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EMPLOYEE STOCK OWNERSHIP—A NEW APPROACH TO PRODUCTIVITY

Mr. LONG. Mr. President, I am sure that many Members have noticed that employee stock ownership is catching on. The legislation that the Congress has enacted over the past 10 years has been successful in encouraging more than 5,000 companies to share ownership with their employees.

Although we have recently placed increased national emphasis on such hard economic factors as capital investment and research and development, thus far we continue to overlook the soft factors that have such an important impact on productivity—the motivation, commitment, and dedication of working Americans. Employee stock ownership provides a way to link these two factors and to end the costly mismatch between the national goal of improved productivity and our system of incentives and rewards.

Some would have us believe that our sagging productivity is due to an erosion of the work ethic. The evidence, however, is to the contrary. For example, a 1980 Gallup study for the U.S. Chamber of Commerce found that an overwhelming 88 percent of working Americans feel that it is personally important to them to work hard and to do their best on the job.

Other surveys reveal similar findings. In 1977, for example, a survey conducted by the University of Michigan's Survey Research Center found that 75 percent of Americans would prefer to go on working even if they could live comfortably without working for the rest of their lives. Seven years earlier, only 67 percent of those surveyed expressed the same attitude, indicating that Americans' commitment to the value of work is growing.

Other studies indicate that not only are Americans committed to work, they also have a great deal of control over how hard they work and over the quality of the work performed. In 1982, a pilot study for the Public Agenda Foundation explored aspects of the unwritten work contract—the assumptions that each individual makes about what he or she will give to the job and what is expected in return.

Of those surveyed, 78 percent alined themselves with the statement, "I have an inner need to do the very best job I can regardless of pay." Only 7 percent thought of work as simply a business transaction whereby one regulates effort according to the size of the paycheck.

This study also found that a huge majority—82 percent—felt that they had some control over the effort they gave to their job, and an even greater majority—88 percent—responded that they had control over the quality of the work they performed. Too few policymakers realize just how much control working Americans have over whether they will meet only the minimum requirements of the job or whether they will contribute that extra effort that makes the difference between mere adequacy and competitive excellence.

When the Public Agenda study asked whether those surveyed were using this freedom of choice to fulfill their "inner need to do the very best job" they can, only 16 percent said that they were. The rest indicated that they could improve their effectiveness, and many claimed that they could be twice as effective.

Why are not they being more effective? One clue is found in the 1980 Gallup study which asked workers who they thought would benefit from improvements in their productivity. Only 9 percent felt that they, the workers, would. Most assumed that the beneficiaries would be others—consumers or stockholders or management. This finding conforms with the results of a Yankelovich, Skelly and White study several years ago which found that a majority of college students no longer believe that working hard pays off.

Similar findings stem from a 1981 Harris survey for Sentry Insurance which revealed that 73 percent of working Americans believe that "the motivation to work hard is not as strong today as it was a decade ago", and 78 percent feel that "people take less pride in their work than they did 10 years ago."

Some have argued that such findings are proof that the work ethic is eroding. I disagree. The evidence indicates that the work ethic is strong and growing stronger. I think it signifies something more troubling; it signifies that more and more people are doubting that hard work will bring the personal rewards that they have a right to expect. The problem, I believe, lies in our management systems and in our flawed reward system, both psychological and financial that now dominates the American workplace.

For example, when Gallup's Chamber of Commerce study asked people whether they would work harder and do a better job if they were involved in decisions relating to their work, an overwhelming 84 percent said that they would. Similarly, psychologist Raymond Katzell of New York University reviewed 103 experiments designed to test whether an improved incentive system, including both money and greater control over one's work, would lead to higher individual productivity. It did in 85 of the experiments.

The growing appreciation of the benefits available through participative styles of management is well reflected in a 1982 New York Stock Exchange survey of management's attitude toward participative management. Eighty-two percent of those surveyed in corporations with 500 or more employees considered participative management to be a promising new approach—versus only 3 percent who considered it a fad destined to disappear.

Similarly, a new McKinsey & Co. study commissioned by the American Business Conference, found a strong link between more participative management methods and increased profits and productivity. This study of mid-sized growth companies—those with $25 million to $1 billion in annual sales—reveals that reliance on such management approaches has become a chief characteristic of highly successful firms.

Within the American work force is a large reservoir of potential for improved performance and increased productivity. Americans appear to be willing to work harder and to work smarter in order to turn out a higher quality service or product. Indeed, their self-esteem demands that they do no less. The problem facing U.S. policymakers is how to tap that productive potential.

In a recently released report on the Nation's long-term productivity problems, the Committee for Economic Development concludes that no single approach to boosting productivity will work for every firm or industry. Consequently, this public policy group suggests that businesses adopt a set of guiding principles to increase productivity growth rates. Each of the guidelines suggests the potential impact of policies and programs supportive of employee stock ownership.

These guidelines include:

First. Making increases in productivity a central goal of long-range business strategy, alongside such key objectives as improved profits, stock-price appreciation and increased market shares.

Second. Establishing a portfolio of policies to achieve productivity gains.

Third. Encouraging entrepreneurship, risk-taking and constructive criticism at every level of the organization.

Fourth. Offering real incentives, both financial and nonfinancial, to workers and managers to cooperate with one another and apply their skills and creativity to such long-run objectives as productivity growth.

This report, prepared by the CED's Research and Policy Committee, concludes that, due to their decision-making role, top management must take the lead in boosting productivity growth. For firms with a unionized labor force, the report concludes that it is essential to make the union an integral part of all productivity programs, which may require a new attitude on the part of both management and union leaders.

Recent evidence indicates that not only is there much that should be done but also there is much that can be done. For example, one study disclosed that from 1957 to 1978 the percentage of workers who saw their job as a source of personal fulfillment decreased from 50 to 25 percent. Similarly, the Survey Research Center at the University of Michigan found in a 1977 survey that 60 percent of the work force would prefer another job, up from 44 percent since 1969. In a 1980 study, 27 percent reported that they would not buy the products they make.

For many, increased productivity is still regarded as a code word for speed-ups that benefit management and stockholders and threaten jobs security. Yet that need not be the case. In searching for a more productive and a more fulfilling way to get things done, perhaps we should take a lesson from Pope John Paul II who suggested in the 1981 papal encyclical, "On Human Work," that:

> Every effort must be made to ensure that . . . the human person can preserve his awareness of working "for himself".

The evidence indicates that employee stock ownership has the potential for creating a work environment and a reward system that can bring out the best that the American worker has to offer.

The following four studies are representative of the productive potential that employee ownership has only just begun to tap:

In a 1978 report prepared on contract to the Economic Development Administration of the Commerce Department, the University of Michigan's Survey Research Center found in a study of 30 employee ownership companies that such firms were 1.5 times as profitable as comparable firms owned in the more traditional manner. Employee ownership also seemed to be associated with better attitudes toward the job. The impact of this ownership effect increased with the amount of equity employees owned.

From a 1979 survey of 72 ESOP companies, the Employee Stock Ownership Association of America compiled a profile of the average ESOP company. The average company had been in operation for 24 years and had established its ESOP 3 years prior to the survey. In that 3-year period, the ESOP acquired an average of 20.8 percent of the sponsor company's stock. Over that same period, average profits had increased 15 percent, employment grew 25 percent, sales per employee rose 37 percent, and total annual sales jumped 72 percent.

In a 1981 study of 229 companies by Iowa Law School's Journal of Corporation Law, ESOP companies showed an annual average productivity increase of 0.78 percent (1975-78) compared to the national average of a 0.74 percent decline. In other words, the ESOP companies appeared to be 1.5 percent more productive than comparable firms. Indeed, it appears that this ownership effect may have made the difference between positive growth and economic decline.

In a 1967 survey of worker-owned plywood companies in the Pacific Northwest, output per worker was found to be approximately 30 percent higher than in comparable plywood companies.