

Productivity Gains at Whirlpool

READING

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Workers and management at Whirlpool Appliance's Benton Harbor plant in Michigan have set an example of how to achieve productivity gains, which has benefited not only the company and its stockholders but also Whirlpool customers and the workers themselves.

Things weren't always rosy at the plant. Productivity and quality weren't good. Neither were labor-management relations. Workers hid defective parts so management wouldn't find them, and when a machine broke down, workers would simply sit down until sooner or later someone came to fix it. All that changed in the late 1980s. Faced with the possibility that the plant would be shut down, management and labor worked together to find a way to keep the plant open. The way was to increase productivity—producing more without using more resources. Interestingly, the improvement in productivity didn't come by spending money on fancy machines. Rather, it was accomplished by placing more emphasis on quality. That was a shift from the old way, which emphasized volume, often at the expense of quality. To motivate workers, the company agreed to gain sharing, a plan that rewarded workers by increasing their pay for productivity increases.

The company overhauled the manufacturing process, and taught its workers how to improve quality. As quality improved, productivity went up because more of the output was good, and costs went down because of fewer defective parts that had to be scrapped or reworked. Costs of inventory also decreased, because fewer spare parts were needed to replace defective output, both at the factory and for warranty repairs. And workers were able to see the connection between their efforts to improve quality and productivity, and their pay.

Not only was Whirlpool able to use the productivity gains to increase workers' pay, it was also able to hold the lid on price increases and to funnel some of the savings into research, which added to cost savings and quality improvement.

Questions

1. What were the two key things that Whirlpool management did to achieve productivity gains?
2. Who has benefited from the productivity gains?
3. How are productivity and quality related?
4. How can a company afford to pay its workers for productivity gains?

Source: Based on Rick Wartzman, "A Whirlpool Factory Raises Productivity—And Pay of Workers," *The Wall Street Journal*, 1992.