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Workplace Turbulence and Workforce Preparedness

Abstract
The year 1973 marked a divide in the postwar economy.1 During the 25 years between 1948 and 1973, private sector productivity increased at an annual rate of 2.9%. Productivity improvement after 1973 fell way below this long-term trend, leveling off at about 0.6% a year until 1981 and rising to only 1.6% a year between 1981 and 1987. A similar pattern is reflected in the real wages of the workforce.2The conventional interpretation of this difference in the U.S. economy before and after 1973 is that it reflects the combined influence of the OPEC oil shock and the influx into the labor market of inexperienced workers born in the postwar baby boom, possibly reinforced by growth in regulatory costs.3 However, when the productivity data are analyzed in a growth accounting framework, these economic factors can only account for about two thirds of the productivity decline.4 What then explains the balance of the shortfall in productivity? Many analysts have pointed to the intangible effects on managers of increased economic uncertainty since 1973—growing business cautiousness, increased emphasis on short-term financial objectives, and inadequate entrepreneurial incentives.5 But economic change and uncertainty can also affect productivity through their impact on jobs and workers.

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Workplace Turbulence and Workforce Preparedness

The year 1973 marked a divide in the postwar economy.[1] During the 25 years between 1948 and 1973, private sector productivity increased at an annual rate of 2.9%. Productivity improvement after 1973 fell way below this long-term trend, leveling off at about 0.6% a year until 1981 and rising to only 1.6% a year between 1981 and 1987. A similar pattern is reflected in the real wages of the workforce.[2]

The conventional interpretation of this difference in the U.S. economy before and after 1973 is that it reflects the combined influence of the OPEC oil shock and the influx into the labor market of inexperienced workers born in the postwar baby boom, possibly reinforced by growth in regulatory costs.[3] However, when the productivity data are analyzed in a growth accounting framework, these economic factors can only account for about two thirds of the productivity decline.[4]

What then explains the balance of the shortfall in productivity? Many analysts have pointed to the intangible effects on managers of increased economic uncertainty since 1973—growing business cautiousness, increased emphasis on short-term financial objectives, and inadequate entrepreneurial incentives.[5] But economic change and uncertainty can also affect productivity through their impact on jobs and workers.

Turbulence and the Disintegrating Labor Market

The OPEC oil shock and the demographic swings of the baby boom have been coupled with periodic recessions and an accelerated pace of technological change in some sectors. These changes overlay even more significant structural shifts in the economy—the dramatic shakeout of U.S. industry resulting from the globalization of production and intensified competitive pressures and the continuing shift from manufacturing to service employment.

Although some workers have benefited from the employment increases in high-growth sectors, such as business services, job growth and falling unemployment over the last decade have helped to mask a substantial disintegration in employment prospects across a wide spectrum of the labor market.[6] No sector of the economy has escaped disruption, and the effects of labor market difficulties are accumulating. Increasing employment without also raising productivity will not turn around this situation.

For example, many youth and young adults are stalled in dead-end jobs as it becomes more difficult for them to move into career jobs.[7] Their real incomes have been falling as jobs with good prospects for advancement are less available and take longer to find. These diminished economic opportunities are causing the incomes of high school graduates and high school dropouts to fall farther and farther behind those of college graduates.[8]

For adults at mid-career, job attachment is becoming less secure as the risk of displacement rises. Roughly 2 million workers a year have been displaced from their jobs since the early 1970s, and the overall rate of displacement in the labor market has risen 20% to 40% since the early 1970s.[9] Virtually all workers are now subject to displacement at some time during their working lives.[10]

A common perception is that displacement is largely a blue-collar manufacturing problem. However, one in five displaced workers is in retail sales and services, and two in five are in white-collar occupations. Although some workers find replacement jobs quickly, displacement for most means being out of work for nine months to a year.[11] Between a quarter and a third of displaced workers find reemployment at wages 25% or more below their previous wages, and these losses in earnings persist. The biggest losers are high-seniority workers who have held relatively high-wage jobs and who live in economically depressed areas.[12] But a substantial group (perhaps one in five displaced workers) are hidden losers—they experience no earnings decline upon reemployment because they held such low-wage jobs to begin with.[13]

Older workers are finding that their once-secure career jobs are ending prematurely. Rather than holding a career job until retirement, one in three male workers over age 55 (and half of all those over age 60) move from career jobs to "bridge" jobs—jobs that they may hold for five or ten years until retirement.[14] Although the data are not available for determining whether these bridge jobs represent a preferred second career or employment of last resort, moving from career to bridge jobs often represents a substantial change in job duties and often results in a reduction in pay. One quarter of all bridge jobs involve a change in both the occupation and the industry of the older worker, and half of all job changes lead to a drop in earnings of 25% or more.[15]

Turbulence and the Business Community

It is easier to gauge the direct effects of turbulence on the well-being of the workforce than on the competitive performance of business. What is evident, however, is that net income after taxes of U.S. nonfinancial corporations fell during the 1970s and early 1980s by about one third from the postwar highs of the late 1960s, touching off massive business restructurings.[16]

The employment consequences of this restructuring of large firms have been well documented—one study found that one in 15 firms with 100 or more employees either closed or had a major layoff in 1983 and 1984,[17] and other studies of large firms have concluded that more than half of companies is manufacturing experienced similar problems over periods of one and a half to two years.[18] Among those jobs that remain, there is often increased use of temporary or contingent labor[19] and a greater reliance on outsourcing.[20] The general impression is of a corporate America that is deeply troubled by turbulence at the workplace and is searching for new answers.[21]

Paramount among these concerns have been issues of human resources development. Numerous studies have identified the problems of inadequate basic education and skill preparation among recent school leavers as a source of difficulty for business.[22] Other studies have highlighted potential problems arising from the changing demography of the workforce and from the quickening pace of technological change and product life cycles.[23] To these must be added an even deeper concern that various short-term responses to turbulence at the workplace will undermine the workforce productivity in ways that will affect American competitiveness in the longer term.[24]

For example, the use of contingent labor was originally seen by many employers as a cost-effective means of gaining greater staffing flexibility while reducing labor costs. Some of these same employers, however, have come to recognize that contingent labor is often not as well trained or as committed as a permanent workforce.[25] Similarly, employers who counted on downsizing as a way of becoming cost-competitive are now concerned that less secure employment may undermine employee morale, reduce labor productivity, and hamper efforts to raise product quality.

Rebuilding Our Human Resources Adjustment Capacity

Economic turbulence has strained the adjustment capacity of America's human resources development system. The deficiencies of primary and secondary education have been well documented, particularly for those groups such as minorities and the disadvantaged, who will account for a large fraction of workforce growth in the next decade.[26] Similarly, employment and training programs have led a troubled existence,[27] and apprenticeship training has reached its lowest ebb in decades.[28]

Concern with the effectiveness of such formal education and training programs, however, neglects the importance of workplace training. The resources devoted to skill development in the American workplace dwarf those of publicly supported skill development programs.[29] Moreover, many of these public programs are primarily for young labor market entrants, whereas two thirds of the workforce for the next decade has already left school and is in the labor market.[30] For these workers, the American workplace is the mainstay of the human resources development system, and improvements in schools are largely irrelevant.

Human resources development programs at the workplace, however, are also in trouble as they become stretched to their limits by economic turbulence. Downsizing of employment has created new demands for training as workers are being redeployed more widely within their companies.[31] Similarly, firms are facing pressures to provide training and job placement assistance to workers who are being permanently laid off.[32] At the same time that redeployed and redundant workers are being trained and placed in different jobs, some firms are also experiencing an acceleration in product and technology cycles that places further demands on their human resources development capacity.[33]

Enlarging the Policy Debate

For decades, the task of adapting the workforce to such changes has been defined in terms of skill development—how to prepare workers for newly emerging skills and how to retrain those whose jobs and skills have become obsolete. The disintegration of old employment patterns and the sweeping changes that are taking place in work organization, however, are giving new urgency and new meaning to the concept of workforce preparedness.

For workers, acquiring the education and compiling the work experience needed for entry into a career job that would last almost a lifetime are no longer enough. The changing structure of jobs and the increasing risks of involuntary job changing are making the traditional mechanisms for job preparation obsolete.

For those businesses whose human resources systems have been disrupted by change, workforce preparedness is also no longer solely an issue of skills development. Indeed, with the exception of technical skills associated with newly emerging technologies, most large companies find that preparation for job skills is a relatively manageable task.[34] However, preparing the employee of tomorrow to be more productive in a less certain and less secure environment requires a public and private capacity to provide workers with new skills, to encourage their acceptance of change, and to foster greater mobility without economic loss.

The public and private systems of human resources development have, however, operated largely independent of each other. The public system of workforce preparedness focused largely on the provision of basic education and generic skills for a private sector labor market that was accustomed to starting young workers in entry-level jobs and then training them in the specific skills needed for relatively stable work careers. Neither employers nor public education and training institutions had much incentive to coordinate their activities. Today, however, these incentives are changing as both educators and employers face a growing range of serious human resources problems. Yet the policy debate has continued to focus narrowly on issues of skill. Education and training are seen as the principal solutions to the problems of workplace turbulence and public sector programs have been singled out for attention while workplace programs have been neglected.

For example, the numerous studies and reports that have recently addressed the problems of workforce preparedness have almost universally highlighted improvements in primary and secondary education as being critical for workforce readiness.[35] Private sector responsibilities are mainly confined to business-education partnerships that are supposed to make instruction and curricula more responsive to business needs.[36]

With a few exceptions,[37] these studies do not assign any prominent role to the workplace. The most common recommendations for reforms in workplace human resources practices are to encourage greater labor-management cooperation and worker participation[38] and more workplace flexibility.[39] The broader behavioral dimensions of workforce preparedness—problem-solving capability, reliability, and responsiveness to change—are rarely mentioned, except in terms of what schools should do.[40] Nor is there much concern with the relationship between employment security and workplace productivity.

Although better public sector education and training programs are likely to be important steps toward improving workforce preparedness, a more comprehensive set of private sector human resources policies, predicated on improving both business performance and worker well-being, can be equally important. Such policy initiatives include involving the private sector directly in public education and training efforts; fostering lifelong learning in schools and at the workplace; developing business-to-business labor redeployment networks; devising new ways of linking workforce flexibility to economic security; and improving income maintenance programs for displaced workers. Such changes must be directed at enhancing the human resources base for the entire economy, not just targeted to meet the urgent needs of particularly vulnerable groups, as has been done in the past. These policy ideas are developed more fully in the concluding chapter.

Although such initiatives can provide medium-term solutions to the problems of workplace turbulence, they do not address critical questions of the longer-term direction of workplace human resources development. Despite its central role in developing productive human resources and in helping the workforce to adapt to change, the current system of human resources development at the workplace is very much in flux. The outcome of current change at the workplace is uncertain, but it is likely to have a profound effect on productivity, employment security, and business performance.

What Model for Human Resources Development in a Turbulent Economy?

Large enterprises in the United States have tended to follow a fairly standard and predictable strategy for human resources development. For much of the postwar period, the dominant approach was the "industrial relations" model of human resources management.[41] Under this model, workforce preparedness and adjustment to change were governed by collective bargaining agreements, or by employee handbooks that emulated such agreements. Training played a major role in improving productivity, and employment security was determined by seniority applied within well-defined job classifications and departments.

Today, however, several other models are also used to develop human resources and to manage change at the workplace. For example, there has been increasing use of the "full employment" model in large, mainly nonunion, firms. Training figures prominently in this model, but implicit employment guarantees are also an important part of the human resources package. Guaranteed employment means that adjustments to turbulence are internalized within the firm through either redeployment or voluntary attrition. Other companies are adopting "employment-at-will," or flexible employment, models in which human resources development is minimal and the relationship between the worker and the company is impermanent.

Each of these models implies a different type of commitment to human resources development. Each model also places a distinctly different imprint on the adjustment process in terms of who is affected by growth and decline, how the costs of change are distributed between companies and their employees, and how workforce productivity is enhanced.

Industrial Relations Model

The industrial relations model became broadly established in American industry during the 1940s. It was shaped by a number of factors—New Deal labor legislation, decisions of the War Labor Board of World War II, and developments in the structure and philosophy of the American trade union movement.[42] By the 1950s, it became the standard for large manufacturing enterprises and began to spread to the service sector as well.[43]

Under this model, job classifications tend to be narrow; hiring and layoffs are confined to certain job classifications; job structures and promotion ladders are well defined and relatively rigid; and seniority plays a major role in both job assignment and layoffs. Workplace turbulence is managed through formal procedures controlling who is reassigned and laid off, and employees gradually acquire employment security through accumulated seniority.

The industrial relations model is designed to regulate employment change so as to economize on training and make economic security for workers increasingly predictable. It has, however, also tended to develop bureaucratic rigidities that many employers have regarded as a serious liability when they have to compete with firms using more flexible human resources approaches.[44] Moreoever, substantial downsizing of firms has undermined seniority protections and brought new pressures from workers for more reliable forms of job security.

The result has been a rethinking, by both companies and unions, of a broad range of practices affecting human resources development and employment security.[45] For example, organizational structures that sharply demarcate different types of workers—skilled workers, production workers, and exempt workers—are now being replaced by arrangements that enlarge jobs and blur distinctions among job duties.[46] In the process, there is a new emphasis on developing workforce qualities of flexibility, adaptability, and problem-solving ability, often in the context of improved employment security.[47]

Full Employment Model

During the 1960s, the full employment model of human resources development became prevalent among large, nonunion firms, such as IBM, Kodak, Procter and Gamble, Hewlett Packard, and Cummins Engine.[48] The essence of this model is that labor productivity depends on two factors—remaining free of the rigid work rules and effort norms associated with the industrial relations model and creating an employment culture that fosters effort as well as flexibility.

The full employment model incorporates some of the features of the industrial relations model in that it makes considerable investments in training and human resources development through workplace training. However, the distinguishing feature of the full employment model is that it embodies a complex package of psychological contracts, training, participatory management mechanisms, career incentives, and performance rewards in which the expectation of a long-term commitment between employees and their employers figures prominently.[49] Jobs are never guaranteed, but there is an implicit promise of lifetime employment barring unforeseen developments.

These employment guarantees have traditionally been sustained by stable or growing markets and by a level of production subcontracting that is sufficiently large to buffer employment against anticipated fluctuations in product demand. Stability of employment is seen as key to the building of loyalty and commitment to the goals of the firm, to ensuring workforce flexibility, and to securing acceptance of new work methods and increased effort norms.[50]

Downsizing pressures have been a major organizational shock to the full employment model. Downsizing threatens employment security and has the potential for undermining the psychological contracts and economic incentive systems on which individual productivity and corporate performance has depended.

To avoid or minimize the breaking of employment commitments, generous attrition incentives have been used to achieve voluntary downsizing. To increase the productivity of continuing employees, jobs have been enlarged, skills and responsibilities have been increased; and the organizational hierarchy has been thinned out. In some cases, employment options within have been broadened by extending the range of jobs within which workers can be redeployed. Enlarged jobs and broader redeployment have often required extraordinary retraining measures.

When layoffs have been necessary, many full employment companies have begun to consider substituting employability guarantees and outplacement for full employment practices as a way of preserving high levels of workforce motivation. Even when layoffs have been avoided, the enrichment of jobs and the increased redeployment have placed a premium on subtle human resources qualities such as flexibility, adaptability, and the willingness to learn new and different job skills.

Employment-at-Will Model

In employment-at-will firms, the work relationship is based more on an economic *quid pro quo* than on a mutual commitment to the well-being of the firm. These firms pay high wages for high-performance workers, but without expecting loyalty or providing a commitment to employment continuity. The expectation is that workers in such firms will be mobile, changing employers readily when business declines or when they receive competing wage offers.

Employment-at-will firms do relatively little human resources development and do not depend on human resources management to motivate labor effort, preferring instead to rely on market forces and economic incentives. Employment turbulence in such firms is handled routinely as part of the strategy of having a relatively footloose workforce.

Employment at will has been commonplace in the smaller, more marginal firms in the secondary labor market. But now it is spreading to larger primary labor market firms. For example, this type of employment relationship is characteristic of the newer and more volatile firms in the high-technology sector and in parts of the business services sector that do relatively routine data processing and computer programming.[51]

Employment Models in Small and Medium-Size Firms

The models that have been described illustrate how the human resources systems of the large establishment sector handle economic change. This sector accounts for more than half of all jobs. However, the other half of the workforce is employed in medium-size and small establishments. These firms are a diverse group, spanning mom-and-pop food stores to startup high-tech firms. Some are actively competing for top talent from large corporations; others are more passive beneficiaries of well-trained workers displaced from large firms, and some are struggling to absorb poorly educated and hard-to-employ workers rejected by better-paying large employers. On average, however, these small and medium-size firms offer lower wages and fringe benefits and are economically more marginal than their larger counterparts.

As large firms have been downsizing, employment in small and medium-size firms has been increasing.[52] Yet, with some exceptions, the adjustment processes within such firms are largely unexplored.[53] Some parts of the small-scale sector, such as the unionized construction industry, have effective workforce preparedness arrangements that are administered by unions and employer associations. In other cases, highly skilled owner-operators have been able to develop a quality labor force, usually based on the informal training of a nucleus of family members or friends.[54] However, in other parts of the small-scale sector—low-wage manufacturing, retailing, and services—workforce preparedness capabilities are generally weaker.[55]

Where the small and medium-scale enterprises fit in the larger scheme of workforce preparedness remains unclear. Such firms have been gaining slightly in their share of employment since the middle 1970s, and yet they often are the most vulnerable to economic adversity.[56] Their training capability is thought to be weak, and yet their needs are neglected by public training programs that often gravitate toward larger firms that have more jobs.[57] The wages and working conditions in the smallest firms are often poorer than those of the large-enterprise sector, and such firms are more likely to be exempt from governmental workplace regulations and less likely to be organized by unions.[58]

Human Resources Management at the Crossroads

Until recently, firms following the full employment model of human resources management ranked among the most successful corporations, and many of the features of this model—employment guarantees, quality circles, and flexible work teams—are being adopted by firms that had previously followed the industrial relations model.[59] These developments seemed to indicate that the full employment model would be replacing the industrial relations model as the dominant approach to workplace human resources development in the American economy.[60]

As leading full employment firms have matured and seen their markets affected by global competition, however, they have had increasing difficulty in maintaining their employment guarantees and career benefits.[61] Full employment firms are beginning to look for substitutes for employment guarantees in their human resources development strategies, but the concern among these firms is that the psychological effort contracts and employee commitment upon which high business performance has depended will not be sustained if employment guarantees are eliminated. Without such contracts, these firms will be burdened with high wage costs that are not offset by high labor efficiency.

Full employment firms are also examining the employment-at-will model, in which human resources investments are minimal and employment commitments are weak. They observe some of their competitors adopting this model and see it as a serious alternative for the future.

As others have noted,[62] the industrial relations model of human resources development is undergoing a transformation under the influence of domestic deregulation and more intense global competition. One prediction is that the next standard will be a model blending human resources practices of the industrial relations model with those of the full employment model. Workers will have more job security than under the industrial relations model and a larger say in the direction of work,[63] and employers will have more flexibility with respect to work assignment.

Another prediction is that both the industrial relations and full employment models will be gradually displaced by highly flexible small and medium-size firms. Human resources development practices in these firms will resemble those of journeyman and apprentice arrangements in the skilled crafts.[64]

The direction and outcome of this transformation, however, are even less certain than previous research has suggested. For example, employment guarantees seem to be central to improving employee performance under both the industrial relations and full employment models, yet increased pressures for production efficiencies are making these guarantees more and more difficult to sustain. Without greater macro-economic employment stability, both models will face difficulties in securing a high efficiency workforce.

Craft or apprenticeship models of human resources management, such as are followed by some small and medium-size firms, have demonstrated their effectiveness in situations in which skills are transferable and employment is highly volatile. Nevertheless, apprenticeship training has been declining steadily in the United States. Even though there is renewed governmental interest in apprenticeship, questions remain as to whether small and medium-scale enterprises have the resources or incentives for undertaking substantial human resources development, or whether unions will be able to organize such employers to create the kinds of job referral networks needed for training continuity in apprenticeship programs.

However, two other models of human resources management might prevail. One possibility is the widespread adoption (in both union and nonunion settings) of an improved version of the full employment model based on substantial workplace training and strong psychological effort contracts with workers, whether or not employment is stable. This would entail finding new ways of guaranteeing employability (probably by extending job rights beyond a single firm) and by devising new types of efficiency commitments by workers that could be transferred from one employer to another. Such a model would lead to growth in productivity, rising real wages, and more secure career employment.

A second possibility is that the employment-at-will model will spread. In that case, workers (rather than firms) will be mainly responsible for their training, and effort will be managed through economic incentives. This, however, will place larger stresses on the already overburdened formal system of education and training outside the workplace. It will also likely mean continued labor market insecurity and slow growth in productivity and real wages.

As the following chapters will show, none of the current models of human resources development is adequate for remedying the problems caused by current turbulence in the American workplace, and none of the potential replacements has established a commanding lead. There is, however, evidence of a clear imperative among executives of large firms and progressive union leaders to search aggressively for better approaches to workforce preparedness.

Plan of the Book

Part I of the book reviews how economic turbulence is affecting the employment, earnings, and career prospects of different segments of the labor force. In Part II, the effects of turbulence at the workplace are examined, and various human resources strategies for dealing with turbulence are evaluated. Workplace turbulence is examined in both blue-collar and white-collar jobs, and in both union and nonunion settings. The book concludes with a human resources policy agenda detailing the responsibilities of business, labor, and government for addressing the problems of turbulence at the workplace.

Notes

This chapter is primarily the responsibility of Peter B. Doeringer.

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