Engstrom Auto Mirror Plant Case Study

Quinn Knudsen

Montclair State University

**Case Summary**

Engstrom is faced with an impending dilemma stemming from the use of the primary incentive program known as a Scanlon plan. Problems began in the 1990s when employees were measured at working only 40% of their capable productivity (Beer & Collins, 2008). Change was needed within the organization and after shopping around, management decided to present a Scanlon plan to the employees. Engstrom’s Scanlon plan model provides incentives for labor savings in which 75% of the savings would be split amongst the employees in the form of monthly bonuses and the other 25% would go to the organization. An overwhelming 81% of employees voted in favor of the plan. Dubbed once as the savior of the plant, some serious flaws in the plan have shown up and manifested in a tremendous drop in productivity. The original Scanlon plan was created without a monetary bonus incentive, but based around the principle of inter-organizational information sharing and collaborative problem solving (Wren, 2009). At Engstrom , the addition of a bonus was included to create extra incentives for employees to adopt the plan. When times were good, the Scanlon plan resulted in sales quadrupling in a seven year window, but as soon as economic downturn struck, the employees who had grown accustomed to the monthly bonuses began to resent the plan. In 2006, Bent was forced to lay off 46 of 255 personnel on staff due to the economic downturn. Additionally, Scanlon bonuses have not been paid out in 7 months (Beer & Collins, 2008). Employees now seem to distrust the productivity based bonus scheme that once fostered diligence and good will amongst the plant. The plant manager, Ron Brent, now faces the dilemma of whether or not to scrap the existing plan or somehow give it “a shot in the arm” to rejuvenate his employees and once again meet his deadlines. In order to help him discover solutions, it will be advised to him that he analyzes his current dilemma through the theoretical framework set forth by Daniel Pink’s intrinsic motivation theory.

**Issues at Engstrom**

Productivity is the main identifiable issue at the Engstrom auto mirror plant. Brent reports that the company has had two major issues surrounding productivity within the past two weeks causing perennial customers to not receive their shipments on time. The first issue with productivity has to do with completion time. A job that should have been completed by Monday was now being completed by Thursday (Beer & Collins, 2008). As a result of this delay, Brent has to air expedite the delivery costing the company more money and it also displays unreliability to their top customer relation at Toyota. Joe Haley, Brent’s assistant, accurately ponders a connection between the grumblings heard amongst the workers about the current Scanlon plan and the recent inability to meet deadlines. A second core issue the plant faces is the declining quality in the product that is being produced. Sam Martinez, the Toyota manager, gave the Engstrom plant the highest honor by giving them certified supplier status. This means that all Engstrom mirrors are exempt from quality assurance checks by the Toyota plant. Only one other plant was given that status by Martinez who is known as a demanding manager. For him to give Engstrom a certified supplier status shows that he has strong faith in their ability to provide reliable and high quality products. Losing this status would be a huge detriment to the Engstrom plant. It is foreseeable that this honorable status may be lost if adjustments are not made soon to alter how diligently workers go about creating a high quality product that can be delivered on time. The employees have become increasingly distrustful and disgruntled with the current Scanlon plan which bases their bonuses upon cost saving production per labor hour. At first, employees were excited at the opportunity to increase their earnings by increasing the rate at which they produced mirrors. An example of this is the repairman who chose to take his entire tool kit over to fix a machine instead of the traditional one tool at a time method. However, over time, employees began to feel as if the organization was using the plan as a metaphoric carrot on a string to get them to work harder for less and less. Using Charlie Chaplin’s famous sketch, Engstrom employees metaphorically felt as if the Scanlon plan had become the conveyer belt that was being used to speed up production ratios, and when economic downturn hit employees were expected to work just as hard and fast without the reinforcement of the bonus checks creating tension and resentment. Management has reduced the production ratio 4 times between 2000 and 2005 down to 32.6%. The initial suggested rate was at 44% so that is a tremendous drop creating the aforementioned carrot on the stick phenomena to occur in the eyes of the workers. There is also serious distrust in the bonus calculations and employees have begun to accuse the company of “playing with numbers” and using “bean counter jargon” to diminish employee bonus payment (Beer & Collins, 2008). Another issue is a thickening dividing line forming between the employees and management without the mediating factor of employee suggestions. At initial Scanlon adoption, employees were willing and eager to make suggestions to management offering 306 within the first year. Currently, only about 50 suggestions are made each year (Beer & Collins, 2008). This is indicative of the mounting division between the two. Monthly meetings have become tense and there is an overall charged environment in the plant that surely spills over into day to day relations in a negative manner. Employees do not trust the fairness of bonus payments and believe their supervisors are receiving an inequitable bonus for their contributions to the company. Previously established communication lines and the once celebrated economic openness of the company seem to be succumbing to the mounting tensions rising between the divisions of labor within the plant.

**Daniel Pink’s Intrinsic Motivation Theory**

Pink’s theory of motivation functions at three different levels the latter two of which are highly relevant to this case study. At the first level, Motivation 1.0, biological needs such as the desire for food, water and sex guides action. Motivation 2.0 is defined as extrinsic (external) incentives such as achieving a good grade on a class case study or monetary rewards. At the final highest level dubbed Motivation 3.0, focuses on intrinsic (internal) motivation such getting enjoyment purely from working on a task without the need or desire for a reward outside of task completion (Pink, 2011). Importantly for the Engstrom plant, Pink asserts that monetary extrinsic rewards actually decrease the intrinsic interest for the activity. While extrinsic motivators may boost productivity in the short-term, it has the long-term consequence of decreased motivation to complete a task, which mirrors the trend seen as the Engstrom plant. According to Pink, fostering intrinsic motivation is the key to continued organizational success because employees are willing to work for reasons outside of a steady paycheck. Pink pronounces three basic needs for intrinsic motivation to occur. The first prerequisite factor for intrinsic motivation is mastery. Mastery is defined by Pink as having the ambition to continuously improve at something significant (Pink, 2011). Mastery contains three laws that if followed will result in having a better quality of work, focusing less on short-term goals in favor of the big picture, and will be less likely to take shortcuts. The first law states that mastery is a mindset and an individual’s ability to accomplish something is based upon how much they believe they are capable of accomplishing. The second law states that mastery is pain because it takes time and effort that may feel monotonous. Finally, Pink proclaims that mastery is an asymptote. An asymptote is a line that approaches a given curve, but never fully meets the curve at a finite distance. This parallels the relationship between working diligently at something someone desires to master without ever becoming perfect at the task. Mastery focuses on learning goals such as becoming a more skilled worker in favor of performance goals such as just getting the job done. The second component of intrinsic motivation is autonomy. Autonomy refers to behaving with a complete sense of self-directedness and choice. On the other end of spectrum, too much control occurs when behavior is guided by the experience of pressure and demands of specific outcomes come from forces outside of the self (Pink, 2011). Autonomy is comprised of four subsets labeled as ‘The Four T’s of Autonomy’. In this theory, for a worker to be deemed to have adequate autonomy they must have control over their Task (what they do), time (when they do it), technique (how they do it), and team (who they work with). Without fulfillment of these prerequisites, a worker is not able to reach Motivation 3.0 and foster intrinsic motivation for their work. Autonomy is the most essential component of Pink’s intrinsic motivation theory as it leads to work engagement. The final component of this theory is purpose. For Pink, workers who hitch their desires to a cause larger than themselves develop purpose at work. The value of work transcends beyond the normal parameters of a 9-5 shift in a way that is meaningful and lasting. With a raise in the amount of volunteer work done in America today, Pink theorizes that corporations need to reevaluate their fixation on profit maximization and to consider purpose maximization. This does not mean that corporations should reject profits, but they should understand that there is more to a successfully run organization than the number at the bottom line. In fact, many entrepreneurs, executives, and investors have come to the revelation that the best performing companies stand for something and contribute something to the world (Pink, 2011). These businesses are better off because they place emphasis and purpose on the catalyst rather than purely on objective business goals. This gives employees an answer to the question of ‘why’ in their daily work grind and it ultimately motivates them to produce their best efforts regardless of compensation.

**Analysis**

Low Mastery

-No incentive to improve product quality/job skills

Lack of Long-Term Business Success

Management Practices

Low Employee Intrinsic Motivation

Low Autonomy

-Workers feel as though carrot on a string guides their actions

Turnover

Current Scanlon Plan

Poor Profitability

Low/Poor Productivity

-Defective products

-Late on deadlines

Low Purpose

-No organizational mission

-No answer to ‘why’ question

The Engstrom plant is currently having some difficulty fulfilling the requirements set forth by Pink to develop strong employee intrinsic motivation. This begins with shortcomings on the first component of Motivation 3.0, mastery. Right now, the sole focus of production is being placed on performance goals such as increasing the profitability of the company through rapid production and labor saving techniques. Employees currently pursuing these goals break the first flaw of mastery because their entire focus is directed towards the short term goal of product competition and are likely to take any shortcut they can find to do so. This results in the recent trend in declining product quality and there is little incentive for employees to attempt to become better at their job of making mirrors. If mastery goals were pursued, employees would attempt to hone their own skills on their own and consistently attempt to become better at making the highest quality mirrors they can. Issues with employee autonomy are largely met on the surface level under the current management policies directing Engstrom. It is quite accurate to say that employees have fairly strong control over their task, time, technique, and team. The large issue is that employees are now beginning to question the validity of the self-directedness as management pushes the performance ratio farther and farther down creating the illusion that the ratio is being used like a carrot on string (Beer & Collins, 2008). As a result, it is quite perceivable for employees to begin to question whether or not there is any merit to their micro-autonomy. Complying to regulations and navigating based upon organizational parameters is different from true self-direction. Due to the general distrust of management that is growing, employees may now feel more like a puppet on a string who is told that they have the ability to make decisions for themselves, but ultimately the organization pulls the strings that guide their (un)self-directedness. This is detrimental to the organizational culture and leads to compliance rather than engagement. The focal point of the issues at the Engstrom plant surrounds the complete omission of any sense of meaningful organizational purpose. Currently, money and profitability is the sole focus of both the employees in the form of their bonus payments and the organization as a whole in the form of increasing production rates and sales. This is in direct contradiction with Pink’s model which advocates for purpose maximization as a compliment to profitability. The purpose of the Scanlon plan was to have employees that are focused entirely on increasing the profitability of the company so that they can receive bonuses. This model relies on the extrinsic motivation of money which proves to decrease intrinsic desire and does not result in the sustained employee motivation as the company is now seeing. The organization has not established the ‘why’ factor that successful businesses are able to develop. This ‘why’ factor provides a sense of purpose that employees can look towards for motivation regardless of the compensation they receive.

**Solutions**

All hope is not lost at the Engstrom plant and by properly addressing the issues through Pink’s intrinsic motivation theory long-term sustained success can be achieved by maintaining consistently high levels of employee motivation. The first step is to modify the Scanlon plan to promote mastery. The original Scanlon plan called for strictly information sharing to occur within all levels of an organization and did not call for a bonus of any kind, but the Engstrom plant chose to modify this into a bonus based program. Ideally, there would not be any form of performance based bonus because monetary incentives of that nature are shown to reduce intrinsic motivation (Pink, 2011). However, removing a bonus at this point ‘cold-turkey’ would prove to be a big mistake and likely create absolute outrage amongst the workers. Instead, a fair compromise would be modifying the bonus scheme to reward customer satisfaction for product quality such as being labeled as a certified supplier at Toyota. Employees will then focus their efforts on becoming more skilled laborers and making sure orders go out on time. This addresses two of the fundamental issues of product quality and late delivery that Brent initially indicates are top priorities. Instead of prioritizing labor saving, this adjustment highlights product quality and customer appreciation and does not force employees accustomed to a plan that includes bonuses to give them up entirely. Instead of just asking employees to do the job and meet a quota, they are being challenged to use their skills to their full potential and to even stretch the potential through refinement. A second focus should be placed creating a sense of trust and autonomy. One potential solution to this is to designate one day a quarter as a 24 hour window of creativity in which employees have the opportunity to work on an original creative project with whoever they want within the organization. At the end of the 24 hour period, everyone will have the opportunity to present what they came up with in a relaxed casual meeting setting with food and drinks. Essentially management is stepping out of the way of employee ingenuity and it allows the employees to pursue new and fun ideas that may become beneficial to the company. It also creates increased comradery by implementing a social event for bonding and a clear indication of the company’s willingness to allow employees to be self-directed. This should alleviate the puppet-master effect that some employees feel they are currently subjected to. Creating a strong sense of purpose is an imperative element of the current plan to resurrect the motivation and productivity once found at Engstrom plant. This aspect of the plan is spearheaded by implementing a charitable donation plan. As this is an automotive mirror development facility, it is important for employees to realize the importance of their work. The mirrors created by employees in the Engstrom plant are used by motorists everywhere as a primary safety feature. Having high quality production means protecting and saving lives of motorists. This answer the ‘why’ question so many employees face and it shifts motivation away from external rewards to the internal desire create the highest quality product possible so that everyday Americans are safe when they step into a vehicle. The second element of the purpose initiative is to set up a system in which a percentage of surplus company profits are donated to the Road Peace charity fund. Road Peace is the national charity for road crash victims and those afflicted (Road Peace, 2016). Engstrom should also offer to match all employee donations contributed to that charity as a sign of uniformity and support. A slogan for this charitable campaign can be ‘reflect on those around you’. Although this may be seen as a drain on profitability, the plan allows the organization to transcend beyond a dollars and cents auto mirror plant and become a cause driven beacon of charitability. This pushes the organization as a whole into an institute that is run by intrinsically motivated employees who not only value the product they create as a valued safety feature in automobile, but also the profits they create because a percentage is donated to an honorable charity. This inclusive giving nature creates unity amongst all levels in the organization and down the line the creation of fundraising events can be established to further give back and provide social opportunities for comradery growth in the organization. Ultimately, this plan instills intrinsic motivation, which serves as the catalyst for sustained success.

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