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The Scanlon Plan: Holland's "Work Ethic"

By Ryan Harvey
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For many years western Michigan, specifically the Holland-Zeeland area, has been recognized for its strong "work ethic." This reputation is characterized by such attributes as low employee turn-over, low absenteeism, and high quality products. Fifty years ago this "ethic" was often attributed to the Dutch ethnic background and their strong religious tradition of hard work. Dutch heritage may have played a role in Holland's business climate in the first half of this century, yet the bulk of Holland's economic expansion has occurred in the past fifty years. The second half of the twentieth century has seen numerous non-Dutch whites, Asians, Blacks and Hispanics move into the Holland area, while the attributes of a strong "work ethic" have continued to grow. Obviously, something other than just the values of one cultural background are responsible for the strong economy of the Holland area. If one takes a closer look at the recent economic history of the Holland-Zeeland area, one will find that just before the bulk of economic growth began, a revolutionary organizational philosophy known as the Scanlon Plan was being implemented by local companies. Could this Scanlon Philosophy actually be the "work ethic" that Western Michigan has become known for? First, we will take a closer look at exactly what the Scanlon philosophy is, and then trace its historic effect over the past half-century.

The Scanlon Plan was first developed by Joe Scanlon and Carl

Frost at the Massachusetts Institute of Technology, in the late 1940's. It was developed as a process to get workers and management to cooperate, and to allow workers to profit from any gains made in productivity. Carl Frost moved to Michigan State University in 1949, and with him brought the Scanlon Philosophy. Carl Frost modified the original Scanlon Plan extensively over the years, causing the Scanlon Philosophy in use today to be very different from it's origins at MIT.¹

Through a number of different methods, the Scanlon Philosophy affects interactions within an organization. First, through communication, "gainsharing," and education it challenges workers to take ownership of their jobs and the problems facing the company. Management is very open to its employees about matters often considered private by non-Scanlon companies. Education of the employee as to the financial and competitive position of the company is a crucial step in the Scanlon Process. This literacy of the employee is accomplished through regular written communication and team meetings of employees.

For example, if the company is in financial trouble and needs to make some cutbacks, educating the workers of the companies situation, and giving them the power to decide on the areas that can be changed, gives them ownership of the problem. They may make the same decisions that management would have, but the fact that they made them makes it easier to sacrifice.

Often it is the lack of communication from management that causes the majority of labor relation problems. The employees

tend to look at management as selfishly motivated. They see the consequences of management's decisions without knowing the reasons behind them. By keeping the employees "in the dark" management has the appearance of being uncaring and selfish. When the employees are completely informed about the problems facing the company and are allowed to have a say in the solutions to those problems, they take ownership for those decisions. A manager is no longer viewed as a selfish bully, but as a hard working individual trying to do the best job she can.

Along with this communication and responsibility comes a sharing of gains in productivity. This "gainsharing" is usually accomplished by developing an historical figure of productivity for the company. The employees are encouraged to share their ideas on how to do their jobs more efficiently and at less expense. If these ideas raise productivity then the gains are distributed among the employees in the form of a bonus. Sharing productivity gains encourages employees to share their ideas, and motivates them by connecting their personal finances with the financial success of the business.

Richard Ruch, former CEO of Herman Miller, described the Scanlon Plan this way: "It is a method to allow all the people in the company, the employees in particular, to join together in achieving the company's objectives, through cooperation with each other, and through the opportunity to share a productivity bonus, and to really become accountable and responsible for their work."³

Carl Frost developed the major principles of the Scanlon Philosophy as Identity, Participation, Equity, and Competence. According to Dr. Frost, each principle must be mastered before moving on to the next. Identity is a process of education which teaches everyone the right job and how to do that job right. Through Participation, management provides and employees accept increasing responsibility to influence decisions in their areas of competence. Equity is a genuine commitment made to balance the needs of all constituents including customers, shareholders, suppliers, employees, and vendors through a process of accountability. Competence is the ability to improve and to respond to change through a process of personal, professional and organizational commitment.²

The Scanlon Philosophy was first introduced in Michigan in 1950 when Dr. Frost initiated a Scanlon Plan at Herman Miller in Zeeland. At Herman Miller, the Scanlon Plan has become more than just a system for managing. It has become a belief that is so interwoven into the fabric of the company, it's difficult to distinguish between the organization and the philosophy. It is a belief that the worker's mind is as valuable an asset as his hands. It has become the belief that the workers have the right to share in the financial gains they are directly responsible for creating. These beliefs transformed Herman Miller into the second largest producer of office furniture in the world. These Scanlon principles were largely responsible for Herman Miller being rated as one of the top ten companies to work for in

America.⁴

The revolution which began at Herman Miller in 1950 soon began to spread to other local companies such as Donnelly. Many of the employees at Donnelly were unhappy with their situation, as mistrust between management and the workers grew. The Donnelly Corporation sought a solution which could bring communication and equity to their company. After reviewing many different management styles, they found these qualities in the Scanlon Plan. After implementing the Plan, Donnelly saw an increased quality in its products, and satisfaction among its workers.⁵

Other Holland area companies soon followed the lead of Herman Miller and Donnelly. Under the leadership of Dr. Frost, companies such as Sligh Furniture, Transmatic, and Thermotron joined the list of companies adopting this revolutionary management philosophy. Slowly, as the Scanlon Philosophy was implemented at numerous area companies, the attitude of the workers toward their jobs began to change. They now understood the challenges facing the companies they worked for, and were given the opportunity to meet those challenges with their own solutions. The employees were now being rewarded for productivity increases, and therefore, had an incentive to share ideas and work harder.

Many companies, such as Prince Corporation, considered the Scanlon Plan, yet decided not to implement it at their companies. However, in many ways, one can still see the influence Dr. Frost

has had on these companies. Prince, for example, is a highly participative company with a style of management very similar to that of Scanlon Plan companies. However, the effect of the Scanlon Plan on Holland Area companies was far greater than even this. The Scanlon Philosophy slowly raised the expectations of employees toward management. Through friends, relatives, and acquaintances, this new participative, responsible style of work spread among Holland's employees, creating indirect pressure on the management of non-Scanlon companies. Many companies in the area, which are not formally known as Scanlon Companies, follow a management style very similar to the Scanlon Philosophy. From Haworth Inc. and Prince Corporation, to Padnos Iron & Metal Co., nearly all of the Holland area businesses have yielded to Frost/Scanlon ideas in some fashion.

For many years, this concept of management was unique to the Holland area. In the 1950's and 60's when the norm in American industry was a very autocratic style of leadership, Holland area companies were working with their employees in a team-oriented approach. Many other management "plans" have been modeled after the Scanlon Plan and have imitated many of its ideas. Many Scanlon ideas were used by Dr. Demming in work with Japanese industry, which resulted in Japan become an economic world power. Although the Scanlon Philosophy was unique to Holland for a long time, it can be adapted to work in many circumstances. Its success in a variety of situations is due to the Scanlon Philosophy being based on broad human characteristics which hold

true throughout the world. Max DePree, former CEO of Herman Miller, commented on the subject by saying, "We interpreted the Scanlon Plan in a variety of settings. That experience tells us that the research done by Douglas McGregor and the people who worked with him originally is valid. We have practiced the Scanlon Plan in other parts of this country and in Europe with very diverse populations, and changing populations in our plants. We've done it with both male and female leadership. We believe the principles apply. We believe that in a wide variety of settings the principles of the Scanlon Plan are truly applicable."⁶

One can observe that at the same time the Scanlon Philosophy was taking hold, the Holland area was experiencing dynamic economic expansion. Even at times when the rest of the U.S. economy was stagnant, at times when quality was a foreign word to American industry, and profit-margins came before people; contrary to much of the nation, Holland continued to produce quality products under good employee relations. Meanwhile, new businesses sprouted up and Holland's economy rapidly expanded. The Holland area has built a reputation as a burgeoning Mecca for entrepreneurs, a place where one can start a business and count on a supportive community and hard working employees. Although, other factors such as its good location, and strong moral and religious tradition have played important roles in Holland's success, it is evident that the Scanlon Plan, more than any other factor, can be attributed to Holland's strong economic position

and "work ethic." There are many communities in the southern "bible belt" and Mid-West with strong values and morals, yet with struggling economies. There are other communities in good locations, or with strong traditions that also have poor economic conditions. However, when the above attributes of strong morals, good location, and strong community tradition are allowed to grow in a setting of management true to human nature, economic miracles such as Holland can occur.

Commenting on Holland's business climate, Charles Conrad, founder of Thermotron said,

Holland's business climate has been good and getting better all the time. I give a lot of credit, directly and indirectly, to Carl Frost, and the Scanlon philosophy..... It is known as a "work ethic" for the community. There may be a tendency to say, "that's typical of the Dutch". There are many other than Dutch employees contributing to this good work ethic. I view this as a result of Donnelly and Herman Miller with the Scanlon philosophy, for their ratings as among the hundred best places to work in the United States. This is the result of twenty, thirty, forty years implementing the Scanlon philosophy of 'something for something'. They empower the people to do what they can, do it well, and carry out the responsibility.⁷

Sources

- ¹ 1994 Business Oral History Project: Carl Frost, Ryan Harvey, Joint Archives of Holland, 1994.
- ² Frost/Scanlon Principle & Processes, Carl Frost, Scanlon Plan Associates, East Lansing, 1993. (Available in '94 Bus. Oral His. Collection)
- ³ 1994 Business Oral History Project: Richard Ruch (pg. 16), Ryan Harvey, Joint Archives of Holland, 1994.
- ⁴ 100 Best Companies to Work for in America, Robert Levering and Milton Moskowitz, Doubleday, New York, 1993.
- ⁵ 1994 Business Oral History Project: Bernard Donnelly, Ryan Harvey, Joint Archives of Holland, 1994
- ⁶ 1994 Business Oral History Project: Max Depree (pg. 18), Ryan Harvey, Joint Archives of Holland, 1994
- ⁷ 1994 Business Oral History Project: Charles Conrad (pg. 16), Ryan Harvey, Joint Archives of Holland, 1994.



IDENTITY EDUCATION

The purpose of **IDENTITY** is literacy-knowledge: relevant usable knowledge. Each person has a personal, professional, and organizational **IDENTITY**. Every member of a family, a company, an institution should be genuinely known. The principle of **IDENTITY** is based on three assumptions:

- 1) Change is a universal given.
- 2) A person's performance/behavior is a consequence of how they have been treated.
- 3) Every person and organization is in the process of becoming better or worse.

Questions about **IDENTITY**

- △ *What day is it?*
- △ *Is there a need to change?*
- △ *What is the right job for me to be doing?*
- △ *How do I know when I am doing the job right?*
- △ *Do I treat others as I would like to be treated?*
- △ *Do I accept the challenge of change?*

PARTICIPATION RESPONSIBILITY

PARTICIPATION is the opportunity, which only management can give, and the responsibility, which only employees can accept, to influence decisions in their areas of competence.

Questions about **PARTICIPATION**

- △ *Do I encourage others to make decisions?*
- △ *Do I take the responsibility for my decisions?*

EQUITY ACCOUNTABILITY

EQUITY is a genuine commitment to account for the needs of all constituents including customers, investors, and employees.

Questions about **EQUITY**

- △ *Are the EQUITY needs of all constituents in balance?*
- △ *How do we know what organizational performances, practices, relationships, will fulfill the EQUITY needs of all constituents?*
- △ *How do we report our EQUITY results?*
- △ *How do we use EQUITY to hold ourselves and our organization accountable?*

COMPETENCE COMMITMENT

COMPETENCE is the continued drive to respond to the constant demand for improvement and change. It requires a commitment to be in a state of becoming something that you never were before.

Questions about **COMPETENCE**

- △ *Am I willing to help others become more competent?*
- △ *Am I willing to commit to make myself better every day?*

What is the Scanlon Plan?

History

The Scanlon Plan developed from the innovative work of Joseph Scanlon during the 1940's and 1950's. Joe's experience as a steelworker and union leader during the Depression prompted him to conclude that a company's health, indeed its very survival, required a climate of cooperation, rather than competition, between labor and management. As a staff member at the National Research offices of the United Steelworkers of America, and later while on the faculty of the Massachusetts Institute of Technology, he pioneered new methods for employee involvement. The early "Scanlon Plans," as they were labelled by his clients, also included a monthly cash bonus to all employees when labor costs were reduced below historical base periods. Unfortunately, Joseph Scanlon's premature death in 1956 denied him the opportunity to fully realize the impact he had on world industry. After World War II, the Japanese adopted many of his ideas concerning employee involvement and combined them with the quality methods of W. Edwards Deming. Today many people have adopted these techniques without knowing many were Scanlon's ideas. It is a tribute to Scanlon's genius that interest in participative management and productivity "gainsharing" have reached international proportions.

Development of the Frost/Scanlon Principles

Upon Joe's death, his work was carried on by his friends and colleagues. Dr. Carl F. Frost at Michigan State University became one of the most influential and dedicated Scanlon practitioners. Dr. Frost refined the Scanlon Plan into four basic Principles/Processes; Identity/Education, Participation/Responsibility, Equity/Accountability, and Competence/Commitment. Dr. Frost's influence can be seen in the progressive cultures of organizations such as Herman Miller, Donnelly, and Motorola. More recently, Dr. Frost demonstrated the power of the Scanlon Plan in a nonprofit health care setting through his work at Beth Israel Hospital-Boston.

Misconceptions about Scanlon Plans

Much that is written about Scanlon Plans is outdated and wrong. It is a misconception to view the Scanlon Plan narrowly as an incentive system, quality of work life program, or suggestion plan. In fact, it is not a plan at all, in the sense that it does not specify a procedure to be followed in a standardized fashion: no two Scanlon Plans are alike. Rather it is a demanding process designed to improve an organization's productivity and develop its employees. The Scanlon Plan is based on the belief of the dignity and untapped potential in every human being. It consists of a set of fundamental principles and a participative process developed through years of experience in a wide variety of settings.

How are Scanlon Plans Implemented?

Scanlon Plans are implemented through a rigorous organization development process beginning with the top-level leadership. An organizational mandate is developed and articulated to all employees. A Scanlon Plan proposal becomes the assignment of an ad hoc committee, led by management and including elected employee representatives from all levels and functions. Acceptance of and commitment to implement the proposal must then be agreed to by 90% or more of all people in the organization by secret vote. On the average it takes 150 employee days over 36 weeks to design and implement a Scanlon Plan.

Why Scanlon?

The Scanlon Plan has many benefits. Experience of over half a century has shown Scanlon Plans not only create better organizations but more satisfied/better employees. Research conducted by the American Compensation Association has shown Scanlon Plans produce positive results in productivity, cost reduction, communication, quality, labor relations, employee involvement, and employee pay. Scanlon Companies are recognized internationally for their quality, innovation, and people systems. Indeed, one fifth of the top fifteen "Best Companies to Work for in America" are Scanlon organizations. Unlike other plans or systems, Joe Scanlon never copyrighted his ideas, preferring to give them freely to the world. His gift allows organizations with limited resources to survive and succeed.

What is the Scanlon Plan Associates (SPA)?

The Scanlon Plan Associates (SPA) is a nonprofit association of organizations dedicated to the Scanlon Principles and Processes. Founded in 1964, the SPA's mission is to help each member organization become among the world class leaders in their industry. Throughout its thirty year history SPA membership has consisted of innovative organizations from throughout the world. Through the support of its member organizations the SPA provides Scanlon information to interested scholars, organizations, and agencies worldwide.

Benefits of SPA membership:

Networking with top organizations and their leaders • Educational Programs • Research • Conferences • Training Materials
• Computer Network • Newsletters • World Class Diagnostics • Resource Library • Organizational Tours