

Doing Well by Doing Right

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Richard Locke, Ben Armstrong, Samantha Schaab-Rozbicki, and Geordie Young speculate that COVID-related challenges might lead firms to shift their assumptions about workers in ways that open up new political-economic possibilities, with benefits for workers in safety, compensation, and voice. I am skeptical about the idea of such COVID-induced learning. Drawing on an analysis of the costs of high turnover in the electronics supply chain, however, I argue that more generous assumptions about workers appear to have operational benefits. Understanding those operational benefits might lead firms to be less resistant to demands from workers for the kinds of jobs that Locke and his coauthors celebrate.

In their illuminating contribution to this wide-ranging conversation about a new moral political economy, Richard Locke, Ben Armstrong, Samantha Schaab-Rozbicki, and Geordie Young focus on the conditions of workers in global supply chains and how the COVID-19 pandemic might reshape those conditions.¹

They build their case around a contrast between responses to COVID-19, exemplified by Tyson Foods and Sanderson Farms. Operating in similar industries, geographies, and markets, these two firms have treated their employees in fundamentally different ways during the pandemic.² Tyson Foods *sweated* its workers. Sanderson Farms provided greater *security*. What explains the differences in strategy?

Tyson assumed that workers are “reluctant contributors to the firm’s prosperity who require constant supervision and control.”³ Sanderson Farms assumed that workers are “assets to be valued and developed, multifaceted individuals who are intrinsically motivated to work and contribute to their workplaces.”⁴ In short, Locke and his coauthors argue that the differences in firm behavior reflected competing *managerial assumptions* about the capacities and motivations of workers.

In emphasizing the strategic importance of managerial assumptions about human capacities and motivations, Locke and his coauthors draw on management theorist Douglas McGregor’s classic book from 1960, *The Human Side of Enterprise*.⁵ McGregor was a psychologist, friend of Abraham Maslow, and early member of MIT’s Sloan School faculty. He called the theory of workers as reluctant contributors requiring detailed control *Theory X*, and the theory of workers as multifaceted individuals and intrinsically motivated *Theory Y*. McGregor favored Theory Y.

Locke and his coauthors share McGregor's emphasis on the strategic importance of managerial assumptions and his enthusiasm for Theory Y. Those thoughts lead them to wonder whether managers at firms that faced difficulties like Tyson did during the early stages of the pandemic might shift their assumptions in ways that support securing rather than sweating. That change of assumptions – learning new managerial assumptions from the experience of the COVID-19 pandemic – might in turn expand our sense of political-economic possibility.

This argument about the strategic implications of shifting managerial assumptions is fully general: it applies to, but is not confined to, firms in global supply chains. My comments are intended to be similarly general, applicable but not confined to workers in global supply chains.

One influential line of criticism of McGregor's important book observes that Theory X works pretty well in some organizations. The right way of organizing and managing work depends, these critics argued, on the *kind of work*. With routine tasks, Theory X makes sense. With tasks requiring problem-solving by workers, Theory Y works better. The best approach is *contingent on* "the nature of the work to be done:" thus, *Contingency Theory*.⁶

While doing research on high worker exit in some suppliers in the electronics industry, I heard a forcefully stated version of Contingency Theory from a senior executive at a contract manufacturer. We were observing exit in the range of 5–7 percent a week, close to the level at Ford before the 1914 introduction of a \$5 day.⁷ The executive acknowledged that high exit might be a concern for some firms. But he said (I am paraphrasing): "We are doing single-SKU [stock-keeping unit], high-volume production. We do not need to worry about high rates of exit." This executive had taught industrial engineering for many years, and I thought of his comment as a letter-perfect rendering of an industrial engineer's intuition: the high exit rate is anticipated, so firms can design strategies to protect factory operations from the potentially negative effects of high exit. The strategies of mitigation include:

- Producing on assembly lines with the pace of production controlled by the speed of the line;
- Simplifying standard operating procedures at each station on the assembly line by reducing those procedures to routine operations with short cycle times performed on units held in place by fixtures;
- Prebuilding and hiring extra people in anticipation of periods with especially high exit;
- Redistributing experienced workers and adjusting line speeds in response to especially high exit.

These strategies aim to create a manufacturing process that does not depend on a worker's skill, experience, or social connections. Theory Y sensibilities – about intrinsic motivations and integrating personal goals with the goals of the firm – may, that executive acknowledged, be nice and humane, but mass production can work perfectly well from Theory X, with its emphasis on simplification, monitoring, control, and an attendant relaxed attitude to high turnover.

An alternative intuition – I will call it the *humanist intuition* – is that high levels of worker exit must create some operational troubles. The guiding intuition is that the success of the labor process always depends in some ways on the accumulated work experience, skills, and social connections of the people involved. The humanist intuition does not deny that different kinds of organization make sense under different circumstances. But it suspects that there are limits to the power of Theory X–inspired strategies of buffering or insulation, and benefits to a strategy guided by the idea of workers as human beings who should be valued and whose capacities and connections should be developed.

To assess the power of these competing intuitions, my collaborators and I studied the impact of high worker turnover on production at a single facility: a large final assembly site in a complex supply chain.⁸ We had full access both to administrative data about employees and their location in the assembly and testing process from a contract manufacturer and production data from a lead firm. The administrative data on more than fifty thousand employees (employed over a nine-month period) showed a mean turnover rate of 5.1 percent per week, with lots of temporal variation, from a low of 2.9 percent just before the monthly pay week to a high of 8.9 percent in the pay week. The production data included both test results from the *many* test stations used in the final assembly process, and four years of data on “field failures” for the tens of millions of products that were shipped over that same nine-month period. Field failures are the units that passed all the rigorous tests in the assembly process, were sold, and, during the subsequent four years, needed to be repaired or replaced. These data enabled us to ask, among other things: In weeks with higher turnover, are more units produced that failed in the field? More precisely, when workers leave at higher rates, does that cause a decline in product reliability?

The short answer is *yes*. Simplifying a more complicated argument, we observed that units produced in the highest turnover week, the week of the month when workers are paid, were 10.2 percent more likely to fail in the field than units produced in the lowest turnover week before payday.⁹ Despite all the extraordinary efforts at simplification and control, we found a continuing dependence of product reliability on the accumulated skill, experience, and social connections of workers assembling products.

Given the incredibly rigorous testing before units are shipped – testing of components, functionality, and appearance – it may come as a surprise that field fail-

ures increased when turnover jumped. How could the units that ended up with troubles in the field have passed all the tests? Think of it this way. Someone puts a component in a device. The component works, and the device passes the tests. But suppose, for example, the component is not as securely in place as it might have been – and would have been with a more experienced assembler. With normal use, the slightly insecure component displaces more quickly and the device needs to be repaired.

To be clear: even devices assembled during high-turnover weeks do well in the field. So the industrial engineer's intuition is not wildly misguided. Still, that 10.2 percent increase is a big deal when the facility is producing tens of millions of units. In short, and contrary to the industrial engineer's intuition, a dose of Theory Y may be important, even in circumstances – single-SKU, high-volume production – that seem most promising for Theory X's focus on supervision and control.

So, I share the sensibilities that animate Locke, Armstrong, Schaab-Rozbicki, and Young. I find those sensibilities ethically more compelling and, for the reasons I have sketched, I think they also confer operational benefits. Even in the setting I described, it is a mistake to think of workers as objects to be controlled rather than subjects whose skills, experience, and relationships matter for operational success.

At the same time, I am skeptical about the thought that managerial experience during the COVID-19 pandemic will change fundamental assumptions about work and workers. Not by itself. Firms that faced challenges during COVID can attribute the problems to the singular experience of operating in a once-in-a-century pandemic. That experience might produce a temporary shift in behavior. I am not sure why it would prompt a change in fundamental assumptions about people.¹⁰

I do expect that the pandemic's supply-chain disruptions, in conjunction with the politics of populism, will generate important supply-chain shifts, with strong pressures for onshoring (and for reshoring, to new geographies). Moreover, shifts in power associated with tighter labor markets and increased pressures from worker organizing will likely lead to better compensation and working conditions, with surer effects on improved treatment for workers than managers' new embrace of old theories about management.

I do not mean to deny that managerial views matter. Arguments like the one I have presented here – about operational benefits of treating people as contributors to success rather than as tools to be controlled – may reduce the resistance of firms to making changes they feel pressured to make. They may be more willing to absorb the costs of greater compensation and better conditions at work, indeed to see those costs as investments with a positive rate of return.

In the case I have described, reducing turnover by providing greater compensation, thus reducing the rate of field failures, would have resulted in some sav-

ings. Recognizing that you can reduce costs by respecting skills, experiences, and social connections and paying more to retain them – even in the context of single-SKU, high-volume production – may reduce managerial resistance to worker pressure for both respect and compensation. And that reduced resistance may itself help to expand the range of political-economic possibilities in the ways that Locke and his coauthors hope.

ABOUT THE AUTHOR

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ENDNOTES

- ¹ Richard M. Locke, Ben Armstrong, Samantha Schaab-Rozbicki, and Geordie Young, “Supply Chains & Working Conditions During the Long Pandemic: Lessons for a New Moral Political Economy?” *Dædalus* 152 (1) (Winter 2023): 131–142.
- ² Sanderson Farms and Tyson Foods are very different in a variety of ways that Locke and his coauthors do not discuss: Tyson is more than an order of magnitude larger in employees and revenue, processes and markets beef and pork as well as chicken, is a very large beef exporter, and sells through a number of brands. Sanderson Farms is exclusively in the poultry business.
- ³ Locke, Armstrong, Schaab-Rozbicki, and Young, “Supply Chains & Working Conditions During the Long Pandemic,” 136.
- ⁴ *Ibid.*
- ⁵ Douglas McGregor, *The Human Side of Enterprise: Annotated Edition*, ed. Joel Cutcher-Gershenfeld (New York: McGraw Hill Professional, 2006).
- ⁶ For an early discussion, see John J. Morse and Jay W. Lorsch, “Beyond Theory Y,” *Harvard Business Review*, May, 1970, <https://hbr.org/1970/05/beyond-theory-y>. Though I do not wish to pursue this thread here, it needs to be said that the “nature of the work,” whether routine or not, is an odd foundational explanation for how work is organized and managed. After all, any routinized work process can be reorganized to be non-routinized. The “nature of the work” is a matter of choice, not best understood as a parameter to which organization and management must adapt.
- ⁷ Daniel M. Raff and Lawrence H. Summers, “Did Henry Ford Pay Efficiency Wages?” *Journal of Labor Economics* 5 (4, Part 2) (1987): S57–S86, <https://doi.org/10.1086/298165>.

⁸ Ken Moon, Prashant Loyalka, Patrick Bergemann, and Joshua Cohen, “The Hidden Cost of Worker Turnover: Attributing Product Reliability to the Turnover of Factory Workers,” *Management Science* 68 (5) (2022): 3755–3767, <https://doi.org/10.1287/mnsc.2022.4311>.

⁹ Ibid.

¹⁰ McGregor thought the important shifts in managerial behavior in the 1930s and 1940s were “primarily adjustments to the increased power of organized labor and to the pressures of public opinion,” not founded on changes in managerial assumptions.” McGregor, *The Human Side of Enterprise*, 60.