

Management of an Industry

The Plan Offered by the Code of the Handkerchief Industry

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ECONOMICALLY, American society has registered a costly failure in its capacity for purposeful association. Industrial evolution, in particular, developed a scheme of production dependent upon complementary, specialized activities; then production collapsed because the essential co-ordination of the component efforts was not realized. Today the nation is consciously engaged in an attempt to restore the intricate productive machine through the medium of co-operation. Laws have been substituted for individual authority for the purpose of integrating individual interests and desires with group interests and desires and individual capacities with the requirements of group purpose.

There are many who believe the goal cannot be achieved except through deliberate recognition and adoption of the technique, principles and philosophy of Scientific Management; that industry, to be stabilized on the national plane, must intelligently follow the procedures proved successful in stabilizing the individual enterprise. Others, however, doubt if collective industry will intelligently and consciously seek to make effective in the larger area those principles of management which have not been applied in the majority of individual enterprises. Although the latter group argues that the goal of co-operation cannot be achieved by any other means than the application of the principles, it believes that their adoption will be through the "trial-by-error," "muddling-through," educational process rather than by any exercise of an understanding foresight.

Regardless of method of approach adopted by industry at large, both groups definitely agree that the co-operative problem will not be solved by any other procedure than that of Scientific Management. Co-operation is the fourth principle of Scientific Management and, as such, is dependent upon the other three principles—research, standardization and control. It cannot be automatically installed or instilled. As a mental attitude, co-operation is a condition of efficient common effort; and that necessitates organization. As a mode of conduct it is the result of the formulation of standards of purpose, of method, of relationship. Co-operation is promoted by the understandings afforded by standard specifications which result from research.

The codes which have been formulated under the National Recovery Act are the instruments for achieving stability of industry on the national plane. It is the purpose of this paper to examine and to analyze the Code of Fair Competition for the Handkerchief Industry in the endeavor to ascertain to what extent the principles of Scientific Management are being applied in the organization of this industry.

Doubtless, many of you are questioning why the handkerchief industry was chosen for study. Before answering, I wish to sketch briefly for you a picture of this industry whose products enter so familiarly our daily life—whether as a receptacle for our tears, as the final ornament of finished dress, or as the sash for the sweat of one's brow.

Handkerchiefs are produced by three classes of manufacturers: 1. Handkerchief manufacturers who own or operate their plants and whose product is sold, in whole or in part, directly by them or through salesmen, agents, or representatives, to the wholesale or retail trades.

2. Those who purchase materials and have the fabrication done by contractors who are manufacturers owning plants or operating plants exclusively or partly on a contract basis.

3. Those who make handkerchiefs entirely by hand in the home.

The first two classes include machine and factory operations. There are approximately seventy-five concerns which own and operate their own plants and sell their product in wholesale or retail trade, and about 175 firms who make their product on a contract basis for thirty to forty contractors. These concerns are located either in the continental United States or in Puerto Rico.

Handkerchiefs, as we all know, may be necessities and luxuries. They vary in quality according to type of material, type of workmanship, type of ornament. Effects, designs and patterns are almost innumerable and women's handkerchiefs, in particular, are subject to caprice demand and style variations.

With the exception of one concern which has a vertical organization, production begins with the purchase of cloth from the textile industry or with the importation of linen. Imported linen is already bleached but domestic cloth is bought unbleached and sent to a bleaching and, if desired, to a dye works or printing works. After these initial preparations, the raw material is put through splitting or cutting machines and hemmed on two sides in continuous lengths. A smaller part may be sent to Puerto Rico for hand hemming. After hemming on two sides length-wise, the material is cross-cut and hemmed on the other two sides. Embroidering or ornamenting may be the next step before the final operations of washing, ironing, folding, tying into units and boxing.

In continental United States there are probably 8,000 employees, while the number engaged in the Puerto Rican industry is very large—roughly 150,000 to 200,000. In both the United States and Puerto Rico, women constitute the greater majority of the workers. Minors, however, have been employed only to a comparatively small degree in the United States. Due partly to the predominance of women and to the fact that most of the operations do not require great skill and can be learned in a short time, no part of the industry has been unionized. As the industry is seasonal, hours of work have varied from forty to fifty-five a week, with double shifts in a few instances. As you probably suspect, wages have been low, especially in the last few years; workers in some instances making four dollars to six dollars a week. The piece rate is the characteristic method of wage payment. The fact that labor costs predominate is demonstrated by the capital ratios: fixed capital investment should be one-tenth of the volume of sales, and working capital investment one-fourth to one-third.

The industry has been highly competitive, unorganized, unprofitable. It has never had a trade association and it has suffered a large shrinkage in capital and many disastrous bankruptcies. For these reasons the industry has been subjected to a continuous buyers' market, regardless of industrial conditions, for many years.

The handkerchief industry was selected for study because: (1) It is highly competitive, demoralized and unprofitable; (2) labor conditions are unsatisfactory; (3) no one contro-

versial question is involved such as price-fixing for the oil industry, or labor recognition in the steel and coal industries, and (4) the code is recognized in Washington as one of the best approved to date.

The purpose of the handkerchief code is to organize the industry so that cut-throat features of its operation may be eliminated without reducing competition on the basis of efficiency, thereby making the industry economically capable of increasing the number of workers and their purchasing power. Standards of fair competition are but economical, ethical and social limitations of environment. Known and constant factors have been substituted for variable factors so all manufacturers have certain common goals, facilities and methods. Because the Code of Fair Competition for the Handkerchief Industry immediately establishes standards, it will first be studied to see what it provides in the nature of effective standards. Logically, in an analysis of this nature, a discussion of research, which is the approach to solution of all problems of management and organization, should precede a discussion of standards. But research has preceded the formulation of standards—if not the research of controlled experimentation, at least the research of experience and of conference analyses and comparisons.

The standards immediately established may be classified as follows:

1. *Standards of Membership.* After January 1, 1934, the partial manufacture of handkerchiefs in the home has been prohibited because it is practically impossible to police or stabilize an industry that has any considerable amount of home production. On the whole, the volume of commercial home work in the United States is small, and while the code includes as members individuals who make entire handkerchiefs by hand, it does eliminate from the manufacturing sector of the industry home sweat-shop conditions.

2. *Standards Relating to Work Place and Shop.* Machines shall not be operated more than one shift of forty hours in any one week except when authorized by the Code Authority and approved by the Administrator. "No work shall be done in any basements, unsanitary buildings, buildings unsafe on account of fire risks, or otherwise dangerous."

3. *Standards Relating to Personnel.* Hours of labor are established by classes of employees, with the maximum of eight hours a day, forty hours per week for the general employes. A minimum age of sixteen years is established.

Wages of labor are considered in greater detail. First, geographical minimums are established of twelve dollars in the Southern Section and thirteen dollars in the Northern Section. The differential between the Southern and Northern sections of the United States is due to two factors: (1) The cost of living factor; (2) the cost of transportation factor. The Northern section has considerably more than half the volume of the business in the United States. Undoubtedly, many of you consider the minimum wages of twelve and thirteen dollars a week as a deplorable minimum. It should be noted that this minimum results in doubling the minimum wage existing before the code. Some of the members of the industry believed the minimum wage should have been higher, but a rational survey of the entire situation—the disorganized state of the industry, the nature of the industry, the nature of the employment that existed—led to the decision that this was a reasonable starting point. Also, it is believed that the natural result of competitive forces will be to increase the minimum wage as economic conditions warrant. Nor is it thought that the minimum wage will become the prevailing wage. If the piece rates are set so the proficient worker cannot earn more than the minimum wage, he will have no incentive to maintain his output and production will decline. Clearly, it would not be to the employer's advantage to subsidize a considerable body of his labor in order

to meet the minimum wage. Management economies will, therefore, result in the establishment of rates which will enable the workers to earn the minimum wage and which will automatically enable the proficient worker to earn more. As a matter of fact, the Code specifically provides that "the wage rates for occupations other than those receiving the minimum wage shall at least maintain the difference in earnings." The aim is to maintain the differentials for higher-paid employes, and also in a more general way to provide for at least the same wage to be paid on the short week as on the longer week. Standards have been prescribed, however, for two classes of labor naturally at a disadvantage under a piece-rate system—learners and the physically handicapped.

Learners shall not be paid less than nine dollars per week of forty hours. In order to prevent "chiseling" by classifying experienced workers as learners, certain standards have been established: "A person shall be deemed a learner for no more than eight weeks; any time worked by a learner shall be deemed a part of his learning period, whether such time is worked continuously or in more than one shop or for more than one employer; the number of learners in any one plant at any operation shall not exceed 10 per cent of the total number of employes engaged in said operation." Observe that the percentage of learners is a percentage of an operation and not of the total working force.

Workers who are physically handicapped or who are handicapped on account of age are given an exemption, provided, however, "that the number of workers shall not exceed in number 6 per cent of the total number of workers employed in such operation, and provided further, that persons so employed shall receive not less than 80 per cent of the minimum wages established." This section is really included to permit the handkerchief industry to play its part in solving a social problem by taking care of a certain number of aged and handicapped people who can work in the needle trades, but who could not work in other trades requiring greater speed or dexterity.

The code also contains the provisions respecting the rights of employes "to organize and bargain collectively through representatives of their own choosing," and expressly prohibits prison labor.

4. *Standards Pertaining to Marketing and Merchandising.* The standards set forth in the article on Trade Practices are a re-statement of ordinary business ethics which become the law in their re-statement, and being the law, protect a weak industry from exploitation due to undue pressure on the part of the people to whom it is forced to sell due to the character of the final distribution of the product of this industry. The standards cover the offering of gifts and bribes, the making of rebates and allowances, the extension of confirmation dates, the exchange and return of merchandise, the breaking of contracts, etc. Not a single trade practice written into this code has the tendency to raise costs to the consumer or to impose any obstacle in the ordinary distribution of its product. In general, then, trade practices are the same as those that have been approved from time to time for various industries by the Federal Trade Commission. The additional ones represent organized disapproval of foolishly deceptive practices.

The article covering Terms of Sale, stabilizes discounts and delivery conditions and is designed to protect the members of the industry from pressure, and to grant more favorable conditions through the ability to exert irresistible pressure through buying power. No additional cost of commodity is entailed, or can be entailed, as the industry is still in a highly competitive situation. But this competition is limited through the enforcement of standard conditions of labor costs, trade methods and terms which are and should be uniform. The competition