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DOUBLEDAY, PAGE & COMPANY, GARDEN CITY, L. I.

MR. FORD'S PLAN TO SHARE PROFITS

TEN MILLION DOLLARS AS THE FIRST COST OF AN ATTEMPT TO SOLVE AT ONE EFFORT THE PROBLEM OF THE HUMAN ELEMENT IN FACTORY MANAGEMENT AND THE PROBLEM OF AN EQUITABLE DISTRIBUTION OF THE REWARDS OF INDUSTRY

BY

EDWARD A. RUMELY

THERE is a splendid defiance and daring in Henry Ford's announcement of the distribution of ten million dollars of profits to his employees.

This profit-sharing plan throws down the gauntlet not only to competitors but to the old economics which declare that a rise in the cost of labor must be taken out of the ultimate consumer and that hence under free competition any business which is to prosper must allow its wages to be regulated by the law of supply and demand to the general market rate. There is no demand in Detroit for unskilled workmen at \$5 a day. Mr. Ford has made his own demand independently of competition because he is conscious of the power of an idea which has been embodied in his business and which enables him to set his own standards and to point the way to a new era of manufacture.

Owing to the rapid rise of the automobile industry in Detroit, it has been necessary during the last ten years to draw very large numbers of additional workers to that labor market. Piece-work rates and the plan of operation under which an employee could work long periods of time on similar pieces and upon the same machine made it possible for men who were not skilled mechanics to succeed in the automobile factory. As the profits of any individual manufacturer during the boom period depended largely upon the quantity of cars he could produce, there developed a keen competition for workers and for large production. Higher rates of pay were offered. From the farms and small cities for hundreds of miles around Detroit, unskilled workers and many others fol-

lowed the lure of big pay and of city life that Detroit held out. Three years ago, one well known automobile manufacturer who was engaged in marketing a large quantity of a new design of car instructed his shop superintendent to put on 1,200 men in 60 days in a new plant in order to attain the required production per day. When, at the expiration of that time, he found that the superintendent had succeeded in getting only 750 men, he said, "Raise the pay 50 cents a day."

"We are paying them more now than they are worth," the foreman replied. "Green farm hands are getting machinists' wages of \$3 a day."

After two weeks it was found that an additional inducement of 50 cents still did not bring the required number.

"Pay them a dollar a day more."

"But you must remember that will mean a dollar a day increase not only for the extra 200 men that we will want but for the 1,000 men we have already employed—we cannot stand that. It is not a question of to-day only. What will this amount to three or four years from now, when the big profits of the automobile business have been wiped out by competition?"

"If this thing lasts three years, I am satisfied. Somebody else can settle that question," was the reply.

Demand for labor in Detroit has been so keen until the recent depression set in that a man could quit his job in the morning and find employment in another factory at noon. Then, too, a large number of unmarried men of a roving disposition were among those most naturally attracted to such conditions. A high degree of instability among automobile employees

developed that was especially acute in Detroit and that brought the word "floaters" into common use to designate the man who would hold a job for five days and then quit.

PUTTING AN END TO "FLOATING"

In 1912, one large manufacturer of automobiles found it necessary to hire a total of 20,000 men to maintain an operating force of less than 10,000 men. At one time it became necessary to employ 600 new men a week to maintain an equilibrium in the working force. Investigation showed that it required two hours to hire and send a new man to a foreman to fill a vacancy; that every new man introduced into the plant was for weeks less efficient than an experienced worker, and that, in addition to his own lower output, his presence in the department served to slow down the smooth progress of the work of others. Under such unstable conditions the quality of the output was likely to suffer quite as much as the quantity. In consequence, the Ford Company undertook to bring about continuous employment in its own plant. It had already succeeded through its sales and distributing policy in inducing the dealers to stock up during the winter months and in opening foreign markets that required the output during the slack seasons at home.

This continuous market insured operation of the plant at a fairly even rate without shut-downs throughout the year. But the management recognized that a stronger and more definite appeal to the self interests of the worker would be necessary to hold continuously for a long period of years a body of workers among whom there were so many "floaters" disposed to move from job to job. Every man must be satisfied that he was being paid the full wage to which his productive ability and the period of his services with the company entitled him, and this wage must compare favorably with that of men in other factories about him. The employing of the men and rate of wages paid had been left, in the past, largely to the initiative and discretion of the foremen, guided by traditional policies which had established themselves within the plant.

A survey of all workers was made. It showed that the company was then actually paying forty-three different rates per hour. There was no clear statement of the requisites that entitled a man to any particular wage. No general wage plan was in force, but it was left for every foreman to recommend an advance of a cent or two an hour as he thought the earning power of a particular man increased. Some men advanced rapidly because of their efficiency; others, because they knew how to deal successfully with their foreman and were self-assertive in their demands. Other men of a retiring nature in the same department hesitated to ask for higher pay and went on working at a lower rate when they really merited an increase. The wide variety of wage rates and lack of any definite standards that enabled comparison between man and man and between department and department made it impossible for the management to grasp or follow the progress of individual employees. To overcome these difficulties, a broad plan for the stratification of all workers in the plant along clearly defined lines and on the basis of definite standards was undertaken. Forty-three different hourly rates were abolished and the following eight different wage rates substituted in their place: 23 cents, 26 cents, 30 cents, 34 cents, 38 cents, 43 cents, 48 cents, and 54 cents an hour. The 20, 21, and 22½ cent rates were all grouped together in the 23 cent class. All rates between 23 cents and 26 cents were grouped into the 26 cent class, and similarly throughout. In this way eight different levels of pay were established and the work of the paying department simplified. When the pay of a man was increased, it was not necessary in each case to decide upon and state how much. It followed as a matter of course that he moved to the next higher rate.

Then, all the workers of the plant were grouped into five classes:

A-x and A-xx Foremen and special men

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|------------------------------|---|-------------------------------------|
| a. Mechanics and sub-foremen | { | 1. First class workmen 54 cents. |
| | | 2. Men of average ability 48 cents. |
| | | 3. Beginners 43 cents. |

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|------------------------------|---|-------------------------------------|
| b. Skilled Machine Operators | { | Service 43 cents. |
| | | 1. First class workmen 38 cents. |
| | | 2. Men of average ability 34 cents. |
| | | 3. Beginners 30 cents. |

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|--------------|---|-------------------------------------|
| c. Operators | { | Service 38 cents |
| | { | 1. First class workmen 34 cents. |
| | { | 2. Men of average ability 30 cents. |
| | { | 3. Beginners 26 cents. |
| d. Helpers | { | 1. First class workmen 34 cents. |
| | { | 2. Men of average ability 30 cents. |
| | { | 3. Beginners 26 cents. |
| e. Laborers | — | To advance to helpers, 26 cents. |

This scheme recognizes loyalty, expressed in continuous service for two years, as a basis of an increase of four cents an hour over the wage of equally skilled men in the same class who have not been in the employ of the company for the period of two full years. There is no service class for helpers, because all are expected to become workers of a higher order and to secure their service rate in one of the higher classes.

"RISE OR QUIT"

By the stratification of all workers in the plant on this definite plan, the management was enabled to watch the progress of employees. The record of any particular employee stood out clearly. His progress and position were no longer arbitrarily within the discretion of his foreman; and instead of depending upon one particular foreman, he became, in a larger way, part of the organization as a whole. It was possible to set forth clearly the requirements for advancing from one stage to the next within a class and also for advancing from one class to the next higher class of workers. The company pointed out to the foremen that it expected all its employees to rise steadily in their wage rates. Six weeks after a new man is hired, if his pay does not increase from the beginner's pay to the second stage of that of a fair workman, his name automatically comes to the attention of the superintendent who investigates the case. "Why has this man's wage not advanced?" is asked of the foreman. If no very definite reason can be given, or if the answer is, "He is not worth more," the answer is, "Why do you keep him? What are you going to do to place him where he can be more profitable both to the company and to himself?"

FITTING THE MISFITS

In many cases it was found that the man had simply been overlooked by the fore-

man because he did not ask for an increase in wages. In other cases, that some additional time for training was required. In very many cases it was found that much better results for the company could be obtained by shifting the new man to some other department and to other work more suitable to him. A large number of the cases showed that accident had placed men at the wrong kind of work. For example, a carpenter out of work had taken a job and had been assigned to the next position that happened to be open, a position that was wholly unsuited to his experience and ability. Such men were being held by inertia, and by the routine of the old methods of handling employment problems, at the job which first happened to come to them, where they could not do justice to the company or to themselves.

This new stratification of employees makes possible the supervision of all employees by a general employment department which guards every workman against discrimination on the part of his foreman and immediate superiors for any personal reason other than merit. No longer is any man discharged on the word of the foreman alone. If he is found to be unsuited for one department he is given an opportunity in another, sometimes in a third, fourth, and even a fifth, until by repeated failures he has eliminated himself. Knowledge of the requirements for each of the different rates of pay has spread throughout the shop and fixed itself clearly in the minds of all. A well regulated system for watching the increase of individual employees from stage to stage and passage from one class to another was started.

HOW THE PROFITS ARE SHARED

These investigations and the plan set forth above were carried into effect during 1913, and a vast amount of material was accumulated and became the basis of the profit-sharing plan that was recently announced. On January 1st the officers of the Ford Company announced that thereafter their working day would be reduced from nine to eight hours and that the hourly rate of every man would be increased one eighth, so as to give the same pay for eight hours as had been paid for

nine hours previously. In addition, the company would distribute a portion of its profits for 1914 which had been estimated in advance, and this portion for 1914 would amount approximately to ten millions of dollars. Further, that this would permit of a minimum rate of pay of \$5 a day for every adult male worker of 22 years or over in the plant. All workers who earned more than 38 cents and less than 47 cents an hour would receive \$6 a day, and all who earned more than 48 cents, \$7 a day. A beginner in the "C 3" class who had received \$2.34 for a nine-hour day would be entitled to that amount for an eight-hour day and in addition his share of the profits which the company would give him would amount to \$2.66 a day and would be paid on every pay-day with the regular wage. A "C 3" service worker who had previously received \$3.42 for a nine-hour day would now be entitled to that amount for an eight-hour day and in addition the company would pay him 1.58 of the profits and bring his wage to a minimum of \$5 a day. Similarly, the profits added to the pay of all other workers increased their rate to \$6 and in higher grades to \$7 a day, so that at the present time there are approximately 15,000 men who receive \$5 a day, 1,000 men \$6 a day, and 200 men \$7 a day at the Ford plant. Practically speaking, and to outer appearances, the wage rate of the entire factory has been made uniform. Beneath this, however, the old stratification is being kept in force and the status of every man in the organization fixed thereby. In case of overtime, the rate so fixed will come into force, 150 per cent. of the normal rate being paid for overtime hours.

Here, again, Henry Ford has had an opportunity of bringing his fundamental conception into play, viz., the making of one standard to serve as widely as possible.

A REJECTION OF ALL PRECEDENT

The whole modern development of factory management is away from straight day work to piece-work, bonus systems, premiums based on output, and similar devices for discriminating between individual workers. The varying rate of pay that gives to every worker in accord-

ance with what he produces is regarded as essential in all modern efforts toward efficient management. That is rejected entirely in the Ford plant. This rejection of the result of accumulated experience not only in our own country but all other countries as well is possible in the Ford business because in it the principles of manufacture and a new method of shop organization have been evolved which do not belong to our era but which foreshadow a type of industrial plant that is to come in the future.

No promises beyond 1914 have been made, although Mr. Ford has declared that it will be his policy throughout his life to continue business and that at his death he will so arrange the controlling interest of the stock that the same policy will remain in effect.

Soon some men began to make comparisons between themselves and their neighbors who were receiving equal pay. One older worker, a sub-foreman, came in and protested, "I don't think it right to have a green hand in my department paid \$5 when I receive only \$6."

"Yes, we know that you cannot readily understand our plan in the light of your past experience here and by what you have seen elsewhere, but you must realize that we are starting something that is fundamentally new and different from anything that has been tried before. We want you to coöperate with us in this effort."

But still the man protested, "I don't think it right that after working here as many years as I have this man should receive within \$1 of my pay."

"Is not a decrease from nine to eight hours a day and an increase in pay from \$4.30 to \$6 a day satisfactory to you? Can't you look at it in that light?"

But still he was dissatisfied and continued to protest.

"You, evidently, are not the kind of a man who will fit in harmoniously with the effort we are making. Here is your pay check up to next Saturday night. We shall have no further need of your services."

He then quickly pleaded he did not mean his protest to be taken in that way, but the superintendent remained firm and the dismissal stood.

Many predicted that this sudden increase in pay, which gave affluence to men who had been making barely money enough for the necessities of life, would result in riotous living and the demoralization of the working forces. Some friends of Mr. Ford urged that he retain the money and deposit it in the bank and give it to the employees at some later date and under such conditions as to compel further saving. "A man's money is sacred to him and I don't want to give it away with a string tied to it in that way," was his reply to this suggestion.

SAFEGUARDS AGAINST DISSIPATION

At the same time, however, a corps of seventy-five investigators studied the home surroundings and living conditions of every employee of the Ford Company, those of the foremen as well as of the new unskilled workers. They ascertained whether a man was supporting his family properly, whether he was saving, whether he used alcohol to excess. Before being placed upon the profit-sharing basis, the company satisfied itself that every individual man would be disposed to use the added earnings in a wholesome way. Foremen throughout the plant made their men realize that workmen who squandered their earnings for drink could not hold a position. On the first offense the offender was to be cautioned, but if, after repeated admonition, he still persisted, he was to be dismissed. The conviction that character and manhood are requisites for employment has spread throughout the entire shop; in fact, throughout the whole city of Detroit. On a street car a passenger asked his neighbor in overalls, "Are you coming from the Ford plant?" "No, I am not one of those \$5 a day men. You can tell them by their badge with a number on it."

"What do you think these men will do with their money? Spend it as freely as they get it?"

"Not many of them. They cannot hold their jobs if they do."

"Yes, but isn't a man's money his own? Can't he do with it what he pleases?"

"Yes, I guess it is, but the Ford Company would then say their \$5 a day jobs are their own to do with as they please."

"And I guess they would be about right."

Already many changes for the better have been brought about through the effort of these investigators. In one case, seventy-five foreign workers were found huddled together under most insanitary conditions in a twelve-room house. It was pointed out to them that they could not maintain their health and do justice to the company while living in that way. Quietly and unobtrusively, with no desire to meddle unduly in the personal affairs of the workers, this investigation is being continued. A spirit of helpfulness is evidenced by these investigations and they have been readily accepted. The employee has been made to understand that the added pay is to be used, first, to house himself adequately; to secure abundant and nourishing food and wholesome recreation; to rear a family, for throughout married workers have been given preference; to educate their children properly; and to save for the future and old age.

BENEFICIAL RESULTS IN THE FACTORY

The morale of the entire force, which was always good, has been strengthened. The output of finished cars passing a certain point in the factory increased within a week from the previous high record of 92 to 107 cars an hour. Similar gains have been made in every department, and this increased efficiency and thoroughness of work seems to be growing with no tendency, up to this writing, almost six weeks after the announcement, to fall back to the former basis. The profit-sharing extends to the office force, although not on quite the same basis as for the factory. There, also, has been a similar response.

Several days after the profit-sharing plan was announced, 13,000 men filled the streets surrounding the Ford plant. It became necessary to place guards at every door of the factory and a special guard at the entrances to the offices. The army of unemployed men in Detroit and men from distant points rushed to the factory to be, if possible, among the fortunates taken in as new \$5 employees. Although the company at that time was increasing its working forces, it became necessary to discontinue temporarily the hiring of men, for

fear of riots. Men now are taken on only after a thorough investigation. Personal applications for jobs in the factory as well as applications by mail are received, numbered, and investigated.

TO BUILD A PERMANENT FORCE

Unfounded fears have led to many wild statements such as that the Ford Company intend to demoralize the working forces of other factories by drawing out their best men. To this writing, not a single man has been employed who could not show that he was actually out of work. No man was hired away from any other automobile plant. Instead of seeking skilled workers on the outside the Ford Company intends to develop its own good workmen from the ranks. Mr. Ford has directed that during the present depression married men and others with families dependent upon them for support, who are out of employment, be given preference over other applicants. In the course of time, as the less efficient men eliminate themselves and as the careful selection of new men coming in shows its effects, this profit-sharing plan will lead to refinement of the personnel of the Ford organization. The largest results to the company, however, will come from the added incentive and loyalty of the men who are already in its employ. It is expected in 1914 that a force of 19,000 men, working in three shifts of eight hours, will produce 300,000 cars, as compared with 185,000 cars produced by 15,000 men in 1913.

A MOUNTAIN OF MAIL

The first week after the announcement, Mr. Ford's personal mail increased to thousands of letters a day. Registered letters, special delivery letters, letters from near and from far, from men, women, and children, from great capitalists and employers, from clergymen and reformers at home and abroad, crowded the private office of Mr. Ford so that a corps of assistants was required to open and sort the mail. Many wrote for jobs simply because they wanted more pay and easier hours and frankly said so. Others were willing to begin at the bottom of the ladder

and work up, waiving all extra profits simply for the chance of working for a company that appreciated its men. Wives in distress wrote, appealing for their husbands; a child of ten years for his father who was out of work, so that he might get food and clothing for the family. Many congratulated and some criticised. One man, an old blacksmith in New Jersey, 84 years old, first explained that he had a home and considerable property and that he was still earning \$4 a day and that he would not take a dollar from anybody, and then he said: "Fourier, my great teacher in France, used to say that some day a great employer would come who would solve the problems of labor. He looked for such a man all his life in vain and I have, too, till now, but I want to reach my hand across the country to yours to greet you and tell you that you have done a great thing. You have begun the era of coöperation."

A letter from one of the wealthiest multi-millionaires in America asked for details of the plan, because, he wrote, "I for a long time have been thinking along these same lines and your action has made me feel that it is time to do something."

Mr. Ford, himself, is busy on new problems. For the business that thirteen years ago could be confined within a bicycle repair shop, and to-day has a turnover of two hundred million dollars a year and a net profit of more than twenty-five million dollars, he foresees a world scope, not only in the distribution of its product but in the influence of its methods on manufacturing as a science.

During his leisure time he prefers as his companions fellow-workers, the farm friends and associates of his boyhood, one of whom remarked recently, "I knew Henry Ford would do something like this because four or five years ago he was talking to me and said: 'I think that the wealth we get is not ours to use as we please. When one has enough to pay for the necessities of life, like food and clothing and shelter, wealth is power and the power we hold for a time is ours as trustees. Some day we must all render an accounting of the use we have made of it.'"