee negotiations?

How is a reduction in hours per week likely to affect wage guarantee plans?

The following excerpts are taken from a speech by Paul A. Raushenbush, Director, Unemployment Compensation Department of Wisconsin entitled An Alternative Approach. Full text available in Report of Proceedings of 18th Annual Meeting, Inter-State Conference of Employment Security Agencies, 1954, pp. 85-87.

"I suggest that any state might well amend its unemployment compensation law to permit any qualified employer to elect to have more adequate unemployment benefit checks paid under that law to his own workers, at his own expense, during the year or more covered by his election--within the limits specified by the state provisions permitting such an election.

In short, an unemployment compensation approach to an unemployment compensation problem--with one benefit check instead of two, paid through one channel instead of two, out of one reserve fund instead of two.

To be more specific, now. Which employers would be permitted to file such an election--to have higher benefits or longer benefits or both paid to their workers, out of the state's unemployment benefit fund? Only those employers whose past benefit experience record indicates that they can and will foot the bill--since this proposal does not intend a free ride for the electing employer, at the expense of the state fund. (On the other hand, an employer who qualifies and elects should not have to pay in advance, or even currently, the full added cost of his election. More on that shortly.)

An election filed by a qualified employer would be limited to a choice among definite options specified in the state law. Presumably, those options would deal with two parts of the benefit formula: (a) weekly benefit amount; and (b) weeks of duration. Those are the primary targets of current guaranteed annual wage proposals, namely, more adequate weekly checks, for more weeks.

The state law should specify between what options an electing employer may choose, in order to make the whole deal workable. As to weekly benefit checks, one option might simply permit a higher top benefit rate. Another option might permit all normal benefit amounts to be increased by a specified number of dollars, or by a specified percentage. As to weeks of duration, several alternatives should doubtless be specified, varying in liberality and in cost. For instance, an employer might be permitted to add one benefit week for each year of seniority the claimant had with him.

Let's get back to the financing of such added benefits. The electing employer should doubtless be required to pay some extra contribution rate currently, in the year of his election and also in the following rate year--during which special benefit determinations (already issued) would still apply to his workers. Since the election options would vary in cost, they might well carry varying price tags. But any extra contribution rate thus currently charged would not need to estimate or cover the full added cost resulting from the election. That cost could be determined later, if necessary; and might well be spread over a series of year, with the electing employer's initial reserve as a safety cushion. The actual cost would be reflected in his regular experience rate, for each of a series of years--since any added benefit costs would (at least in most states) be a regular part of the employer's experience record.

In the thirty-two reserve ratio states, for example, the electing employer's cumulative all-time contribution and benefit experience would continue to be reflected by his reserve ratio, with his future contribution rates affected accordingly. Sooner or later any electing employer--with a good enough record to meet the law's threshold requirement--would thus be required to foot the bill for all his benefit costs, including those resulting from more generous benefit payments under his election.

If no such channel is provided under the state laws, the widespread demand for greater security against wage losses while jobless may result in a new and separate system of supplementary unemployment benefits (named guaranteed annual wages), paid through separate administrative machinery from separately created and financed unemployment reserve funds.

Paying added unemployment compensation benefits through separate machinery and from separate funds sounds like needless and wasteful duplication of effort and expense. I believe the state laws and agencies could, through the approach I have outlined, do the job both better and cheaper. At any rate, I would like to see an unemployment compensation alternative available--so that an employer could elect to have above-average benefits paid to his workers from the state unemployment fund, at his expense."

THE GUARANTEED ANNUAL WAGE

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Workshop on

RECENT TRENDS IN EXECUTIVE APPRAISAL

September 1, 1955 California Room

Discussion Leader: MILTON L. BLUM, Professor of Psychology, Baruch School of Business, College of the City of New York

Panel: EDWARD L. HEARSEY, Senior Staff Member, McMurry, Hamstra, and Company, Los Angeles

PHILIP McCLURE, Assistant Cashier, American Trust Company, San Francisco

JOSEPH M. TRICKETT, Coordinator of Management Development, Food Machinery and Chemical Corporation, San Jose

RECENT TRENDS IN EXECUTIVE APPRAISAL

The assignment of writing a brief paper on the above topic has forced me to take a look at the forest as well as the trees. Accordingly, I am privileged to record some observations as well as speculations on this ever increasingly important area.

The most certain trend is that more companies are becoming interested and/or involved in a variety of techniques known as executive appraisal. This applies not only to our industrial giants but to much smaller companies.

It should be made clear, however, that no perfect executive appraisal method exists at the present time. Some techniques appear to be better than others but management must be cautious or else they will mistake enthusiasm for validity.

Another trend that is observable (and this may be a personal reflection) is that more management people understand that a psychologist can work without a couch. More psychologists are beginning to talk the language of the business man and not frighten him by using terms that often are not even clear to other psychologists. Such a condition affords the basis for communication, understanding and mutual trust.

A psychologist can rather objectively describe the executive and attempt to predict his most likely behavior. This should be his role in executive appraisal. It is for management to offer the criterion. It is for management to make the decision to hire or promote after the psychologist offers his report.

In the many hundreds of appraisals in which I have been involved, I have yet to find a man who could be clearly described as either perfect or totally incompetent. There are always shades of gray - sometimes brighter and sometimes darker. As a result, psychologist and management must confer. The conference clears up many questions and leads to management's decision.

To be more specific concerning trends in techniques, the following observations are offered.

1. The application blank has been extended and now includes material furnishing leads into motives, interests, aspirations, and personality structure of the candidate. When such data are gathered, they can be appropriate aids in the appraisal process.

2. Interview procedures are becoming "sharper." They tend to be more "unguided" and more revealing. It is no longer necessary to have the long list of prepared questions to throw at the candidate. A good interviewer can keep an applicant talking for an hour or more by merely nodding at the appropriate time and saying something like, "tell me more about---." etc. Variations in group interviewing situations are appearing on the scene and the data obtained as a result are of an interesting and different sort.

3. Test procedures are becoming more appropriate. The "easily fakeable" tests no longer assume the importance they formerly had. When used at present they give different leads from those for which they were originally intended. Projective tests are being used and provided they do not become elevated to the level of a "religious cult" they can be of some help.

4. The argument of the clinical versus the psychometric approach still continues. Much of this is a reflection of the personality of the sponsors of the particular view, rather than clearly establishing the unequivocal good or bad in the technique itself.

5. Either because of the unconscious desire on the part of some for a simplified unity or because management wants a perfect short cut that is inexpensive, we still have people offering "the fountain of youth" for the "pot of gold". No single short test will ever predict something as complex as an executive and let us face it.

6. Personality dimensions describing executive ability are becoming descriptions of behavioral and situational interactions rather than isolated and individual traits. Perceptual flexibility, consideration, initiating structure, empathy, etc., are concepts taking the place of extrovert, dominance, perseverance, etc.

7. The eclectic point of view in which varieties of techniques are used by a team of psychologists gathering independent data shows considerable promise.

8. A report attempting to describe leadership potential, relations with others, work characteristics, achievements, family problems, personal adjustment, interests, values, reaction to pressure, aspirations, and intellectual level--its drive and use--can form the basis for appraisal of an executive in a better fashion than test scores or psychiatric terms.

9. A future trend should encourage more research so that we can have a better criterion or series of criteria against which to check our results.

To briefly summarize, psychologists can help management appraise executives, provided they recognize and delimit their role. Incidentally, the same goes for management. With clearly defined roles, and as a team, executive appraisal will become better and ever more widely used.

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Workshop on

A U T O M A T I O N

September 2,,1955 California Room

Discussion Leader: JACK D. ROGERS, Assistant Professor of Business Administration, University of California, Berkeley

Panel: EUGENE GRABBE, Senior Member - Technical Staff, Ramo-Wooldridge Corporation, Los Angeles

GEORGE KOZMETSKY, Head of Computers and Controls Division, Litton Industries, Beverly Hills

THOMAS MORRISON, Chief Engineer, Halax Corporation, Los Gatos

A U T O M A T I O N

1. What is automation and is it really a new or discontinuous development in industry?

   a. What is the origin of the term?
   b. Is it just more mechanization?
   c. Is it a second Industrial Revolution?
   d. Why are "thinking machines" attracting so much attention?
   e. How are "feed-back control" and the "automatic factory" related?

2. What is automation for, what are its objectives?

   a. Can it produce things not now produced?
   b. Can it do better and cheaper the things now done in industry?
   c. Is the replacement of human labor its main objective?
   d. What influences are impelling automation currently?

3. What are the basic components for automation?

   a. What kinds of control are necessary for industrial processes? What kinds of devices have been evolved to handle control problems.
   b. In what way are communication and mass data processing developments essential to progress in automation? What are computers and what is their role in automation?
   c. What is meant by "system design"?

4. Are there different types of automation? Different degrees?

   a. Is the usual production line an example of automation?
   b. Some people distinguish between "Detroit-type" automation and "true" or "full" automation. Is there really a difference?
   c. Are "unit operation" machines and flexible programming necessary for automation?

5. Where is automation applicable?

   a. Is it applicable in merchandising, communication, transportation, etc.?
   b. It has been suggested that ultimately there may be more automation in paper work than in production. Is this probable?
   c. In which manufacturing industries do the best opportunities for automation exist? Why?
   d. Are size of plant or size of firm important considerations?

6. Which of these possible obstacles to automation are most serious? Why?

   a. Cost of equipment
   b. Importance of style factor in products

c. Inflexibility of production rates and output composition; demand for special products or variations.
d. Lack of standard equipment for automation
e. Length of time required to design and install automated production facilities
f. Fear of complexity and consequences of breakdown; doubt regarding equipment reliability
g. Need for retraining production workers
h. Opposition of labor organizations

7. In deciding whether or not to go into automation, what are the chief factors management should consider?

a. Nature of the product
b. Market potential
c. Methods and equipment in current use
d. Cost and availability of automation equipment
e. Availability of technical talent
f. Effect on labor force and supervision
g. Reaction of unions
h. Other

8. What product and process design problems are presented by automation?

9. Why do some authorities argue that piecemeal automation is unwise, if not impossible?

a. Because of interdependence of operations?
b. Because of duplication of effort?
c. Because of interruption of production for relayout and equipment installation?

10. Are there any special problems to be foreseen in the adaptation of management to automation?

a. Will management's problems be increased or decreased?
b. Will different kinds of management ability be required?
c. Will present methods of organization be appropriate?

11. In what ways will automation affect the structure of industry? Specifically, will it:

a. Increase or decrease concentration of economic power by resulting in fewer larger firms or more smaller ones?
b. Put segments of some industries at a competitive disadvantage?
c. Lead to overcapacity and imbalance?
d. Change relations between suppliers and users of industrial products?
e. Alter locational patterns?

12. Will widespread technological unemployment accompany increasing application of Automation?

a. Will the rate of introduction allow easy adjustment?
b. Will more jobs be created than are destroyed?
c. Which jobs will be affected? Routine and unskilled, primarily, or others?
d. Which workers will be affected? Older workers, primarily, or others?

13. How will the conditions of work be changed for the individual employee under automation?

a. Will jobs be upgraded in terms of skill requirements?
b. Will job satisfaction be raised or lowered? Will monotony and boredom be increased or decreased?
c. Will the social structure of the factory be changed by reduction in number of workers? Will social isolation be important?
d. Will there be special problems of personnel selection and training?

14. What are the implications of automation for industrial relations?

a. Will unions generally oppose its introduction? Attempt to control it?
b. Will unions press for guaranteed employment and/or wages, stringent seniority provisions, retraining programs, severance pay, and other safeguards against the impact of automation?
c. What will happen to total union membership? To internal structures of unions?
d. How will wage structures be affected? What will happen to incentive plans?

15. If automation results in generally increased productivity in industry, how should the gains of productivity be shared?

a. Higher wages?
b. Shorter hours?
c. Increased benefits?
d. Regularized employment?
e. Lower prices?

16. What significance does automation have for the average consumer?

a. Does it promise higher living standards through increased production at lower prices?
b. Will product variety be limited?

17. If atumoation greatly increases industrial productivity and allows the work week to be shortened drastically, will "excessive leisure" create social problems?

18. How soon will automation be extensive in American industry?

a. Within ten years?
b. Longer than ten years but sometime?
c. Never?

Workshop on

N E W   D E V E L O P M E N T S   I N   P E N S I O N   P L A N S

September 2, 1955 Game Room

<u>Discussion Leader</u>: IRVING PFEFFER, Assistant Professor of Insurance, School of Business Administration, University of California, Los Angeles

<u>Panel</u>: THOMAS W. CORDRY, JR., President, National Employee Benefit Service, San Francisco

HAROLD KAYE, President, Profit Sharing Consultants, Incorporated, Beverly Hills

G. S. HONEY, Assistant Director of Industrial Relations, North American Aviation, Incorporated, Los Angeles

FRANK KNOWLES, Assistant to the Director of Industrial Relations, California Packing Corporation, San Francisco

RECENT TRENDS IN THE PRIVATE PENSIONS MOVEMENT

The private pensions movement in the United States has its origin in some of the early attempts on the part of employers to improve the efficiency of their operations by superannuating their older employees. The rationale for such a policy has assumed many forms and the literature of pensions is replete with arguments to the effect that pensions are (1) gifts of grateful employers "in recognition of long and faithful service"; or (2) pensions represent the cost of "human depreciation" in much the same manner that depreciation allowances are made for worn-out machinery; and, more recently, (3) pensions ought to be regarded as merely a special type of "deferred wages". The pensions movement as we know it today would never have assumed its present gigantic proportions under the influence of such philosophical arguments. We must look to more fundamental pressures if we are to explain recent trends in this field.

While the pensions movement is an old one, it was only since World War II that it has grown at so explosive a rate as to make it one of the most significant recent developments in our economy. Partly because of this rapid growth, the administration of pensions has not been subjected to the same kind of intensive regulation which is so familiar to the insurance industry and other financial institutions. Recent investigations have revealed an almost infinite variety of pension arrangements and, in some instances, abuses which have cast a shadow over a wide segment of the private pensions movement.

The Size of The Pensions Movement

There is as yet no central body in the United States which gathers comprehensive statistics on the growth of pensions. While the Treasury Department releases data on the number of plans approved under the Internal Revenue Code from time to time, the Bankers Trust Company of New York publishes some compilations, and the Institute of Life Insurance publishes estimates on insured plans, the bulk of current pensions--the self-insured or administered and trusteed plans--are presently unmeasurable.

The concensus of opinion among authorities in this field suggests that at the present time there are approximately 13 million covered workers under some 25,000 private pension plans. In other terms, about 20 percent of the labor force is covered by some kind of formal pension arrangement. A distinction should be made, however, between coverage and eligibility. Eligibility requirements vary significantly among pension plans. Hence, the number of eligible employees will be markedly less than the number of covered workers. In a recent New York study it was found that approximately 80 percent of covered employees are eligible for benefits under the plans surveyed. Perhaps even more important than the question of eligibility is that of qualification for benefits. The pay-out rate is the crucial test of the pensions movement. Currently, it is estimated that about 1 in 6 recipients of OASI benefits are also receiving pension supplements. Clearly, this ratio should be much higher. No one knows what the volume and composition of the assets of private pensions are, but it would appear that the aggregate figure on invested pension fund assets approximates $20 billion.

The New York Insurance Department in a recent report estimated that the rate of growth of pension funds during the period 1948 to 1952 was about 500 per cent. This is probably higher than the current rate but serves to indicate the potency of pensions as a savings medium.

Factors Which Have Shaped the Growth of Private Pensions

In the most general sense, it would appear that the principal determinant of the growth of the private pension movement has been the expansion in both numbers and organization of the labor force, and the full employment economy which has accompanied this expansion. During the past twenty years, trade union membership has expanded from some 4 million members to more than 17 million. As a percentage of the civilian labor force, union members were 7 per cent in 1936 and at the present time they represent more than 26 per cent. More specifically, the pertinent factors in the growth of the pensions movement would include (1) the favorable social-political climate, (2) the government's labor policy, (3) the high level of corporate taxes, (4) the high level of corporate profits, and (5) the diversion of labor's attention from increased wages to "fringe benefits".

1. The Favorable Social-Political Climate. The past quarter century has been an era of strong security-consciousness. The United States did not forget the economic and social consequences of the great depression of the thirties. In the general desire to alleviate the hardships arising from a general lowering of the standard of living, most programs of social insurance and institutions for the development and support of income-maintenance security have been encouraged. The climate of public opinion has been most conducive to the growth of private pensions.

2. The Government's Labor Policy. The Federal Government has for many years adopted policies toward labor which have had the effect of granting substantial exemptions from a number of the laws which curb the organizing power of big business. Such legislative exemptions as those of the anti-trust laws have enabled American labor to act in concert in many areas of wage determination. Labor's demands tend to come in waves with simultaneous pressures on all large employers for the particular program of the day. Subsequent to the Inland Steel Decision and the cases which followed, a virtual flood-gate was opened and pensions were a principal issue at the bargaining table. The momentum of such waves of activity can perhaps be effectively measured by the flow of articles and books on the subject published between 1949 and 1954. The Guaranteed Annual Wage has supplanted pensions as the current focal point of wage negotiations. The Federal government has cast a friendly eye in the direction of labor's various drives. More recently, there is good ground to question whether there has not been a shift away from the prevailing pro-labor orientation.

3. The High Level of Corporate Taxes. Contrary to a widely held belief, the Internal Revenue Code did not begin its favorable tax treatment of pension contributions by employers only in recent years. As early as 1921, payments into a pension fund were tax deductible. The radical contri-

bution of the 1942 Act was to permit the deduction of payments into trusts for accrued liability or to render particular plans sound in an actuarial sense. The high tax rates of the post war years made pensions a likely way to spend cheap dollars for employee benefits. One authority has pointed out that at 1953 tax rates, for example, an employer in the top excess profits tax bracket could have contributed one dollar to a qualified pension fund at a net cost of only 18 cents. Pension dollars were and are cheap dollars.

4. High Corporate Profits. It goes without saying that the cost of pensions can only be met if business prospers. The United States has been in a sustained economic boom for almost fifteen years now, and profit levels have been adequate to meet the increasing demands of labor. The very existence of profits provides incentives for even greater pension benefits.

5. The Digression from Wages to Pensions. The Inland Steel Decision is a landmark in the history of pensions. While commonly regarded as establishing a loop-hole for indirectly increasing wages in an era of wage-controls, its ramifications are far deeper than appears at first glance. From the management standpoint, the great merit of pensions is that it permits a smooth superannuation program for older employees without disturbing morale or creating ill-will. Perhaps the strongest point made on this score is the fact that each retirement creates an opportunity for numerous promotions. The vitality of any organization is sapped in the absence of some mechanism for removing older and perhaps less productive employees from positions of authority and responsibility. In 1945 the Inland Steel Company established a unilateral Past Service Pension Trust providing for the compulsory retirement of employees on the January 1st nearest their sixty-fifth birthdays. The union protested on the ground that this mandatory retirement provision was tantamount to dismissal without cause and the N.L.R.B. trial examiner held that the pension and retirement policy was a proper subject for collective bargaining. Not only was labor free to bargain on pensions, it was also free to fight the policy of mandatory retirement at any definite calendar age. The Inland Steel Decision represented a double victory for labor. The expansion of industrial pensions subsequent to the Inland Steel Decision is in large measure a result of labor's drive to exploit its legal position.

While the doctrine that pensions are a form of deferred wages has received the sanction of the courts, some of its implications have not apparently been explored in pension negotiations. For example, the concept of deferred wages implies rights which have already been earned. This would suggest that pensions should be both fully and immediately vested—a provision found in a very small minority of cases. By the same token, there should be full funding to the extent of the wage increase which is presumed to have been earned, and a fund should be created to provide the deferred benefits in such a manner as to be beyond the control of either employer or union. In the absence of such provisions, a pension becomes a contingent right rather than a payment of "deferred wages".

The Prospects for Future Pension Growth

While the growth of pension plans, coverage and funds will undoubtedly continue indefinitely into the future, there is reason to believe that the movement has passed beyond the point of its maximum growth rate under present circumstances. A number of reasons may be cited in support of this generalization.

A high degree of market penetration has already been established by the thousands of pension plans currently in existence. Those employers who were most susceptible to the movement because of their size and ability to pay have already introduced pension plans. The remaining market comprises smaller firms who are either more resistant or less capable of assuming the burden of pensions, and larger firms whose plans provide less generous benefit provisions than those of their competitors. In the case of the smaller firms, the degree of unionization of employees is relatively low so that there is reduced pressure from this source.

The introduction of the Taft-Hartley Act ushered in a new era in the labor policy of the American Government. The almost unbridled power of labor has become subject to an increasing variety of restrictions in recent years which may serve to weaken the force of labor's bargaining activity.

Union activity has shifted away from pensions to other issues. The pre-occupation with the Guaranteed Annual Wage and disability benefits for retired workers which seems to lie just over the horizon has also removed some of the momentum from the pensions drive.

Corporate income taxes have been easing off somewhat with indications of further reductions to come. One of the significant consequences of such a tendency is to make the cheap pension dollars of recent times increasingly costly. The opportunity costs of pensions will probably continue to rise so that management will adopt a more reluctant position toward the expansion of pensions than they have heretofor held.

Finally, we should take note of recent developments in the regulatory field arising out of the various state and federal investigations of welfare funds. The countless instances of abuse in the administration of pension plans have given rise to demands for codes of standards in this field. The introduction of such standards will in all probability serve to render it increasingly difficult to install pension plans with the wide variety of administrative arrangements in use at the present time. Standards may well serve to restrict the growth of at least the more irresponsible pension agreements.

The Security of Pension Benefits

The security of pension benefits is perhaps the most critical current issue since the promise, of the fund or insurer, if impossible of fulfillment is meaningless. Few people understand the peculiar nature of the deferred liability in pensions. The pension promise, if it is to be realistic, must be based upon a definite set of assumptions about future mortality, interest and expense rates, and this is the one area of insurance in which the improving health conditions and longevity of the population can wreak havoc. Recently, the problem was summed up in an article entitled "Nothing Good Ever Seems To Happen To Pensions". Essentially, the security of a pension plan is a by-product of certain administrative and financial features of the system. These include: (1) the contractual status; (2) the method of financing; (3) the method of funding contributions; (4) the actuarial basis; and (5) the vesting provisions.

1. The Contractual Status of the Plan. From the standpoint of their contractual basis there are essentially only three types of pension plans:

A. Insured Plans. Insured plans offer the important advantages of having a third party accept the obligation of meeting pension commitments with all of the assets of the carrier standing behind the promise, and the additional source of security derived from the rigorous regulation of insurance carriers by the state. For the employee there is the certainty that his income will be continued for life at some pre-determined amount; for the employer there is the certainty of a guaranteed minimum performance with respect to the funds contributed; through surplus distribution the employer is guaranteed the benefits of a sound investment policy. Not all of the advantages lie with insured plans however.

B. Trusteed Plans. Trusteed plans established under irrevocable pension trusts also represent a third party arrangement, but in this case the relationship is a fiduciary one. The trustee cannot offer any guarantees with respect to benefits payable under the plan. He can merely collect contributions, invest them as best he can and pay out benefits to the extent the fund's assets permit. In the event that the investment policy of the trustee is unsuccessful or, because of the popularity of common stocks, should asset values fluctuate sharply, the trustee assumes no responsibility. The trusteed plan may be as sound as an insured plan in most respects, but there is no guarantee of benefits available to the pensioner, nor is the trustee as stringently regulated as the insurer. On the other hand, the trusteed plan frequently has the advantages of flexibility of payments into the fund--an important consideration for the employer in periods of economic stress. Also, the trusteed plan provides better opportunities than do insured plans for providing non-insurable benefits, realization of gains from favorable experience, provision for greater flexibility in plan changes and the exploitation of desirable investment opportunities.

C. Self-Administered Plans. These plans, sometimes called "self-insured" plans are arrangements whereby the employer assumes the burden of fulfilling pension promises as they fall due. Frequently the employer makes no provision for a pension fund but disburses benefits on a pay-as-you-go basis. Obviously, this is the least expensive plan in the short run and permits unlimited flexibility in all of its administrative and financial features. From the standpoint of the employee, his pension is completely at the mercy of the fate of his employer's business. This is not intended to suggest that self-administered plans may not be as sound as those established under trusteed or insured arrangements, but rather that the degree of uncertainty is greatest for the employee.

2. The Method of Financing. The pension plan may be on a contributory or non-contributory basis from the standpoint of contributions to the fund. In the case of a contributory plan, both the employer and employees make contributions to the fund, whereas in the non-contributory arrangement only the employer makes payments into the fund. The principal advantages cited for the contributory plans are (1) increased benefit levels since the plan can provide more favorable features than can one in which the employer makes equal payments without employee contributions; and (2)the contributory plan gives a greater degree of incentive to employees to safeguard their interests than would otherwise be the case. At the same time, it should be observed that the union movement, in keeping with its philosophy of pensions as deferred wages, has fought for non-contributory plans. In New York State, about 95 percent of all union negotiated plans are on a non-contributory basis. A recent report by the California Department of Industrial Relations shows that in January of 1955, some 72 percent of workers covered under union negotiated plans were under non-contributory systems.

Since pensions are characteristically defined in terms of some percentage of average wages over a particular period, it would seem logical to suppose that contributions would also be stated as a percentage of wages. This is not the case. Most frequently, the contribution is expressed in terms of so many cents per hour, per ton or as a percentage of hourly wages. These measures, while convenient at the bargaining table, have little reference to the obligation being purchased. By the same token, profit-sharing plans, since they relate only to the success or failure of the individual employer, have no bearing on the security of the fund. Each of these alternative measures of the contribution unit has a clear-cut rationale, but clearly most are inappropriate if the security of the pension promise is paramount in importance.

3. The Method of Funding Contributions. The promisor of a pension has four alternative methods of meeting the costs of a pension plan. The plan may be (1) fully funded; (2) partially funded; (3) terminally funded; or (4) unfunded.

A. Full Funding. The full funding method consists of making payments currently for all of the pension rights accruing to employees, in addition to paying in full for the past service rights of older employees. Full funding may be achieved either by establishment of trust funds or the payment of appropriate premiums to an insurance company. This is the most expensive form of financing since it requires immediate payment f the heavy burden of past-service incurred liability. It has been estimated that the past service liability for all American industry is about $65 billion at the present time.

B. Partial Funding. Partial funding generally consists of setting aside funds to cover currently earned benefits and, in addition, to meet part of the burden of accuring past service liability. This method is much less costly than full funding but leaves the employer with the burden of increasing pension costs as the plan matures.

C. Terminal Funding. This method requires that the employer set aside sufficient funds to meet the obligations only of those persons already retired. As soon as a pension begins, a fund is established covering that pensioner's full entitlement. The immediate annuity is commonly employed under this plan. Terminal funding is less costly than either full or partial funding since the only funds which need be set aside are those for qualified employees. The other funding methods frequestly entail excess payments into the pension fund because of underestimation of withdrawal or turnover rates on the part of eligible employees.

D. Pay-As-You-Go. The least expensive method of meeting the cost of pensions in the short run is the disbursement method whereby benefits are payable as they fall due, and no attempt is made to create a reserve fund for the accuring liability to active employees. This method is attractive to many employers, but there is strong ground for questioning the quality of the security tendered to pensioners. The abysmal failure of assessment life insurance attests to the danger of the slogan "Keep your reserves in your pocket".

4. The Actuarial Basis of the Plan. The cost of the pension promise hinges upon a number of relatively unpredictable factors which only come into play many years after the institution of the plan. While the actuary is not gifted with any greater foresight than the thoughtful business-man, he can estimate within broad limits the magnitudes of the factors involved so that an approximation to ultimate costs can be determined. Basically, this involves assumptions relating to the future rates of mortality, interest and expense. Additionally, forecasts may be required for rates of employee turnover or withdrawal, deferment of actual retirement, changes in the age and sex composition of the firm as well as employee contribution rates if there be any. The most crucial factors all seem to be adverse to the pension plan. The past fifty years has seen a steady improvement in the longevity of Americans with the prospect of further improvement in the future as the secondary effects of typhoid fever, diphtheria and other vanished diseases disappear from our aging population. The focus of medical science on the degenerative diseases should serve to further prolong the lives of pensioners. Interest rates have suffered a secular decline in America from the relatively high levels prevailing at the turn of the century.

Also, we have been undergoing a long-term inflationary trend which has raised the level of business operating expenses substantially during the past few decades. Each of these factors serves to raise the cost of the pension promise. In the absence of an actuarial basis for estimating costs, the security of the fund is seriously in question. All plans have equal access to actuarial talent—the important consideration is that they use it.

5. Vesting Provisions. The term vesting as used in pensions refers to the employee's right to retain the benefits which have accrued from the employer's contributions. Vesting rights are subject to a great amount of variation in current plans. Thus, vesting may be immediate or deferred; it may be full, partial or increasing; it may be in the form of a lump sum or in a deferred paid up annuity without cash value. Finally, vesting may be absolute or conditional. In their study of some hundreds of plans, the Bankers Trust Company found that about 24 percent of plans studied had no vesting provision whatever; 29 percent provided for vesting on the basis of years of service only; 4 percent on the basis of age only; 38 percent on a composite basis of age and service. Only 2 percent of the plans in this study offered immediate vesting.

Vesting of rights is inherent in the notion of pensions as deferred wages, but it is a costly privilege from the standpoint of the employer. If the pension plan was installed with a view to providing benefits to workers who have given long service to the plan, or to help reduce the turnover rate among employees, then the vesting privilege if freely granted would serve to eliminate the desired effect. Employee mobility, if anything, would be increased and the cost of providing pension benefits to short-term employees would drain available funds from the purchase of the benefits of long-service workers. While vesting rights appear to be on the increase, it is unlikely that the number of pension plans with immediate vesting will ever comprise a significant proportion of the total.

NEW DEVELOPMENTS IN PENSION PLANS

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Workshop on

PROBLEMS IN INDUSTRIAL RETIREMENT

September 2, 1955 Colonial Room

Discussion Leader: CURTIS C. ALLER, Assistant Research Economist, Institute of Industrial Relations, University of California, Berkeley

Panel: GLENN A. BOWERS, Supervisor of Conciliation, State Conciliation Service, Los Angeles

JOHN T. HUGHES, Manager, Employee Benefits, Crown Zellerbach Corporation, San Francisco

LEE LAIRD, Manager, Benefits Division, Personnel Department, Standard Oil Company of California, San Francisco

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OUTLINE OF RETIREMENT WORKSHOP

A. Introduction

This workshop will be focused on a narrow band of issues directly related to retirement. These are three in number: fixed, normal, or flexible retirement age; pre-retirement counseling; and company responsibility for the retired employee. We are excluding the intimately related questions concerning pensions, covered in another workshop, as well as the broad area of the employment problems of the post-45 age group. Our discussion assumes, of course, that the employer has an adequate - by today's standards - retirement program in effect.

B. Why Worry About Retirement

Frequent concern has been expressed about the economic costs of supporting a growing body of aged. These costs are borne by industry either directly in the case of pensions and Social Security or indirectly through taxes for public assistance. Continued employment of the older worker, it is argued, would add to the total output thereby making these workers self-supporting rather than a drain on our economy. Though the problem of potential economic waste is important its gravity is not as great as sometimes alleged. Presently there are slightly over 12 million past the age of 65 in our population and this group is expected to reach 18 million by 1980 and 21 million by the end of the century. Nevertheless the relative importance of this group will not change greatly from its present eight per cent of the population if the high birth rate of the past 15 years continues.

Moreover, the potential loss of manpower within this group is not now large. Nearly three of the twelve million today are still in the labor force. Of the remainder, a recent study by the Institute of Industrial Relations at Berkeley shows, less than 300 thousand are both in good health and interested in full or part-time work.

If we broaden the question somewhat to include other dependent groups, such as the young and disabled, then the economic waste agrument is weakened further. Assuming continuation of present birth rates and present disability rates it appears that the total of all dependent groups will remain a relatively stable proportion of the total population for the next 25 years. Thus the burden on the working population will remain the same and with increased productivity will become lighter as we go.

Nevertheless, the problems merit our attention as (1) there appears to be some waste in our failure to utilize all of our potential manpower, (2) more of the aged group may be able in the future to work than is the case today as health and education standards improve and (3) the spread of a policy of fixed retirement at age 65 could result in a sizeable economic loss in view of the numbers now working past that age.

However, any possibility of economic waste rests upon an underlying assumption of continued full employment. The Social Security Act was originally justified in many quarters precisely because it opened up the possibility of removing the older worker from the labor force, thereby making jobs for younger, unemployed workers. Conceivably, therefore, our thinking on this subject will vary with the stage of the business cycle. And since individual industries will continue to experience varying employment demand, some expanding while others are declining, the retirement age might well be tailored to this individual experience.

Much of the objection to compulsory retirement arises from the belief that most workers in our society do not want to retire unless impaired health conditions require it. In support of this view it is pointed out that the average retirement age under the Railroad Retirement Act is 69 and under the Social Security Act during 1950, 69 for men and 68 for women. U. S. Steel has reported that only 40 per cent of its employees retire at normal retirement age. Another large steel company reports that its average retirement age is over 69 with 1,194 out of 3,532 pensioners having retired at age 70 or more. At Ford Motor Company, of some 5,000 workers eligible to retire, 3,000 are reported to be staying at their jobs. These figures may, of course, reflect economic pressure rather than any strong desire to continue work. General Electric, for example, has reported that 36 per cent of its workers retired at the earliest possible moment, from 1 to 5 years before compulsory retirement age, and Socony Vacum Oil Co. has found that its employees retire on the average at 63 instead of waiting for the compulsory age of 65.

If a substantial proportion are compulsive about working and cannot adjust satisfactorily to retirement, then it may be asked whether permitting their continued employment for some years might not provide the easiest and happiest solution to their psychological problems. On the other hand, it has been contended that these psychological problems arise because of the great stress our culture has placed on work and that these will diminish as a new generation used to the additional leisure of the 40 hour week approaches retirement age.

Even so, retirement eventually arrives for some and poses for the employer the questions of whether he can lessen "retirement shock" by prior counseling, what is the content of such a program and what methods should be used? Finally, does the employer have any further obligations during the retirement years?

C. The Retirement Age

Briefly there are three approaches to this hotly debated issue: to set a fixed retirement age, usually 65; to establish a normal retirement age of say 65 with compulsory retirement later at age 68 or 70; to leave retirement entirely flexible.

The reasons customarily advanced for a compulsory age are as follows:

1. Discretion hurts those who are retired as it is impossible to prove objectively why one is retired and another isn't, leaving

the retired group with feelings of resentment. Since objective criteria are not available, judgement is essentially subjective and may damage morale in whole organizations.

2. Compulsory retirement is simple to administer, requires a minimum of paper work, no production records to analyze, no debates take place, and grievances don't arise.

3. In absence of a fixed age it is all too easy to keep on inefficient workers on the basis of past performance with possible cumulative effects disasterous to the company. Also, problem personnel are easier to eliminate.

4. A fixed age is necessary to secure adequate preparation for retirement as otherwise workers let planning slide.

5. Promotional channels will otherwise be blocked and the company will lose the services of ambitious younger workers who will look elsewhere for jobs. Allied with this is the idea that "new blood" is essential for the health of the company.

6. Forecasting of future personnel needs is made difficult without a fixed retirement age.

7. The worker should have a period of rest at the end of his life while he is still physically able to enjoy it, and fixed retirement ensures this.

Those who urge a more flexible retirement policy usually stress the following arguments:

1. The majority of employees resist retirement when they are still able and willing to work, and compulsion lessens the worker's "good will" toward the company.

2. The sharp reduction in income and living standards which retirement brings creates hardship and resentment.

3. Compulsory retirement ignores important individual differences in capacity as well as job requirements. Chronological age is not an accurate measure of an individual's physiological and psychological age.

4. Compulsory retirement is costly and wasteful for the company, the individual, and the economy.

5. The emphasis on administrative ease exaggerates the dangers and overlooks the possibilities for an effective exercise of judgement.

Some of the Issues Involved

1. Are there some arguments for compulsory retirement, e.g., opening up promotion lines, which are valid for the management group but not valid for the non-supervisory group?

2. If a fixed retirement age is on balance desirable, why age 65? Should this be increased or lowered in the future?

3. Some alternatives suggested for compulsory retirement are these: a set normal retirement age with optional earlier retirement; permit employees to retire over a span of years with benefits based on years of service at the time of retirement; provide a span of years for retirement but provide for full benefits at the beginning of the span and no increase in benefits for years worked beyond this date; permit employees to retire before the normal date and require company consent to continue past this date up to some fixed maximum.

4. If health and competence are accepted as the basis for retention, how can they be determined in individual cases? Can objective evidence be secured easily and economically? Would the results be acceptable to the employee, and employer, and the union?

5. To what extent can downgrading, job redesign, and shorter hours, permit the retention of older workers after normal retirement date?

6. If some optional system is adopted permitting retention past the normal retirement age who should make the decision? Would a panel consisting of the plant physician, a representative of the personnel department, and the supervisor be required? Should the union be given a voice? Would such a panel work efficiently and harmoniously? Would its decisions be acceptable to the employee, the union, and the employer?

D. Retirement Adjustment -- Some of the Issues Involved

1. What are the respective responsibilities of the individual, the company, the union and community agencies in preparing the individual for adjustment to retirement?

2. Should the company rely entirely upon indirect means, i.e. encouraging thrift, articles in house organ, hobby shows to stimulate new interests, and preventive health checkups? Is counseling needed? Will it be viewed as paternalism and uncessary meddling?

3. What should be the objective of a counseling program? Will these objectives be mutually acceptable? How can the effectiveness of the program be measured?

4. Who will conduct the program; the supervisor, the physician, the personnel department, outside agencies, or the union?

5. When should the program begin — one, five, or ten years before retirement? How many conferences should be held? Will they continue after retirement? What training or experience is required for counseling?

6. How should the counseling be conducted — individual or group basis? Should wives be included?

7. What should be the content of the program — explanation of benefits, solely or extension to include problems of living arrangements, activity substitutes, family relationships, and health? How far should the counselor go?

8. Should the program be the same for executives and workers?

9. How should special problems be handled, i.e. the "job centered" employee and those who found personal adjustment difficult in earlier life?

E. Post-Retirement Programs — Issues for Discussion

1. What are the company obligations to the retired worker? Is "out of sight out of mind" good business?

2. The channels for a continuing relationship between a company and its retired workers were summarized in a recent study as follows:

   a. Publications and other written material.

   b. Service clubs, special events of the company, and pensioners' clubs.

   c. Visiting programs, offer of continued counseling, and maintenance of a cumulative case record on the pensioner which may be used to determine if special assistance is needed.

   d. Continuing benefits and use of company facilities.

   What are the advantages and disadvantages of each of these programs?

3. If the above is done, does this mean that the Company is assuming too many of the functions of the individual, the family and the community? What can the company do to make community facilities more nearly adequate to meet the needs of retired workers?

PLANNING AHEAD FOR RETIREMENT*

By Lee Laird
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Standard Oil Company of California

In spite of mounting interest in retirement, the number of companies offering pre-retirement counseling is still very small. The program described in this article starts, for each employee, ten years before his retirement, thus spurring him to begin planning far enough ahead to be really helpful.

Standard Oil Company of California has for many years pursued a policy of normal retirement at age 65. For that reason, a program looking to the welfare of employees after retirement has always been an intregal part of personnel department activities.

Prior to 1952, this program, administered largely by the Benefits Division of the personnel department, was concerned primarily with preserving the financial security of the employees. The medical department was interested in their health.

On the financial side, our communications to employees about retirement included the following:

1. First--an attractively printed booklet describing our annuity plan after 10 months service.

2. A year later, a statement telling him how many dollars he has contributed to the plan, and a like one each year thereafter.

3. After 10 years, an annual statement showing both his contributions and his total annuity credit accumulated to date. From this statement he can project his annuity to retirement if he wishes to do so.

4. At any time, an employee may consult his supervisor or a personnel representative to discuss his annuity or other benefit plans.

5. An employee, after 20 years of service, may write in for an estimate of annuity on any basis requested.

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6. One year before normal retirement date, the employee receives a letter in complete detail about his annuity, life insurance, and hospital and medical plans available to him after retirement. At that time he also has a personal interview and discussion with his supervisor or personnel representative.

7. At retirement date, he receives a personal letter from his department executive giving him in complete detail all the facts about his annuity and other benefits.

On the health side, the employee has a medical examination every other year up to age 40; after that, a yearly examination. Particularly after about age 55, our doctors point out desirable health objectives for older people such as weight reduction, moderation in exercise, etc.

That was our program until 1952, and while it was of definite help, our studies, started in 1950, showed that other problems were not being covered. Although there has been mounting interest in this subject, the number of companies offering preretirement counseling programs is still very small. A survey of 2100 members of the Sales Executives Club of New York showed that only 13 per cent of the companies represented had done anything to help prepare their older workers for their retirement--although 94 per cent of the companies believed that something should be done. (From "Industry and Its Older Employees" by Wilma Donahue, a paper presented at Hillyer College, Hartford, Conn., in 1952)

During 1950 and 1951 several large Eastern companies introduced programs designed to prepare employees for retirement. These were all experimental. A few took the form of group counseling, others a series of pamphlets available to employees, others, individual counseling. We talked to some of the administrators of these programs in the East. None of them seemed to fit our requirements, so we decided to develop our own.

HOW THE PROGRAM WAS DEVELOPED

Standard wanted its plan to be: (1) Company-wide; (2) Flexible so that it could be used by an employee in an isolated area or by a group of employees in a concentrated area; (3) Promptly available to all employees age 55 (men) or 50 (women)--so they may initiate planning sufficiently ahead of time to be effective.

After a thorough study of available material, the Benefits Division prepared a series of four letters devoted to the various phases of "Planning Ahead for Retirement". To these letters were attached forms, folders, reprints, and pamphlets on pertinent topics. A loose-leaf binder also was given to employees in which to place this material as received.

Before this program was made available to employees, approximately 500 retirement advisers were appointed among supervisors throughout the company and a special handbook was published to assist them with their counseling activities.

The material was carefully reviewed by departmental representatives. It was also distributed to a cross section of our annuitants and employees nearing retirement age with a questionnaire designed to obtain the benefit of their experience and thinking.

Nearly all of those who replied commended the program and recommended it as a step in the right direction. Many offered constructive suggestions for improving the program and a number of these suggestions were incorporated in our material.

Each of these letters contains several a ttachments consisting of pamphlets or reprints designed to help the employee in planning ahead for his retirement. The titles of these four letters indicate their subject matter.

Letter #1--"What It's All About--Recognizing the Need for Planning Ahead"

This is a letter of explanation and indoctrination. It gives a thumbnail sketch of the program and discusses the contents of the letters which are to come. It stresses the importance of planning ahead for retirement and urges employees to give this matter serious consideration. To this letter are attached:
(1) When You Grow Older, Public Affairs Pamphlet No. 131.
(2) Looking Forward to the Later Years, Public Health Publication No. 116, Federal Security Agency.

Letter #2--"Your Health--How You're Going to Feel"

This letter is devoted to the subject of health as we grow older. It discusses the aging process and presents six guide posts to a longer life. These are: (1) Periodic physical examinations, (2) Good mental attitudes, (3) Proper diet, (4) Sufficient sleep, (5) Moderate exercise, (6) Accident prevention.

Attached to this letter are the following: (1) The Promise of Geriatrics, American Medical Association, (2) Safe at Home, National Safety Council, (3) Home Safety Check List, S.F. Chapter of the National Safety Council, (4) Live Long and Like It, Public Affairs Pamphlet No. 139.

Letter #3--"Your Money--What You're Going to Live On"

This letter presents some facts and suggestions regarding the financial aspects of retirement. It discusses such subjects as: (1) Making a budget, (2) Income under Company Plans such as our Improved Annuity Plan and Stock Plan, (3) Life insurance, (4) Social Security benefits, (5) The family's share in planning, (6) Hospital and medical plans, (7) Making a will.

Attached to this letter are the following: (1) Form for estimating monthly annuity, (2) YOUR Social Security, Federal Security Agency.

Letter #4--"Your Activities--What You're Going to Do"

In many ways this subject is the most important in planning ahead. This letter gives suggestions on how to utilize spare time both before and after retirement. Major topics discussed are: (1) How to plan activities (2) Where to live (3) How to select a hobby (4) Service to others (5) Social life (6) Educational opportunities.

Attached to this letter are: (1) Hobby Publications, Superintendent of Documents, Washington, D. C., (2) How to Live a Hundred Years. . . Happily, Monroe Clinic, Wisconsin.

THE RESULTS

In July 1952 the first distribution went out to more than 1300 employees within five years of the normal retirement age of 65 for men and 60 for women. Distribution was made on a local basis and each employee received a personal letter from the local field executive with the material. We feel that this method of distribution is quite important as a means of personalizing the program.

The four letters were distributed at monthly intervals and were mailed to employees at their homes, in order that they could read the material at their leisure and discuss it with their families. It was made clear to employees that planning ahead for retirement is a personal matter and that the company could only hope to stimulate thinking on this subject.

Following the distribution to the first group of employees, a questionnaire was sent to each recipient to ascertain his reaction. Replies to these questionnaires, together with comments from our field offices and from other departments, indicate that this program is being very well received.

Approximately 90 per cent of those employees replying indicated that they felt that this program was of assistance to them in planning ahead for their retirement. Many employees expressed their appreciation for this material and thanked the company for sending it to them. Although nearly all of these replies were complimentary, there were also a few of a less favorable nature. Here are some examples:

REACTION OF THE EMPLOYEES

"This material is practically worthless as far as I am concerned because I am an introvert and, given plenty of books and a few personal contacts, I am happy."

"There is nothing wrong with your letters as far as I can see, but I do not find them offering any new thoughts nor stimulating thinking beyond what I have already done."

"I think it is an excellent program as so few organizations seem to care about their employees once they retire."

"It is an excellent guide in planning for retirement, and very much appreciated. I have loaned this material to younger employees who are studying it."

"The Planning Ahead for Retirement program may prove to be the most helpful thing that our company could do for prospective annuitants. Life might have been extended for some of those who passed away soon after retirement if there had been some way of perpetuating their sense of individual usefulness."

"The whole program is very good. There is something stimulating and worth-while for every type of individual."

"I want to thank you wholeheartedly for the sincere interest you have shown."

"Gratified to feel the company is interested in us after we retire, as well as during our active employment."

"Your making it possible for me to participate in this program is one of the nicest things that has ever happened to me."

"I believe that frequent consultation with the letters and books will be of valuable assistance to me, and I want to thank the committee for sending this important literature."

This is but a small cross section of the hundreds of replies received, and we feel they are very encouraging.

For our 1953 distribution, we added illustrations to the four letters and made a number of minor revisions. We handled the second distribution on a slightly different basis. Instead of automatically sending the material to employees in certain age groups, we sent a return post card with the first letter.

If the employee wished to participate in the program, he had to fill out the card and return it to his supervisor. In this way, we hoped to measure the degree of employee acceptance of this program and also keep it on a purely voluntary basis. Approximately 1, 920 employees between the ages of 55-60 (men) and 50-55 (women) were eligible to receive this material. Of this number more than 88 per cent requested that they be included in this program.

In administering the program, the various departments may hold meetings if there is sufficient demand. Some departments have conducted introductory meetings explaining the program to their eligible employees. A number of meetings on the subject of health have been conducted by company physicians and have been enthusiastically received by those attending.

We recently completed our 1953 distribution. As in the case of the first distribution, we sent a questionnaire with a return envelope with the last letter in the series. Returns so far are incomplete but the response is even more enthusiastic than it was for the first distribution.

Standard plans to make this program available each year to men who have attained age 55 and women age 50 during the preceding year. We also plan to distribute follow-up material to employees as it becomes available and to remind them periodically of the importance of planning ahead for their retirement.

We announced in our employee publication, The Standard Oiler, that we would be pleased to send this material to any annuitant who would like to receive it. Although already retired, a substantial number of annuitants have written in requesting these letters and attachments.

PROBLEMS IN INDUSTRIAL RETIREMENT

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