The Inherent Motivation to Work Productively:
A Brief Look at Employee Ownership and Industrial History

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[Abstract – Until the industrial revolution, work was performed in the U.S. (outside of the slave economy) by individuals who had direct and obvious motivation to maximize the quantity and quality of their production. The industrial revolution led to dramatic changes in these motivational relationships. Modern employee ownership may present an opportunity to restore these healthy motivational relationships.]

There are two companies. Each adopts an arrangement that puts some of its stock in the hands of its employees. Several years later, one of these companies has been transformed: revenue is up, costs have been contained, profits have grown; employees are fully engaged in their work and managers are able to spend their time on the things they always thought they should be doing. The other company, in contrast, has seen little change despite its adoption of employee ownership. Employee attitudes are still what they always were, they go about their work as they did before, and bottom line financial results show little movement that can be attributed to employee ownership.

These divergent experiences represent the reality of the American experience with employee ownership. Very simply, putting stock in employee hands may or may not boost company performance. In the face of this record, any company contemplating the idea of implementing an employee ownership program will surely want to know what might account for the differing results that have been experienced by the many companies that that have tried some form of employee ownership over the past 30 years. Our experience at the Beyster Institute has suggested some answers. To explain it all, let's step back in time for a brief tour of our industrial history.

The year is 1802. Johann Leverau, brought to America as a small boy by his parents, is now a respected member of the community in Hope Springs, PA. With the help of his two sons and the support of his wife, he plies his trade as the town's wheelwright. Cutting hubs, fashioning spokes, measuring and ordering iron tires from the town blacksmith – the task of fashioning wheels for the wagons, carriages and coaches throughout the town and the surrounding farm country presents him with daily challenges.

At the moment, he has just returned from delivering a wheel to a local farmer, whose wagon had lost its front left when a spooked draft horse pulled it off the road and into a rocky ditch. The wheelwright had worked with painstaking care to produce a solid, reliable product that would serve the farmer well. And he had worked by lantern light the past two nights so that the wheel would indeed be ready on the day that he had promised it. Now home from the delivery, he feels good about the outcome that his hard work has produced – a job to proud of and money in his pocket.

Every enterprise, at the most basic level, wants two things from its labor force: a) work that is of a high quality; and b) lots of it. Said more succinctly, the enterprise seeks quality of effort and quantity of effort. This quest frames one of the most fundamental challenges of organizational management.

Of course, even in our modern age, management can't program the brains of workers. They can't hardwire the neurons and nervous systems of employees so that they perform as automatons. Employees aren't robots (to the regret of many a manager) – they themselves have ultimate control over what they do. So, managers who want workers to raise the quantity and quality of their work output are left to confront issues of motivation, of desire, of incentives.

What about Johann? What were his incentives to put out quality and quantity of effort? In those pre-industrial cottage craft days, when most Americans (outside of the slave-based economy) worked on or off the farm in family enterprises or small partnerships, the motivations were clear and straightforward. If you worked in your own business as a self-employed craftsman, your income was directly proportional to the amount of work you did. Goof off, and your income would plummet with your production. Bust your tail for long hours and your income would climb. So the motivation to maximize quantity of effort was not hard to grasp. But quality of effort, too, was important. Certainly, customers would be less inclined to do business with you if the quality of your work was poor. But more powerful than that incentive (after all, as the only wheelwright in the valley, Johann had a somewhat captive clientele) was the fact that you knew your customers personally – and they new you. It was a matter of reputation and respect. It was pride of craftsmanship. Every Sunday when you went into town to attend church you came face to face with the people you had made wheels for. If you wanted to hold your head up and feel good about yourself, you needed to produce quality results at work. As a worker-owner, then, pride and purse were joined at the hip with the quality and quantity of your work.

Then something happened. A great and terrible technological advance changed everything. Steam power was loose in the land. No longer was the scale of industrial production limited by the constraints of sheer muscle power – the muscle power of a man, or an ox or a horse, boosted perhaps by the power of a stream turning a mill wheel. The technology of steam made it possible to power great machines of production to turn out goods, and great machines of locomotion to transport raw materials in and finished wares out.

The industrial revolution of the 19th century made production possible on a far greater scale than had ever been seen before. But to accommodate and fully utilize this new power, a host of social, legal and economic changes would also be required. Yes, from a technological point of view, large scale factories could now be built, with great machines operated by humans but powered by steam. But from a financial point of view, building these fortresses of production would require sums of capital of a kind that only kings and princes had once had access to. And America was short on kings and princes. The way around this was to pool smaller amounts of capital from many suppliers. But potential suppliers of capital were likely to be "absentee" financiers, not hands-on operators. They needed some legal structure that could be relied on to protect their interests even though they personally would not be present – and to insulate them from liability if there were problems. Thus was born the legal concept of the corporation, in which ownership could be shared among a virtually limitless number of parties, in proportion to the amount of capital each contributed, and with a small group of responsible individuals selected by those parties, called a "board of directors," to oversee the operations on their behalf.

With steam technology at the ready and new legal and financial arrangements perfected, all that was missing were the labor forces that would be needed in great numbers to man the factories that capital had built. And then, there they were. From around the world came the tired, the poor, the huddled masses yearning to breathe coal smoke. From within our own borders, people streamed off the farms as technology came to agriculture and slashed the amount of human labor needed to feed our nation. All of these people needed money to put food on the table and came to the factories where, they had heard, money could be had in a strange new form called wages.

While the process of production in this new industrial age seemed dramatically different from the simple methods of the preceding era, one thing remained unchanged. An imperative still, for every enterprise, was to maximize *quantity of effort and quality of effort* by the human beings that comprised its labor force. In old Johann's day, as we saw, the motivations for worker-owners were natural and obvious: pride and purse were on the line. Economic success, social acceptance, and self-respect would rise or fall in direct proportion to quantity of effort and quality of effort. But with the advent of the Industrial Revolution, all that changed.

No longer were goods and services being provided by worker-owners. There were workers, to be sure, and owners, too. But those roles were no longer combined and embodied within single individuals. Instead, separate roles were created for those who owned (and the management team that represented them) and those who worked. Often, the distinction between the roles was painted in bright lines, with separate wash rooms and dining rooms, separate uniforms, and separate buildings for corporate management (in more recent times it has become more common to downplay the status distinction; still, workers and management know who is "us" and who is "them").

But when it came to maximizing quantity and quality of effort on the part of the labor force, management had a problem. Workers who were no longer also owners no longer had any inherent motivation to put out a high level of effort on behalf of the enterprise.

Yes, too little effort might result in losing one's job and thus one's income. Conversely, putting out a high effort, over a sustained period might – maybe – eventually – lead to a raise or promotion. Aside from these considerations, however, the old correlation between daily effort level and personal income was gone. The fruits of any increased efforts by workers, after all, went not into their pockets but those of the company's owners.

So, too, was the correlation lost between quality of work, on the one hand, and social standing and personal self worth on the other. The massive new scale of production of the Industrial Era severed virtually all connection between the workers creating the products and the customers who would ultimately use those products. Old Johann new the farmers and townspeople who bought the wheels he made. The workers in the wheel factories of the Industrial Era had no idea who might be the end user of the wheel that just came off the end of the production line. It might be shipped several states away. Moreover, as an individual worker, your role in the production of that wheel was very limited. You may have labored in the "spoke works" where wooden spokes were cut from long rods, lathed into shape and then pressed onto the sanding machine before being send down to the assembly floor. You probably had no idea even of what type of wheel your spokes ended up being a part of, or what kind of vehicle that wheel would be mounted on. Pride of craftsmanship? Hard to sustain in that environment.

The transition from the cottage craft era to the industrial era produced tremendous benefits, generating great wealth and fueling human advancements on many fronts. In 1800, more than 60%of Americans toiled on farms, performing backbreaking toil and living at the most basic level of existence. By 1900, our nation could feed itself – and a good part of the rest of the world – with the efforts of only a fraction of that percentage. The labor power freed up by these advances led to more goods and services, more education, more arts and leisure. But in the workplace, an unhealthy dynamic took root that has persisted to this day. Gone were the old worker-owner's natural, inherent motivations – economic gain and pride of craftsmanship – to maximize quality of effort and quantity of effort. In their absence, employers became obligated to supply *artificial* incentives to spur production.

Over time, companies collected a diverse range of artificial incentives, amassing a kitbag of carrots and sticks that could be applied to prod or tempt, spur or entice workers to apply themselves in service of management's goals. At first, employers tended to favor the sticks over the carrots. Threats of punishment or firing were the usual fare of supervisors and managers. An entire art form evolved around this "KITA" (kick in the rear end) management style. In the latter part of the 20^{th} century, however, professionals known as human resource managers were handed the keys to the kitbag of incentives, and the sticks increasingly fell out of favor. The creative application of carrots – bonuses, perks and benefits – has stretched both corporate budgets and the creativity of HR people.

Much of modern American business management, in fact, has been occupied by the struggle to find effective ways to operate productive workplaces in the absence of the inherent, natural incentives that once motivated worker-owners. We have seen the coming and the going of "scientific management" as championed by the legendary Frederick Taylor early in the 20th century, job enrichment as championed by Frederick Hertzberg, and many more alternative strategies and techniques. Still, even as practitioners of "pay for performance" try out their theories, the quest continues.

Our brief tour through industrial history has arrived back at the present. And with that, we return to the question posed at the outset: what accounts for the fact that some companies have adopted employee ownership and seen their performance transformed while other companies adopting employee ownership and seen far fewer performance gains?

As it turns out, the distinction between the industrial era model of the workplace and the cottage craft model that preceded it lies at the heart of the answer. The companies that have enjoyed little in the way of performance gains, it seems, have viewed their employee stock program as simply another tool – another carrot – in the industrial era kitbag that "we" in corporate management can use to incentivize "them" in the working ranks. In these companies, the industrial era assumption that workers, lacking a pride-and-purse connection to company performance, will not maximize their efforts without the application of incentives remains unexamined and unchanged. These companies remain "we/they" companies, divided between those in corporate management who represent ownership and workers who need artificial incentives to produce.

In contrast, the companies that have experienced significant performance gains from employee ownership have in effect reunited the roles of worker and owner and reignited the classic "pride and purse" motivations of the cottage craft days to spur increases in the quantity and quality of the work effort.

What does that kind of company actually look like? What goes on in such organizations? How do they restore to life the core motivations of pride and purse?

It doesn't require much of a stretch in imagination to grasp how ownership of a significant chunk of the company's equity can create an economic incentive to produce (even so, there is no shortage of companies with employee ownership plans that have failed even on that count by neglecting to inform and educate their employees so that they actually and completely grasp the fact that they are indeed stockholders and what that may mean for them if they can help the company grow). The critical factor that has limited the success of so many companies that have adopted employee ownership, then, is the failure to kindle a passionate pride of ownership. What is so often lacking is the array of social, psychological and cultural elements that can make employees *feel* like owners. After all, one of the requirements that must be met before we are likely to take pride in a company's achievements is that . . . it must be *our* company! We certainly don't take pride in the performance of someone else's company. If we don't sense in our bones that it is our company, then who cares?

So, how exactly do you successfully restore in today's employee ownership company the natural motivations that prevailed in cottage craft era? Glad you asked.

We have found that three things are key to creating a workforce in which pride and purse are alive and well.

First, the program of employee ownership must provide employees with large enough individual ownership interests that the employees can genuinely feel that they own something important, something that will be central to their economic futures. Without an adequate amount of economic value on the line for employees, you don't have employee ownership – you have an equity incentive tool that will take its place in the old HR kitbag.

Second, these companies have consciously worked to transform the "culture" that grew up around the industrial era assumptions and that have telegraphed loud and clear that the hired help has no status in the organization except as someone to perform assigned tasks in exchange for a paycheck. At the companies that have succeeded with employee ownership you will find a sense of something like "citizenship" that elevates the status of every employee-owner. A certain modest dignity and status attaches to employee-owners, one and all, at these companies. How is this done? One of the chief ways is through the dissemination of information about what, and how, the company is doing. Companies that remain stuck in the industrial era tend to make information available to workers only on a "need to know" basis. At the successful employee ownership companies, secrecy is practiced only in the isolated situations in which it is truly required. Otherwise, people are kept informed about the company's activities and it is performing in terms of financial results. Besides being entitled as an owner to know what is going on, being better informed makes them better workers, since they will likely have a better grasp on what the real priorities are.

Third, the successful companies take advantage of their employee-owners' inherent motivations – and further reinforce them – by adopting operating methods that involve them extensively in understanding and pursuing key business disciplines. At a manufacturing company, this might mean involving workers in continuous pursuit of cost reductions and process efficiencies – a discipline not normally assigned to production workers. At a technology research and development company, this might mean involving scientists and other technical experts in marketing and sales efforts – a discipline that not normally assigned to *those* workers.

When all three elements are present – significant equity ownership, a culture of citizen-owners, and companywide involvement in the pursuit of key business disciplines – real employee ownership comes to life. And the track record on that approach speaks for itself.