

Relations industrielles Industrial Relations



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Volume 14, Number 4, October 1959

URI: <https://id.erudit.org/iderudit/1022128ar>

DOI: <https://doi.org/10.7202/1022128ar>

[See table of contents](#)

Publisher(s)

Département des relations industrielles de l'Université Laval

ISSN

0034-379X (print)

1703-8138 (digital)

[Explore this journal](#)

Cite this article

Robinson, T. (1959). Management Attitudes Towards Fringe Benefits. *Relations industrielles / Industrial Relations*, 14(4), 505–516.
<https://doi.org/10.7202/1022128ar>

Article abstract

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Management Attitudes towards Fringe Benefits

T.H. Robinson

The author proposes (1) to define the terms « attitude » and « management »; (2) to consider some of the influences which have affected management attitudes generally; (3) to outline a few of the factors which have contributed to the growth of fringe benefits in recent years; and (4) to examine some of the factors determining the nature of management's attitudes towards fringe benefits.

Definitions

An attitude is a predisposition to act in a predictable way in the presence of certain conditions. An attitude may be individual, as in the case of a person's dislike of being shut in a small room; or it may be social, as in the case of the reaction of white people in the southern United States toward integration in the schools. Actually, as a ready-made response, an attitude is predictable primarily as to the nature of the response and to a lesser extent as to degree or intensity. The specific nature of the response that will be evoked is even less predictable. For instance, there is little doubt that an attempt to sing the « Red Flag » at a meeting of the Progressive-Conservative Party would be greeted with hostility, but the form which this hostility would take is much less certain.

The term « management » is used in two senses. In one sense, it denotes the *function* of planning and directing the activities of an organization. The organization may be relatively simple, such as a birthday party or family picnic; or it may be highly complex, such as government on the provincial and federal levels, or a union operating on an industry basis, or a multi-product business enterprise whose activities are international in scope.

The term « management » also refers to the *persons*, who, collectively, are engaged in planning and directing the acti-

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vities of an organization, any organization. Thus there is management, in this sense of the term, in unions, in business enterprises, and in government. For the purposes of our discussion, however, the term «management» will be restricted in its meaning to the people who plan and direct the activities of business enterprises.

Management's attitudes in general

This brings me to the second part of our discussion, namely a consideration of certain factors affecting management's attitudes in general. More specifically, I should like (a) to examine briefly management's place in our economic organization by calling attention to the significance of profit in management thinking, and (b) to refer to certain dominant social philosophies which, in varying degree, have characterized management's approach to its problems.

Our economic organization is an exchange economy wherein the greater part of the productive activity is carried on under competitive conditions by private enterprise motivated by the hope of profit. In the simplest terms, people as the owners of property and as the suppliers of labour services make their property and services available to business enterprises for money. With money, people obtain want-satisfying goods and services from business enterprises.

In these exchanges, the money involved has different meanings, depending upon which party is paying out and which is being paid. Thus the money which people receive in return for the use of their property and for their labour services is income to them, but this same money is cost of production to business enterprises. On the other hand, the money which people pay to business enterprises for want-satisfying goods and services is cost of living to them, while the same money is business receipts to business enterprises.

These exchanges take place under conditions in which people and business enterprises have a substantial amount of freedom and in which there are varying degrees of competition. Under these conditions, business enterprises seek to operate in the most profitable manner.

All this is a very elementary, highly-oversimplified description of our economy. The only excuse for including it in these remarks is

to highlight the essential problem of management and to pinpoint where management is most sensitive to any threat to the discharge of its responsibilities. Thus it is management's function not only to plan and direct the activities of business enterprises but also to carry out this function in the most economically efficient, that is, the most profitable manner. Whatever attitudes management may have, you may be sure that those associated with its responsibility to operate business enterprises profitably are the most imperative. Management is predisposed to favour that which will reduce cost of production or increase business receipts. Conversely, management is predisposed to be critical of that which will increase costs of production or reduce business receipts.

While management must think in terms of economic efficiency, management is not governed solely by economic considerations. Managers are people. They are family people. They are residents of communities, and as such participate in community activities, and take their share of community responsibilities. Inevitably they are influenced by, and to some extent influence, the community's standards of what is acceptable conduct as citizens and as management. Management cannot depart significantly from these behavior norms without encountering an unwelcome degree of hostility.

Community norms of acceptable conduct, ethical standards, or social philosophies — call them what you will — change with the times. And, in their changing, affect the attitudes with which management approaches the problems of business enterprises. Within the last hundred years, here on the North American continent, it is possible to distinguish three different philosophies by which management has been greatly influenced.

The first of these philosophies, which was prevalent during the latter half of the last century, and which may be called rugged individualism, was a sort of social Darwinism. In essence, all should be free to compete and the strong would survive. Not only would they survive, but they were by virtue of their survival, the most efficient. This philosophy found acceptance not only by management, but to a rather considerable extent also by workers. For the latter, there was always the frontier to which they could go, or thought they could go, to escape any competitive inequalities in city or industrial life. Those who stayed were concerned primarily with «the pursuit of the full dinner pail and a rapid rise to wealth». They looked upon working

discomforts as a temporary situation only, a prelude to the better status which they considered assured because of their opportunities, industry, and abilities.

By the turn of the century, conditions had changed and with the change, came a change in management's outlook. The construction of transcontinental railways had opened up vast new markets, there was a great increase in the number and variety of machines and in the size of industrial establishments to supply these markets. Proprietor and manager were no longer necessarily the same person, and management was on the way to becoming professionalized.

It was during the early years of the century that management began to appreciate that a healthy, satisfied work force was more likely to keep plants with heavy investment in them operating more steadily and at lower cost than a work force whose physical and social needs were neglected. At the same time, there was a growing community reaction against the disregard of human values all too frequently in evidence when rugged individualism held sway. These two influences, economic advantage and an aroused social conscience, combined to promote what is usually called welfare capitalism.

Within the plant, welfare capitalism was expressed in terms of better light, heat, and ventilation, wash rooms, toilet facilities, locker rooms, lunch rooms, etc. The concern of the proponents of welfare capitalism went beyond the plant, however, and resulted in the provision of such facilities as model housing, parks and playgrounds, lectures and concerts, and educational facilities which were available to the families of employees as well as to the employees.

In essence, this form of management philosophy was paternalistic. The facilities, fringe benefits if you will, were provided on the initiative of, and under the direction and control of management. These facilities, be it understood, were provided solely at the expense of the enterprise, not only because they were good for the employees but also because it was expected that the cost involved would be more than returned through increased efficiency. In this connection, there is a story told about the late Judge Gary, then the Chairman of the Board of the United States Steel Corporation. The time was about 1907 or 1908, and U.S. Steel was no more a philanthropic organization then than it is now.

Judge Gary, so the story goes, was travelling in Southern and Central Europe. As he and his party stopped in a town he noticed a large number of amputees. He noticed the same thing at the next town they visited. Being curious, he asked in what war these people had been maimed. « In no war, » he was told. « They were injured in your steel mills. »

Gary was a hard-headed business man, but he was also an Elder of the Methodist Church — and he seems to have had a conscience. On his return to his office, he instituted studies of the cost of accidents vs. the cost of an accident prevention programme. He was convinced, and he succeeded in convincing his directors, that safety would pay. It did. And U.S. Steel became and has continued to be, a leader in the field of industrial safety.

Welfare capitalism was not without its critics. Unions were particularly bitter. It must be remembered that at that time, unions had to fight to survive. Few employers accepted them willingly. There were no labour relations acts to give unions a secure legal status. It was not national policy to encourage unions. Under the circumstances, unions were critical of the paternalism of welfare capitalism. To them, it was an affront to human dignity. But much more importantly, unions regarded welfare capitalism as a programme developed by hostile management to compete against them for employee support.

Meanwhile a third type of management philosophy was beginning to emerge. This is the trusteeship philosophy or, since we have been talking in « isms », of « trusteeism ». The identification of this philosophy and its verbal expression are comparatively recent. It is a product of the development of large scale enterprise and of the corporate form of business enterprise, particularly the large corporation with widely diffused ownership and the virtually complete separation of management from any significant ownership interest in the enterprise. It is this situation that has led to the rise of a class of professional managers who have an obligation to plan and direct the activities of the corporation in the interest of those who have a direct concern therewith, rather than in their own interest, which would be a reasonable or understandable objective in the case of an owner-manager. This philosophy of management has been expressed in these words by the late chairman of one of our largest corporations:

« In the evolution of a complex industrial society the social responsibility of management has broadened correspondingly. Management no longer represents, as it once did, merely the *single* interest of ownership; increasingly it functions on the basis of a *trusteeship* which endeavors to maintain, between four basic interlocking groups, a proper balance of equity. Today the executive head of every business is accountable not only to his shareholders, but to the members of his working organization, to his customers, and to the public. »¹

This same point was made by a director of another large corporation in the statement that « it is becoming clear that in our modern society top management has the opportunity — in fact, I should say the duty — to act as a balance wheel in relation to three groups of interests: the interests of owners, of employees, and of the public, all of whom have a stake in the output of industry. »²

These three philosophies, rugged individualism, welfare capitalism, and trusteeism, successively, in the order named, have been the dominant philosophies which have conditioned the attitudes of business management toward their day to day problems. Yet even though a philosophy which has been dominant has lost its pre-eminence, it has not ceased to have influence. I suspect there are still a few around whom we would classify as rugged individualists. In all probability, there are some here who, if asked, could name an enterprise which is paternalistic in its relations with its employees. And I'm willing to venture the opinion that even those of us who are most critical of our present-day economic order can identify some businessmen who regard the authority of their positions as a trust to be exercised for the social benefit.

Development of Fringe Benefits

I would like to turn now to a brief consideration of some of the factors that have contributed to the development of fringe benefits in recent years. For this discussion, these are (a) the rise of personnel management, (b) the quest for economic security, (c) the growth of unions in membership and economic power, and (d) the administration of wage controls during World War II.

(1) H. R. BOWEN, *Social Responsibilities of the Businessman*. New York, 1953, p. 49.

(2) *Op. cit.*, p. 51.

The first of these factors has been the development of modern personnel management or personnel administration. The objective of personnel administration is the most effective use of human resources. This phase of management emerged from experience with welfare capitalism, the lessons of scientific management, the safety first movement, the training programmes of the World War I period, and the relative shortage of labour in a rapidly expanding economy. Personnel administration has many facets, including consideration of measures we have called fringe benefits. If in the judgment of management, a fringe benefit will contribute to the more effective use of the company's manpower, then there is for that reason alone a valid reason for adopting it.

A second factor has been, and in fact continues to be, the unceasing quest for economic security. The memories of the bitter experiences during the depression of the 1930's have been a continuing goad to remedial action. In a very large measure, the welfare programmes of business, unions, and governments, stem from a grim determination that never again shall so many people suffer so much for so long. Fringe benefits, particularly those which afford protection for employees during periods of economic stress, are important features of these programmes.

A third and very important factor has been the growth of unions and their attainment of virtually unprecedented economic power. Beginning with Section 7A of the National Industrial Recovery Act and followed by the Wagner Act in the United States and by the adoption of provincial and federal labour relations acts in Canada, unions have grown extraordinarily in membership and in economic power. In very large measure, they owe their growth to government policy through which they have been given a legal status and certain legal immunities which establish them as unique economic organizations able to impose their wishes upon large corporations as well as small. Today unions are treated with respect if not with affection by management — and it might be said with respect *and* affection by politicians.

A fourth factor was the way in which wage controls were administered during World War II. These controls made it very difficult to obtain upward adjustments in wage rates. It was difficult, therefore, for many enterprises to attract or to retain labour by making employment more attractive by raising rates. However, it was soon discovered

that wage control boards adopted a sympathetic approach to requests for approval of certain kinds of fringe benefits, such as vacation with pay plans. These benefits had the merit of increasing an employee's income, but did not change his wage rate. For the most part, employers favoured the introduction of these benefits because they introduced a measure of flexibility into an otherwise inflexible wage situation.

Management's Attitudes towards Fringe Benefits

Now I'd like to turn to a consideration of some of the factors determining the nature of management's attitudes towards fringe benefits.

As a general proposition, it is safe to say that management is not opposed to fringe benefits in principle. Whatever specific attitudes management has with regard to fringe benefits are derived mainly from experience, actual or anticipated, with respect to particular benefits. The factors that have entered into this experience are many and varied. Among the more important factors that have exerted, and continue to exert, a major influence on management thinking about particular fringe benefits are: (a) money cost, (b) effects, other than direct money costs, of adopting a particular fringe benefit, and (c) the bargaining tactics of unions.

It is evident from my earlier remarks about management's role in our competitive, profit-motivated economy that money cost is a major consideration in determining management's attitude toward any specific fringe benefit. Various estimates of the costs of fringe benefits have been made from time to time. While these estimates vary with the varying definitions of the scope of fringe benefits, nevertheless there is general agreement that these costs have been rising steadily. Today, the cost of fringe benefits is such a significant part of the total labour cost bill that, without going into detail, it is sufficient to say that management has a serious and growing concern over the magnitude of this cost item.

However, it is not only the magnitude of fringe benefit costs that concerns management; it is also the nature of these costs. Fringe benefits, once adopted, tend to be continued and the continuing costs which they involve tend to assume the character of fixed costs. Such costs can become inconvenient and even embarrassing during periods of

recession when business receipts are at a relatively low level. Yet it is during periods of business recession that the heaviest demands tend to be made on fringe benefits. Thus at the very time that management would like to be able to reduce costs in order to preserve the economic health of the enterprise, management is likely to be frustrated because of fringe benefit obligations. In anticipation of becoming involved in just such a situation, management may feel obliged to adopt a negative attitude to certain fringe benefit proposals.

Once the direct money cost considerations have been resolved, management attitudes are further influenced by other considerations which relate to other effects of fringe benefits. On the whole, management is sympathetic to benefits which in kind and degree serve to protect the economic security of employees and their dependents. Examples of this kind of benefit are life insurance; sickness and accident benefits; hospital, surgical and medical insurance; and supplementary unemployment benefits.

On the other hand, some fringe benefits are not intended to protect employees and their dependents. Rather they are intended to enable employees to share in the prosperity of the enterprise. An example of this kind of benefit is vacation with pay. These benefits are often of the kind that involves pay for time not worked. For the most part, management is not opposed to these benefits as such. Management understands and supports the position, for instance, that a vacation with pay can be highly beneficial to an employee both in terms of health and morale. But management does have some concern lest, in its application, the principle of vacations with pay be extended to the point of diminishing returns on terms of employee health and morale.

There is, however, one category of fringe benefits towards which management is definitely unsympathetic, not to say hostile. I refer to the fringe benefit which in kind or in the degree to which it is available to employees creates a greater inducement for employees to remain idle than for them to work. For instance, the amount of a weekly sick benefit may be high enough to influence an employee to stay on sick leave longer than is medically necessary. This kind of benefit may be less of a problem than management thinks and more of a problem than employees think. But whatever the facts, the existence or belief in the existence of this type of benefit is enough for management to

adopt a definitely antagonistic attitude. As has been mentioned earlier, people as the suppliers of labour services have a primary interest in income. Unfortunately there are still people in this enlightened age who will accept income without thinking of their obligation to give something in exchange. Management, on the other hand, has it brought home daily that the only solid basis for prosperity and a rising standard of living is increased production. This result is threatened if fringe benefits provide inducements for people to malingering.

Another of the factors which affects management's attitudes towards fringe benefits is union tactics at the bargaining table.

At the risk of being misunderstood, I'd like to say that, as far as management is concerned, the *economic* function of a union is to increase the cost of labour to business enterprises. If you will recall my earlier remarks about our economic organization, you will remember that people as the suppliers of labour services make these services available to business enterprises in exchange for money, or income. You will recall also that what is income to people is cost to business enterprises. Now a union is an organization of people for the purpose of making their labour services available to business enterprises on the most attractive income terms possible. This is the basis for the remark I made regarding management's perspective on the unions' economic objective. While we are on this subject it should be kept in mind also that unions attempt to carry out their purpose on a non-competitive, monopolistic basis. Furthermore, they are aided in this endeavour by the preferred legal status vis-à-vis business enterprises which they have been able to secure. That unions have been successful in raising the money incomes of their members is clear even from a very casual glance at the history of wages.

Despite this very fundamental conflict of interest, management has gone along with many of the fringe benefits proposed by unions. This has been done because these benefits have been of a kind and degree which, for economic and social reasons, management felt justified in supporting. More recently, however, management has been taking a more critical look at fringe benefits because of experience at the bargaining table.

For some time, management has been concerned about the rapidly mounting costs of labour, of which the cost of fringe benefits is a si-

gnificant part. In the face of these conditions, management is asking: « Where is this going to end? » Years ago, the late Samuel Gompers, long time President of The American Federation of Labor, supplied the answer. To the question « What does labor want? », Gompers replied: « More ».

Gompers' reply indicates the essential nature of union policy. Unions are organized for what is essentially appropriative rather than productive activity. They are after more of what is produced rather than more production. Under the circumstances, it is not surprising that they show comparatively little concern about the effects of their policies and practices on the economic efficiency of the enterprises with which they deal. That is quite natural. They are not organized for that purpose.

Because of this viewpoint, which I repeat is quite understandable, unions do not readily make a distinction on the one hand between kinds and degrees of fringe benefits which provide protection for their members or enable them to participate reasonably in the prosperity of the enterprises and, on the other hand, fringe benefits which contribute to wastefulness or malingering. In their advocacy of certain fringe benefits, unions all too frequently show more concern to get something from business enterprises for their members than they do about the consequences of getting what they ask for.

Another lesson which management has learned at the bargaining table is that it is risky to try to substitute management judgement of what is a desirable fringe benefit for a proposal of a union. From experience, management knows that unless the management proposal is a benefit which the union wants, the enterprise is liable to come out of the bargaining sessions saddled with the costs of two benefits, its own and the union's.

Even more risky is the unilateral introduction by management of a fringe benefit in a unionized enterprise. Management's motives may be due to the social conscience of welfare capitalism, or spring from the sense of responsibility associated with trusteeism. But the chances are the introduction of the benefit unilaterally will result in employee hostility. At the best, management cannot hope to offset a fringe benefit introduced on management's initiative against any part of a programme which unions present to management when they resume

negotiations around the bargaining table. Management has no treasury of good works on which it can draw as far as unions are concerned.

Under these circumstances, it is no wonder that management already harassed by rising money costs for labour, is taking a long and cautious look at union proposals for fringe benefits. Moreover, the union approach to fringe benefits in collective bargaining is having the effect of curbing management in introducing or modifying fringe benefits. Management may know of the need for a fringe benefit or for the modification of an existing benefit, but because of past experience management will give the most serious consideration to a « wait and see » approach until the union's position is made clear, and until there is assurance that the interests of the owners and of the community can be reasonably protected. One may well ask whether, in these circumstances the best interests of the employees are served — or in the long run sense of the enterprise and the community in which it operates.

Conclusion

May I now summarize briefly the main points of this paper. Following definitions of the terms « attitude » and « management », we reviewed management's role in our competitive, profit-motivated economic order and considered the three major philosophies, rugged individualism, welfare capitalism, and trusteeism which in that order have been dominant in influencing management attitudes. Mention was then made of four developments: the emergence of modern personnel management; the quest for economic security; the rapid growth of unions and of their economic power; and the way in which wartime wage controls were administered, that have contributed to the extensive pattern of fringe benefits today. Then the points were made that management does not oppose fringe benefits but that its attitudes are influenced by a variety of factors of which the more important are cost, both short run and long run; the consequences of a particular benefit, that is whether it protects an employee and his dependents, or whether it contributes to waste, or whether it encourages malin-gering; and union bargaining tactics which reveal a greater concern for increasing members' incomes than for the costs to enterprises, and which discourage management initiative in the fringe benefit field.

Le texte français de cet article est publié dans le volume Bénéfices sociaux et initiative privée. Presses universitaires Laval, Québec. 1959.