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A New Social Contract for the American Workplace: From Paternalism to Partnering

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***A New Social Contract for
the American Workplace:
From Paternalism to
Partnering***

by Kenneth Chilton and Murray Weidenbaum

Policy Study
Number 123

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An Executive Precis

As American business struggles to cope with global competitors, technological breakthroughs and various forms of deregulation, the workplace is being thrown into turmoil. The reverberations of this turmoil pose profound consequences for our competitiveness.

To many, the news of thousands of workers being dismissed daily has shattered the American Dream. Indeed, if the layoff pace of the first six months of 1994 is maintained, a new annual record will be set for publicly announced downsizings, possibly 750,000 or more.

It is all part of what is euphemistically called "restructuring." What was once viewed as a temporary measure to adjust bureaucratically bloated companies to a new tougher market environment is now generally agreed to be part of a competitive continuum well into the early 2000s.

The impact of restructuring is going to be especially profound on management and labor relations over the years ahead. The dramatic changes in the workplace are being blamed for escalating workplace violence, exploding workplace litigation, and greater numbers of employees seeking medical help for work-induced stress. Senior executives are trying to mop up as they try to motivate — a quixotic objective.

Much has been written and analyzed about these internal workplace changes but it is largely disparate commentary. Needed, we thought, was a sort of omnibus profile of what is happening, why it is happening now, what it means, and where it will lead.

We believe that this is the first comprehensive look at this evolving picture. The overall objective is nothing less than restoring trust and credibility in America's workplace. We hope that this report will be a useful reference point and will assist in setting guidelines for a new social contract for the American workplace.

Kenneth Chilton and Murray Weidenbaum
Center for the Study of American Business

Introduction

The current wave of employee layoffs by American business firms represents more than just the results of necessary periodic restructuring of companies competing in a dynamic marketplace. The widespread downsizing — and subsequent reorientation of corporate operations — reflects the end of a long-standing informal but strong social contract that historically shaped the nature and the culture of the American workplace. This report examines the ferment occurring in labor-management relations in the United States and offers a new social contract.

At Nynex Corporation, a goal has been set to cut back operating budgets by up to 40 percent. A reduction of the work force by 15,000-25,000 workers is a key element of the plan to reach that goal. In the past four years the company has cut 19,200 employees from its 1990 total of 95,400. The latest reduction, the largest yet, is more than 20 percent. Nynex's executive vice president in charge of the downsizing, said, "My dad would have thought I'm breaking a social contract we have with our employees. That's the monopoly mind-set."¹

A 20 percent cutback in manufacturing employees at AT&T's largest manufacturing complex in North Andover, Massachusetts in 1993 came as a shock to its workers. The previous year the plant was a Malcolm Baldrige Award winner for quality production. The facility's director of human resources acknowledged:

At one time, if you came to work for AT&T, or the old Western Electric Co., you could be pretty sure you had a job for life. Lifetime employment is not something we can guarantee anymore. Not that we ever guaranteed it. But it was implied.²

Employment security may have been the "monopoly mind-set" at Nynex and at the other members of the Ma Bell family but it was also the attitude of millions of other American workers during the period of American manufacturing supremacy following the end of World War II. That mind-set, or social contract, may have

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meant different things to different people but its common elements seem to have included the following:

Employee obligations: Satisfactory attendance, acceptable levels of effort, loyalty.

Employer obligations: "Fair" (competitive) pay and fringe benefits, advancement based on seniority and merit, job security.

As the AT&T human resources executive correctly points out, job security never really was guaranteed, but it was implied. As this implied benefit has largely evaporated, so too have prospects for advancement and predictable wage and fringe benefit increases. In their place have come management demands for greater individual commitment and responsibility. Put in these terms, the changes to the old social contract appear to be rather one-sided.

The new workplace environment is the product of three sweeping forces — global competition, technology advances, and deregulation.

Why has this implicit mutual understanding — the old social contract — between management and employees collapsed? What is the impact, short and long term, of the crumbling of this relationship on both parties? Are we subtly redefining the rules of the workplace? Will a new workplace compact emerge? What will it be? How will the parties react?

In a few short years we enter a new century. Whatever new relationship between management and labor evolves, it will hold sway at least through the early part of the 2000s.

This special report examines these critical issues.

Why the Social Contract Has Collapsed

Fundamental Causes

The new workplace environment is largely the product of three sweeping forces that began in the late 1970s, grew in importance in the 1980s, and became dominant drivers in the 1990s. Those three forces are global competition, technology advances (espe-

cially computers and telecommunications), and deregulation of the transportation and telecommunications industries.

Not all sectors of the economy have been equally affected by these developments. Certainly, tradable goods (especially manufacturing) have been hard hit by both global competition and technological change. Other regulated industries — energy, transportation, telecommunications, and finance — have been, and continue to be, subject to heightened domestic competition because of federal deregulation. Other sectors, such as, retail trade and some service sectors, are affected primarily by technology.

What's New About Competition? The most significant source of new competition is the development of a host of competent foreign players from nearly every corner of the globe. Prior to the late 1970s, much of the U.S. economy was dominated by domestic companies. While many large American firms were also significant international competitors, many others were content to be masters of the huge domestic market. European firms were considered to be high-quality and, generally, high-cost competitors. Much of the rest of the world was ignored, except perhaps as a source of low-cost labor or as a low-price competitor.

But the impressive in-roads into the U.S. market by Japanese consumer electronics and automobile firms in the late 1970s sent a wake-up call to American industry. Well-established workplace arrangements — that were costly and inefficient — were called into question when compared to the norms of successful foreign competitors. Corporate America's hierarchical command and control systems no longer appeared to be the model management systems for the new operating environment.

Worse yet, years of complacency under the old social contract had created high-cost labor systems with insufficient incentives for producing quality goods or providing quality services. In too many American workplaces, the old social contract called for blue collar and clerical workers to check their brains at the door and simply to follow orders. Japanese workers, by contrast, were called upon to make suggestions through quality circles and to arrive at decisions through consensus building.

In addition, the high value of the dollar enabled imports to gain U.S. market share rapidly. The speed and magnitude of the competitive threat opened the door to radical, rather than just incremental, organizational change.

A 1993 research undertaking, called "The Dynamic American Firm Project," conducted by the Center for the Study of American Business (CSAB), helped shed added light on the significance of

this change in the competitive environment. One study resulting from the project combined 48 survey responses from U.S. manufacturing executives with information from extended interviews with top manufacturing executives.³ The survey respondents overwhelmingly felt that competitive pressures have increased dramatically in the past ten years. Three-quarters of them strongly agreed that their firms face "much stiffer competition today than . . . just ten years ago." Only two percent somewhat disagreed.

And that competition is global. More than 70 percent strongly agreed that their company is in direct competition with U.S. and foreign firms, not just domestic competitors.

A retired senior vice president from a large (\$9 billion) chemical firm, when asked what were the driving forces behind the organizational changes that have taken, and are taking, place in American manufacturing, said:

If I wanted to make a general observation, I would just say "Toyotas." . . . I don't think it really came home to most of the United States' companies until 1981-1982 that, indeed, we were in a global war and we were losing. If we were going to compete effectively, we were going to have to do something differently.⁴

Nor are American firms the only ones affected. Siemens Nixdorf recently cut production workers at its personal computer factory in Augsburg, Germany from 1,300 to 1,000 while adding a third shift. The firm's chief executive said, "We have had to re-engineer more or less the whole company. In this kind of competitive environment, the only constant is change."⁵

Technology's Destabilizing Role. Intensified competition — whether brought about by international developments or domestic deregulation — is a powerful undercurrent throughout the economy, magnifying inefficiencies and calling for a more rapid pace of change. However, the added competition is not the only driving force for organizational restructuring. Rapid technological advance also has shaped organizational change and the type and extent of downsizing, in particular.

An American CEO of a joint venture (with a foreign partner) in the processed foods industry interviewed by CSAB identified both international competition and information technology as key organizational driving forces. This chief executive stated:

I think that there are simply no markets or no market niches that are immune from competition anymore. And the competition is

far more than local or national; it's clearly international in all product categories.

Second, I see information technology — telecommunications combined with data bases and computational programs — making information available much faster, in far more depth, and more thoroughly analyzed. . . . One needs to have a management structure that can adapt fairly rapidly.⁶

Thus, technological advance not only enables organizational change, it causes it. When top executives can receive up-to-the-minute information on operations on a computer screen on their desks, a cadre of middle managers and corporate staffers is no longer needed to collect and interpret that information. A phalanx of middle managers has disappeared from downsized American firms as a result of computer and telecommunications advances.

*Technological advance not only enables
organizational change, it causes it.*

This type of organizational flattening was evident at the firms contained in CSAB's sample. Seventy percent of the firms surveyed agreed that their firm had "greatly reduced the number of layers in its organizational hierarchy" during the past five years. Fifty-nine percent agreed that layers were removed primarily to push decision making down the hierarchy. Only six percent disagreed that decentralizing decision making was a primary objective of flattening.

Telecommunications and computer systems also have enabled companies to more directly interact with their suppliers and customers. Customer service clerks, and even production workers, have become in some instances first-line decision makers, improving the response to customers. Thus, technology provides improved information at both ends of the employee spectrum, further squeezing the middle layers. Fewer supervisors are needed for empowered employees.

On a larger scale, technological advances in capital equipment (in part due to microprocessor developments) have reduced its

size and increased its mobility. The old manufacturing strategy was to make long production runs of uniform products to reduce the cost of changing over large inflexible assembly lines. Today, flexible machinery can economically produce smaller quantities to better meet specific needs of customers. This capital downsizing further increases global competition as it lowers barriers to entry, enabling even some developing nations to compete effectively.

A recent *Fortune* magazine article hit home the salient point that, if companies really are to attain the productivity impact from technological developments in computers, telecommunications, and other microprocessor applications, they must combine technological change with organizational change. In the words of the author, "A technological revolution . . . is more than a merely technological matter: It entails an organizational transformation too. That's what U.S. business's recent frenzy of reengineering has been all about. . . ."⁷

Other Restructuring Drivers. Fierce competition and rapid technological developments are two very real forces influencing organizational change, particularly the extent and shape of downsizing efforts, but they are not the only factors. Another force is the emphasis on improving shareholder value.

Financial markets place a high value on announcements of downsizings. From the time that IBM announced on July 27, 1993 that it would cut 60,000 jobs until year end, the company's stock price rose 30 percent. Boeing announced a 21,000 person layoff on February 18, 1993 and its stock price increased 31 percent by year end. By contrast the S&P index rose only about eight percent during 1993. The price of Xerox shares jumped seven percent on December 8, 1993 when its CEO announced a 10 percent staff reduction.⁸

Downsizing becomes even more attractive when the stock market reaction is coupled with pressure from institutional investors for good short term results and CEO bonuses are tied to stock price movements. Incentives that link CEO pay to shareholder interests are an important change from the days when poor financial performance had little impact on the compensation of top management. However, these new management incentives may have perverse effects on employees.

Precipitating Causes

Repeated Downsizings and Cutbacks. Sixty-one percent of the human resources executives surveyed by the Conference Board in 1984 believed that downsizing was losing momentum. They forecast that downsizing would receive only "minor attention" over the

next three years.⁹ But they were wrong: by 1991, more than half of the human resources executives responding to that year's Conference Board survey switched views, most accepting the notion that regular downsizing would be necessary "to maintain an effective, competitive organization."¹⁰

Publicly announced corporate job cutbacks at American firms added up to more than 615,000 in 1993.

What at one point in time may have seemed to be necessary, but temporary, reductions in force at American businesses, are now seen by many as a process of continual downsizing and organizational restructuring. The first wave of organizational change was brought on by the clear and present danger of foreign competitors, contesting markets around the world and in the United States. While a weaker dollar and a host of competitiveness-enhancing programs — total quality management, empowerment, reengineering — have strengthened American firms in the global marketplace, the new race continues to belong only to the swift — the "lean and mean."

Indeed, several major cutbacks during the past year have come from companies that appear to be "winners" in this global race. In July 1993, Procter & Gamble announced that it would eliminate 13,000 jobs (12 percent of its work force) over three years, even though it expected record earnings for the year. Edwin Artzt, P&G's chairman, took the action to make the company's products more price competitive. He said, "I became convinced that if we did not reverse this situation, we would end up two or three years from now hitting the wall, as other companies have."¹¹ Other profitable firms — General Electric, AT&T, Nynex, GTE, Gillette, Eli Lilly and Johnson & Johnson — have adopted the same strategy of continually paring payrolls and other costs.

Publicly announced corporate job cutbacks at American firms added up to more than 615,000 in 1993, the highest total in the past four years. Staff reductions of nearly 193,000 were reported for the first quarter of 1994. If continued at the same rate, downsizings could surpass 750,000 for the year.¹²

Workers Are Being Sent a Mixed Message. A recent *Fortune* magazine article phrased management's new message to employees as follows:

You're expendable. We don't want to fire you, but we will if we have to. Competition is brutal, so we must redesign the way we work to do more with less. Sorry, that's just the way it is. And one more thing — you're invaluable. Your devotion to our customers is the salvation of this company. We're depending on you to be innovative, risk-taking, and committed to our goals.¹³

The "work harder" message is coming through loud and clear. In the manufacturing sector, the work week hit a post World War II record in 1993 — 41.7 hours. Normally, payrolls are expanded and overtime used to a lesser extent once recoveries hit their stride. To be sure, one factor in the greater use of overtime is the higher cost of benefits for full time workers. Fringes have risen from an insignificant portion of wages to over 30 percent at present, thus, making overtime pay a more attractive alternative to hiring new employees.¹⁴ Nonetheless, the longer work week is also an indication that management is committed to doing more with less.

A recent *Wall Street Journal* op-ed by Jack Welch, GE's hard-driving chairman and CEO, emphasizes the second half of the mixed message: the new worth attached to individual ingenuity. Welch wrote:

The best companies now know, without a doubt, where productivity — real and limitless productivity — comes from. It comes from challenged, empowered, excited, rewarded teams of people. It comes from engaging every single mind in the organization, making everyone part of the action and allowing everyone to have a voice — a role — in the success of the enterprise.¹⁵

The 1993 survey of manufacturing executives conducted by the Center for the Study of American Business found support for Welch's position. When asked their level of agreement with a statement that human resources are becoming *relatively* more valuable in gaining a competitive advantage, 88 percent of the executives agreed (48 percent strongly agreed and 40 percent somewhat agreed). Even more startling, given the current proclivity to downsize at American firms, was the finding that 73 percent of the executives agreed (44 percent strongly and 29 percent somewhat) that it is more critical to reduce turnover of experienced personnel today than it was just five years ago.¹⁶ That is one of the many paradoxes that bedevil business today.

This lofty view is a difficult sell to those surviving continual waves of downsizing. Survivors often share the view of a 20-year veteran manager at Nynex who was quoted in a recent *Business Week* article as saying: "The officers all have golden parachutes. They're in charge of their own fates. We're not involved. We're just affected."¹⁷

Survivors are being asked to buy into long-term corporate visions while being exposed to ever-changing short-term programs and an ever-present threat of termination. According to Michael Hammer, the reengineering expert:

All many companies are doing is eliminating people, throwing them over the side of the boat and they aren't eliminating work. Companies then have to work the remaining people harder and they become stressed and unhappy. . . . Much of the downsizing of the last 10 years has been an enormous waste of time and energy, and in many cases has been spectacularly unsuccessful.¹⁸

A survey of 1,200 executives at small and large firms by Right Associates in 1992 revealed that 75 percent of workers remaining after a downsizing or restructuring were worried about their jobs. More than 900 of the 1,200 firms surveyed had gone through a downsizing in the past five years. A spokesman for Right Associates said, "Our study clearly shows that organizations often ignore surviving employees, choosing to believe that the survivors recognize that they are the 'lucky' ones."¹⁹

What Is Happening in the American Workplace?

The Mixed Results In Company Performance

In the view of many management experts, there is downsizing and then there is downsizing. Many have been critical of the mindless numbers game approach taken by some firms and the almost faddish nature of successive waves of job cuts.

No Sure Road to Increased Profits and Productivity. A 1993 Wyatt Co. survey of 531 large companies found that 85 percent had hoped that restructuring would raise profits. But only 46 percent saw earnings increase within two fiscal years of the restructuring. Although 58 percent had a goal of higher productivity, only 34 percent experienced a productivity rise in the two-year time frame.²⁰

Another 1993 study by Kepner-Tregoe, an international consulting firm, found that, for the 271 manufacturers it surveyed, employee morale plummeted with little or no quality improvement

and little improvement in the bottom line as a result of restructuring (downsizing) programs.²¹ A 1991 Conference Board survey also examined the consequences of corporate downsizing. The most frequently cited negative effect was lower morale among survivors. More than three-fifths of the respondents (353 human resource executives at Conference Board member firms) said that their firms experienced declines in employee morale.²²

A 1993 study found that employee morale plummeted with little improvement in the bottom line as a result of restructuring (downsizing) programs.

In July 1994, the temporary staffing firm of Accountemps reported the results of its poll of 150 business leaders concerning the potential for employee burnout at downsizing firms. In response to the question, "What is the potential for employee burnout as companies try to be lean and mean?", 33 percent answered "very high" and another 52 percent said "fairly high."²³ Burnout may be a vague term but its symptoms are negativity, loss of creativity, and chronic tardiness or absenteeism; hardly the stuff to assure that a firm is a winner in today's highly competitive marketplace.

Repeated doses of downsizing medicine appear to have the worst side effects. The American Management Association (AMA) found that 43 percent of the companies they surveyed (a sample of approximately 1,000 firms) downsized in two or more years between 1987 and 1992. Ten percent cut payrolls in four or more of those years. More than 75 percent of the job cutters reported that morale had collapsed. Two-thirds said that their companies showed no increase in efficiency and half saw no improvements in profits.²⁴ The AMA also found that negative impacts from downsizing are more evident in the multi-year downsizers than for those with just one event.²⁵

The latter result should not be surprising. Survivors of a single downsizing are more likely to believe that the bitter medicine is going to work and that their careers are not at risk. Successive unexpected waves of downsizing make optimistic prognoses for the company's, or the employee's, future less credible.

Economic Evidence. In spite of the negative impact on employees and the mixed financial results, is downsizing a necessary evil? Must successful and struggling companies alike tear up the old social contract and get on the downsizing bandwagon?

The answer, for manufacturers at least, is partly furnished in a May 1994 Census Bureau report which examines Census of Manufactures data from 1977 and 1987. Over this period, total manufacturing employment fell by 4.5 percent while productivity (value added per worker) rose by 33 percent.²⁶

The Census Bureau report sheds new light on the origin of manufacturing productivity increases. The analysis places 140,000 manufacturing plants in four basic groups: "successful upsizers" (plants increasing labor productivity and employment), "successful downsizers" (rising productivity and declining employment), "unsuccessful downsizers" (falling productivity and employment) and "unsuccessful upsizers" (rising employment but falling productivity). The study finds, "Overall, plants that added workers contribute about the same to aggregate productivity as plants that downsized."²⁷ Thus, downsizing is one strategy for increasing productivity but not the only one. Moreover, as has previously been shown by subjective survey results, downsizing does not guarantee productivity increases.

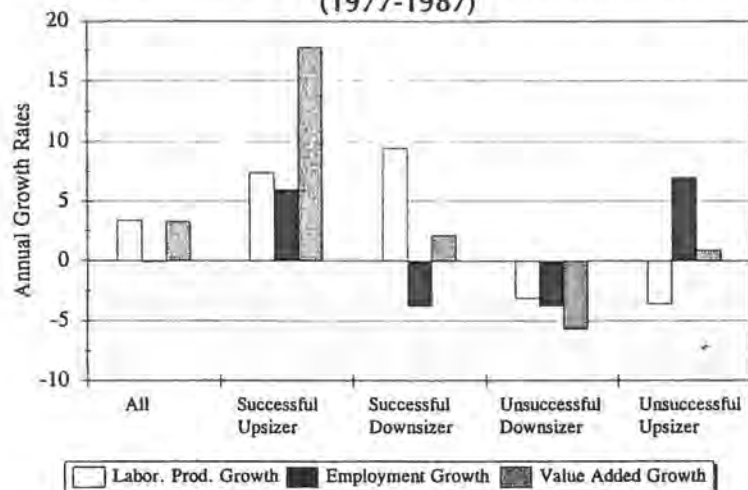
Figure 1 provides more detail on the performance of establishments in each of the four categories in the Census Bureau report, showing annual growth rates over the 1977-1987 period for employment, labor productivity, and value-added productivity.²⁸ Firms that downsized had better labor productivity growth than the upsizers but only a fraction of the value-added growth. Unsuccessful downsizers experienced falling labor productivity and falling value added, whereas, unsuccessful upsizers had a small gain in value-added productivity.

Interestingly, the largest group of U.S. manufacturers are in the successful upsizer group. They constitute 39 percent of employment and 42 percent of value added. The second largest group is the successful downsizers — 28 percent of employment and 37 percent of value added. The third largest group is the unsuccessful upsizers, representing 21 percent of jobs and 13 percent of value added. Bringing up the rear, and a substantially smaller proportion of the manufacturers, are the unsuccessful downsizers — 12 percent of employment and 8 percent of value added. While these data cover only manufacturing, they clearly show considerable variation among individual companies.

The 1992 Right Associates survey of 1,200 firms mentioned previously adds additional perspective on the extent of downsiz-

Figure 1

Decomposition of Manufacturing Productivity Growth (1977-1987)



Source: Adapted from Martin Baily, Eric Bartlesman, and John Haltiwanger, *Downsizing and Productivity Growth: Myth or Reality?* Center for Economic Studies Discussion Paper 94-4, Bureau of the Census, U.S. Department of Commerce, May 1994, Figure 5.

ing. Of the 900 firms that reported reducing employment levels in the previous five years, only 4 percent involved a reduction of more than 5,000 employees; 8 percent cut between 1,000 and 5,000 workers and 6 percent laid off between 500 and 999 people. Thus, 72 percent of downsizings resulted in terminations of fewer than 500 employees.²⁹

The standard picture of a downsized world is too simple to fit the facts. This is not to say that the social contract between worker and employer is not undergoing widespread change. It does call for less dramatic rhetoric in describing the changing organizational landscape.

The Adverse Effect on Employee Morale. The result of sending mixed messages to employees is confusion and cynicism. Pollster Daniel Yankelovich identifies five broad patterns of employee response:

- Employees no longer believe that their job is for life.

- They no longer believe in employer loyalty and concern.
- They are losing confidence that they will be rewarded for learning and expanding their skills.
- Employees are beginning to equate the corporate emphasis on quality with downsizing.
- Work has become a less reliable source of satisfaction and rewards, other than money.³⁰

Yankelovich suggests that there is always an unwritten contract that dominates the employee-employer relationship. All employees “develop a set of quid pro quos — expectations about what they must give on the job and what the employer must give in return.” Once the unwritten contract is violated, the relationship is at risk. In his view, “The recent wave of restructuring, reengineering, and the use of TQM as a way to cut jobs has violated, or threatens to violate, the unwritten contract.”

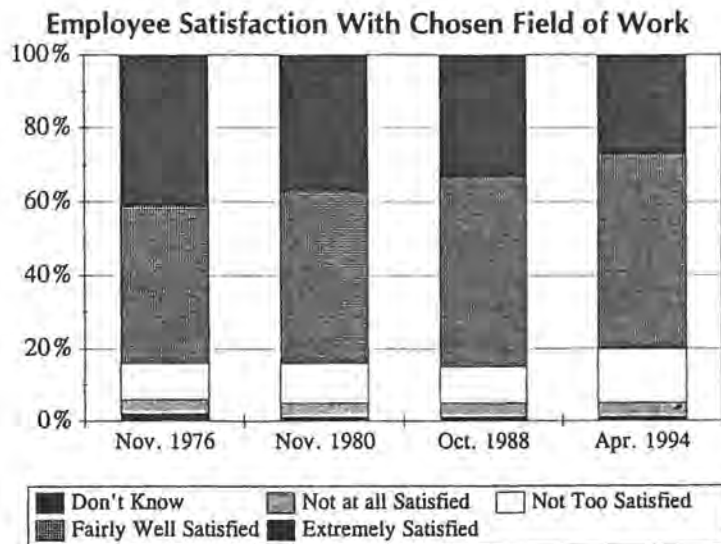
The effects of downsizing are distributed bimodally — top executives are rewarded handsomely while middle management, clerical, and production workers are worse off.

Worse yet, the effects of downsizing are distributed bimodally — top executives are rewarded handsomely while middle management, clerical, and production workers are worse off. Generous income security via golden (or platinum) parachutes is provided to top management while most employees face much greater uncertainty.

New Roper Survey Results Provide Important Detail on Worker Attitudes

Downsizing has many significant negative side effects but some perspective is needed before assuming that the entire U.S. work force is disgruntled and insecure. Organizational change has not touched all working Americans the same. The largest firms have been the most active downsizers, especially those under severe competitive pressures and in fields of rapidly changing technology.

Figure 2



Source: 1994 information compiled from survey data collected in April 1994 by Roper Starch Worldwide. Prior years furnished by Roper Starch Worldwide.

Roper Starch Worldwide recently updated its survey data relating to workplace issues. Some of this information has been collected for nearly two decades. Roper samples are rather large (nearly 1,000 working individuals who are not self-employed in each survey), providing good statistical accuracy.

Declining Job Satisfaction. Since 1973, Roper interviewers have been asking Americans, "How satisfied are you with your chosen field of work?" Figure 2 shows the distribution of responses to this question for four selected periods — 1976, 1980, 1988, and 1994. The "extremely satisfied" response reached an all-time low in April of this year, 27 percent of all employed persons surveyed. This optimistic response has been declining (with some peaks and valleys) since 1976 when 41 percent responded that they were extremely satisfied with their field of work. Most of the shift has been to the response "fairly well satisfied," however. As a result, those employees who consider themselves fairly well or extremely satisfied totaled 81 percent in 1994, down only marginally from 84 percent in 1980 and 1976.

Roper Starch also breaks down job satisfaction into individual categories. Figures 3A through 3D show the trends in levels of satisfaction for some of these areas. The percentage of workers completely satisfied with the income provided by their jobs is at its lowest level, 18 percent, since 1988 when it was only 17 percent. (See Figure 3A.) Workers were considerably more satisfied with their pay in 1980 and 1976. Most of the slippage is to the "fairly well satisfied" category, however, so that 81 percent are satisfied. The proportion of workers dissatisfied with their pay has been relatively stable throughout the past 28 years, varying from the current 29 percent to as low as 25 percent in 1988 and 1976.

The Roper Starch data does provide some support for the general perception of people having to work harder, or at least longer. (See Figure 3B.) The percentage of workers completely satisfied with the number of hours worked reached an all-time low of 30 percent in 1994, falling from 45 percent in 1976. A good portion of this shift has been to the "not too satisfied" category, which grew to a new high of 17 percent.

Managers hoping to improve productivity through teamwork should find cause for concern from the observation that workers are becoming less satisfied with "the kind of people" they work with. (See Figure 3C.) In 1976, more than half (52 percent) responded that they were completely satisfied with their co-workers. That figure is now down to 37 percent. Most of the shift has been to "fairly well satisfied." The dissatisfied group has grown from just 8 percent in 1976 to 12 percent today.

Given the flattening of hierarchies that has accompanied the downsizing phenomenon, it should not be surprising that employees are less satisfied with their chances to move up. (See Figure 3D.) Only 20 percent are completely satisfied, another all-time low. Again, however, the shift has mainly been to the fairly-well-satisfied group. Thirty-seven percent were dissatisfied with their promotion opportunities, higher than the 33 percent figure for 1988 but virtually unchanged from 1980 and 1976 rates.

Sagging Morale. Roper Starch has also collected data on workplace morale since 1986. Interviewers asked how people rate the morale of "fellow workers." (See Figure 4.) Again, the news is not good. Roper's March 1994 survey indicates that only 27 percent rate co-worker morale as excellent, substantially below 1990 when 38 percent believed morale was excellent. Those answering "not very good" reached 15 percent compared to 11 percent in 1990 and 12 percent in 1986.

Figure 3A

Employee Satisfaction with Income

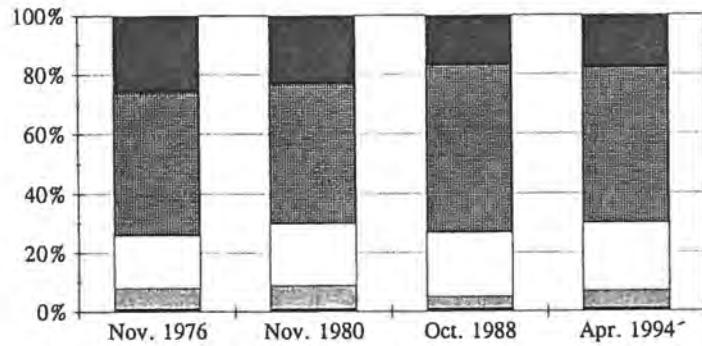


Figure 3C

Employee Satisfaction With Co-Workers

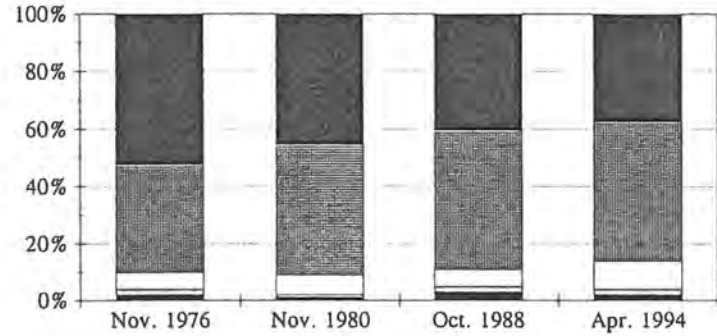


Figure 3B

Employee Satisfaction with Number of Hours Worked

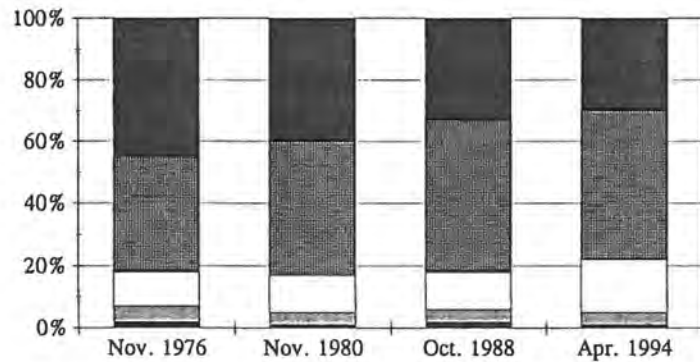
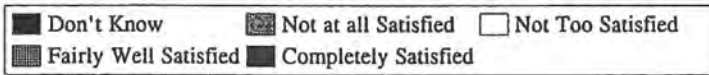
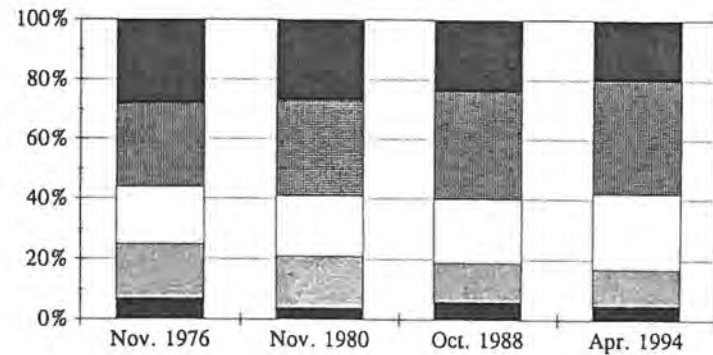


Figure 3D

Employee Satisfaction With Chance of Promotion



Source: For Figures 3A through 3D, 1994 information compiled from survey data collected in April 1994 by Roper Starch Worldwide. Prior years furnished by Roper Starch Worldwide.

Figure 4



Source: Information supplied by Roper Starch Worldwide.

The top five reasons why morale is not excellent, and the percent of respondents who cited one of these reasons for poor morale, are shown in Table 1. The percentages for these same categories for 1990 and 1986 are also shown.

The size of pay increases is the greatest bone of contention in all three time periods but a greater percentage — 28 percent versus 23 percent — cite poor pay increases as a morale killer in 1994. The number two problem, inadequate communication between workers and management, is roughly the same degree of problem in all three years. The only real surprise is that “troublemakers in the organization” was cited by 14 percent of those rating morale less than excellent in 1994 but only by 9 percent and 8 percent in 1990 and 1986, respectively. This last result is consistent with the finding of rising dissatisfaction with the kinds of people with whom an individual works.

The explanation for lower co-worker morale that most closely relates to downsizing is: “Other workers getting laid off/asked to retire early.” While it did not make the “top five” in the April 1994 survey, this response was not far from making the list — 12 percent of those who rated morale less than excellent cited this re-

Table 1

Top Five Reasons Why Morale Among Fellow Workers Is Not Higher
(Asked of those who say morale of fellow workers is not excellent)

	June 1986	May 1990	March 1994
Pay increases too small	23%	23%	28%
Inadequate communication between workers and management	21	19	19
Too few chances for promotion/advancement	19	14	18
Troublemakers in organization	8	9	14
Fringe benefits not good	12	11	13

Source: Roper Starch Worldwide.

sponse. For profit-making firms, this same response was selected by 5 percent of the interviewees in 1990 and 10 percent in 1986. Downsizing may be a growing source of discontent but it is not so widespread that it is seen as a dominant morale buster.

More detailed analysis of 1994 data for profit-making businesses shows that expressions of morale problems are worse for large firms (those with over 500 employees) than for middle-sized (50-499 workers) and small firms (2-49 employees). Only 26 percent of workers at large firms rated morale as excellent and 12 percent rated it poor. Comparable figures for mid-size businesses were 31 percent excellent and 5 percent poor, while workers at small organizations responded 27 percent excellent and 4 percent poor.

See the Appendix for an analysis of the Roper Starch survey data on related employee morale issues — job security, employee loyalty, and how employees rate their employers' loyalty.

Congruence of Employer-Employee Interests in Restructuring. One question posed by Roper Starch in February 1994 has particular significance for assessing the effects of organizational change on the workplace. Asked whether the interests of employers and employees were opposed or basically the same for "restructuring and reorganizing of companies," 42 percent responded that they were mainly opposed and 32 percent answered "basically the same." (Sixteen percent answered "don't know" and 10 percent "not an issue.") Interestingly, those listing their jobs as executive or professional positions were the *most* pessimistic: 51 percent answered "interests opposed" and 29 percent "basically the same." White-collar workers responded 44 percent opposed and 33 percent the same. Forty-two percent of blue-collar workers thought the interests of employers and employees were opposed when companies restructure and reorganize; 32 percent thought they were the same.

Whether the modest dominance of the feelings of opposed interests in reorganizations is good news or bad news is in the eye of the beholder. Given the unfavorable press about the negative effects on the people involved — survivors as well as terminated employees — it is surprising that nearly a third of the Roper respondents believe employee and employer interests are coincident in these undertakings. Indeed, when the "don't know" and "not an issue" respondents are eliminated from the sample, 43 percent believe employee and employer interests are aligned versus 57 percent who see them as opposed.

Summary. The picture painted by the Roper Starch data is one that can appeal to a pessimist or an optimist. Nearly all of the trend information shows less satisfaction in the workplace, confirming the anecdotal accounts in the business press. On the other hand, respondents generally are fairly well satisfied — most of the slippage in satisfaction has been from an extreme expression to the next most optimistic category. This is true for satisfaction with the chosen field of work, income, hours worked, co-workers and chances for promotion.

The same pattern is evident with regard to worker morale. Barely more than one in four believe morale is excellent; whereas, surveys from four and eight years ago register a 38 percent and 33 percent excellent rating, respectively. Some respondents have moved into the black cloud camp — 21 percent now say morale is not very good or poor compared to only 16 percent in 1990 and 18 percent in 1986. But this still means that the vast majority (two-thirds) believe morale is good or excellent.

When the latest Roper Starch data are examined in detail, it becomes clear that the for-profit sector is the one experiencing the most upheaval. Employees at profit-making firms are less secure, less loyal and believe that their employers are less loyal to them than do workers in the government and private non-profit sectors.

When it comes to restructuring, employees are not sanguine that what is good for the company is good for them. Surprisingly, executives are the most pessimistic that employee and employer interests are the same in reorganizations. While drawing too many inferences from data taken at a single point-in-time would be presumptuous, this finding is consistent with the fact that middle management is one of the hardest hit groups in the current downsizing.

Additional waves of restructuring will continue to erode the foundation of the old social contract. The three forces of global competition, deregulation, and technological change suggest that organizational restructuring will be a long-term phenomenon. The issue is not whether the old social contract can be preserved or reestablished, but how it should be changed: What are the elements of a new social contract?

Alternative Approaches for Change

In a speech to a national labor-management conference sponsored by the Federal Mediation and Conciliation Service on June 8, 1994, House of Representatives Majority Leader Richard Gephardt (D-Mo.) offered his "inside-the-beltway" view of the changing workplace. A few excerpts show that even those removed from the actual battleground of the private sector see that the workplace is changing dramatically:

We gather today at a time of growing uncertainty and anxiety in the American workplace.

The fact is our economy is changing in profound and permanent ways. We can't protect ourselves from those changes. But we can *prepare* for them. . . . [W]e can define a *new* compact — a set of shared principles for management and labor. . . .

The House Majority Leader then went on to outline guiding principles for a new American workplace;

1. If workers have a real stake in the company — if they share the rewards as well as the risks — then they're going to be more innovative, and more productive.

2. A workplace dictatorship, however benevolent, is never as effective as a workplace democracy.
3. If workers and managers have common goals, instead of conflicting agendas, there's no question that the benefits flow right to the bottom line.
4. In any business, profits are important, but people are every bit as important.

These are very broad principles with which nearly every worker or manager could agree (after a good deal of quibbling over "workplace democracy," no doubt). Unfortunately, they can be somewhat difficult to execute, especially if a firm has a history of labor-management friction. While inciteful, Congressman Gephardt's approach does not suggest the basis of a new social contract for the workplace. If workers cannot expect job security in exchange for acceptable levels of job performance and loyalty, what should be the principles of the implicit contract between today's employers and employees?

Attempts to provide a new definition of the social contract to govern the future American workplace are coming from a variety of groups, from the White House to executive suites to union halls to the mountain tops of management gurus. It is worthwhile to examine some of these perspectives in order to distill some common themes from these disparate sources.

Clinton Administration Views

To put the administration's views in a nutshell: Job security has given way to "employment security" as the *quid pro quo* for satisfactory job performance. In his speech to the ministers from the Group of Seven industrialized nations on March 14, 1994, President Clinton indicated that workers will not accept changes that come from trade agreements, productivity gains or technological advances if they are not confident that they can get new jobs. He said, "That is the trick. We've got to prove to our people that change can work for them."³¹ Robert Rubin, White House economic adviser, added that the "new definition of job security" is one in which workers are "equipped to handle the next job" — at, perhaps, another employer. Lawrence Katz, until recently chief economist at the Department of Labor, defined employment security as "having skills that are *portable* and benefits that are *portable*."³²

But this enlightened view comes with a few strings attached. The administration appears also to believe that it is the respon-

sibility of employers to provide the training necessary to make workers employable. In this regard, the White House is retaining some of the paternalistic elements of the old social contract.

Further evidence that Washington is not ready to leave the definition of the new social contract to employers and employees comes from the wave of new and proposed benefit mandates. The two most recent workplace mandates, the Americans With Disabilities Act and the Family and Medical Leave Act, add to an already long list of federal laws that span collective bargaining, workplace safety, unemployment compensation, pension plan administration, racial and sex discrimination, etc. The biggest intrusion of all, however, would be compulsory employer-provided universal health coverage, should it ever pass.

The Clinton administration's perspective on a new social contract for the workplace is a paradoxical mixture of support for free labor markets and government-mandated, employer-provided benefits.

Thus the administration's perspective on a new social contract for the workplace is a curious paradoxical mixture of support for free labor markets, in order to make American firms competitive, and continued insistence on an increasing package of government-mandated, employer-provided benefits that would make U.S. business less competitive.

Organized Labor's Views

In February 1994, the AFL-CIO's Committee on the Evolution of Work issued its report, "The New American Workplace: A Labor Perspective." Not surprising, the report offers scathing criticism of management: "By and large, 'work reform' has amounted to little more than attempts to make workers 'feel good' and work harder."³³

On a more positive note, the report outlines "five principles" of a "model for a new system of work organization":

- *Rejection of the traditional dichotomy between thinking and doing, conception and execution.* This process requires a fundamental redistribution of decision-making authority from

management to teams of workers. Workers must also be given the opportunity to develop and refine analytic and problem-solving skills.

- *Jobs that are redesigned to include a greater variety of skills and tasks and greater responsibility for the ultimate output of the organization.* Workers should be free to do the right thing, rather than being compelled to do the prescribed thing.
- *Substitution of a flatter management structure for the traditional, multi-layered hierarchy.* The aim is to enable workers to be self-managers who are responsible for their own performance.
- *A decision-making role at all levels of the enterprise for workers, through their unions.* Strategic decisions are to be jointly made by workers — acting through their unions — and the other stakeholders.
- *Rewards realized from transforming the work organization to be distributed on equitable terms agreed upon through negotiations between labor and management.* This means a negotiated agreement to protect income and employment security to the maximum extent possible. It means a negotiated agreement to compensate workers fairly for their enhanced contribution to the success of the organization through increases in base wages or agreements providing for some form of supplementary contingent compensation (such as gain sharing, profit sharing, stock ownership or the like.)³⁴

Most employers could find much to agree with in these principles. Indeed all but the one calling for greater decision-making authority for workers, *through their unions*, are already being embraced at many forward-thinking companies.

The AFL-CIO report acknowledges that “distrust between labor and management . . . is endemic to the old system. . . . The new system, in contrast, can function effectively only if those deep suspicions are dispelled and replaced by mutual respect.”³⁵ But that type of trust is hardly evidenced by the insistence that workers interact with management only through their union representatives.

In testimony before the Commission for the Future of Worker-Management Relations (the Dunlop Commission), Clifford Ehrlich, Senior Vice President of Human Resources of Marriott International, challenged the notion that in all instances workers want

an intermediary between them and management. Ehrlich cited a May 1993 survey of 1,000 Americans by Penn and Schoen for the Employment Policy Foundation. A key question asked: “Speaking generally, if you and your co-workers figure out a way to do your job differently or better, would you prefer to: (1) talk to management directly, (2) communicate through a union, or (3) don’t know.” Eighty-three percent said they would prefer to talk to management directly and that result was virtually unchanged (82 percent) for union members who responded.³⁶

Ehrlich also sees an enormous transformation in the way American corporations view their most important asset, the people they employ. He noted that the debilitating tension that permeates the traditional labor-management relationship is no longer acceptable. Management realizes it must work with its employees to reach common objectives. Thus, in building a climate of trust, commitment, and shared responsibility, company managements must engage all employees at all levels in solving the challenges facing businesses.

The paternalism of the union is no more functional in the new American workplace than the paternalism of management was in the old. It is interesting to note that the five principles for the new AFL-CIO model do acknowledge the inability of companies to guarantee employment and do emphasize changes that help workers assume an “adult” role — adding to their skills and their decision-making powers.

Management Gurus

From the gurus’ perspectives, the whole question of what is a workplace is up for grabs. Some big thinkers believe that “employees” will really be more like individual entrepreneurs, working out of offices in their homes and telecommuting to a variety of client organizations.³⁷ This is an extreme view, and not very helpful for sorting out a new social contract for the here and now.

Others have extended the concept of the “virtual corporation” from the more modest formulation initially advanced. William Davidow and Michael Malone, who coined the phrase, suggest that a *virtual* corporation is a more focused, smaller organization which contracts out as many of its non-core functions as possible. Such a virtual corporation can reduce costs, decrease cycle times and take better advantage of its core competencies.

Other big thinkers have suggested that the virtual corporation will resemble a movie production company where people with diverse skills are temporarily brought together, produce something

and then scatter to the four winds. Michael Malone rejects this extreme formulation, however:

I'm not convinced that's going to happen. The reason is somehow you need a cohesiveness of experience, a body of shared skills, some sort of extended loyalty over multiple product generations. Therefore, corporations are going to be fairly stable in terms of employment, but they're going to be very unstable in terms of internal operations on a day-to-day basis.³⁸

Malone's views may be less dramatic but they also seem more realistic. This leaves us with the unfinished task of outlining the new social compact that will help American firms compete and adapt to new technology while maintaining some stability in employment.

Top executives everywhere are attempting to flesh out new workplace compacts for their firms.

The View from the Executive Suite

Top executives everywhere are attempting to flesh out new workplace compacts for their firms. Robert Shapiro, newly designated chairman and CEO of Monsanto Company, made the following observation during a recent address:

There used to be a sort of implied contract between companies and employees: employees offered loyalty and hard work, companies offered security and fair pay. Today, few companies, if any, can realistically offer long-term security, because the world has made even great businesses insecure. So . . . what can the new contract be between companies and employees? We're struggling with that question. We think the answer must be that if employees are to share in greater risk, they should also have a greater share of the rewards — if we succeed together.³⁹

This view of shared risks and rewards is very similar to the AFL-CIO statement, without the added emphasis on labor-management negotiations, however.

In contrast, the epitome of an organization that embraced the employment security aspects of the old social contract is IBM. Big Blue was once the most secure of American workplaces and

the envy of all those wishing to be "excellent" companies. But, by 1993, IBM could no longer maintain its 76-year tradition of no layoffs. After first downsizing through attrition, early retirement and other financial incentives, the company was forced to "involuntarily separate" some of its employees.⁴⁰

At first, the mainframe business was primarily affected, but downsizing through layoffs spread to the PC unit in July 1994. As part of the reorganization of the unit, many survivors are being relocated from plants that are closing, adding to the symptoms of survivor sickness.⁴¹

In the midst of this turmoil, top management is attempting to reshape the company's culture and redefine its social contract. Basic outlines of how IBM's employment compact is changing are beginning to emerge. Figure 5 provides a recent picture of the state of development of this new social contract.

Very few elements are unchanged in the employer and employee expectations matrices that form the implicit contract. IBM still expects ethical and honest behavior from employees and believes its employees have a right to expect a safe and healthy workplace. All other elements have changed, some subtly but others more obviously.

An example of a subtle change is the shift from "caring management" to "principled leadership" as an employee expectation. The paternalistic tone of caring management is replaced with a phrase that implies that management will conduct itself with integrity and will provide a sense of direction while leaving a good deal of initiative to the employee. IBM is also trying to shift employee expectations away from such things as "opportunity to advance" and "assistance to succeed" to "opportunity for growth" and "learning climate."

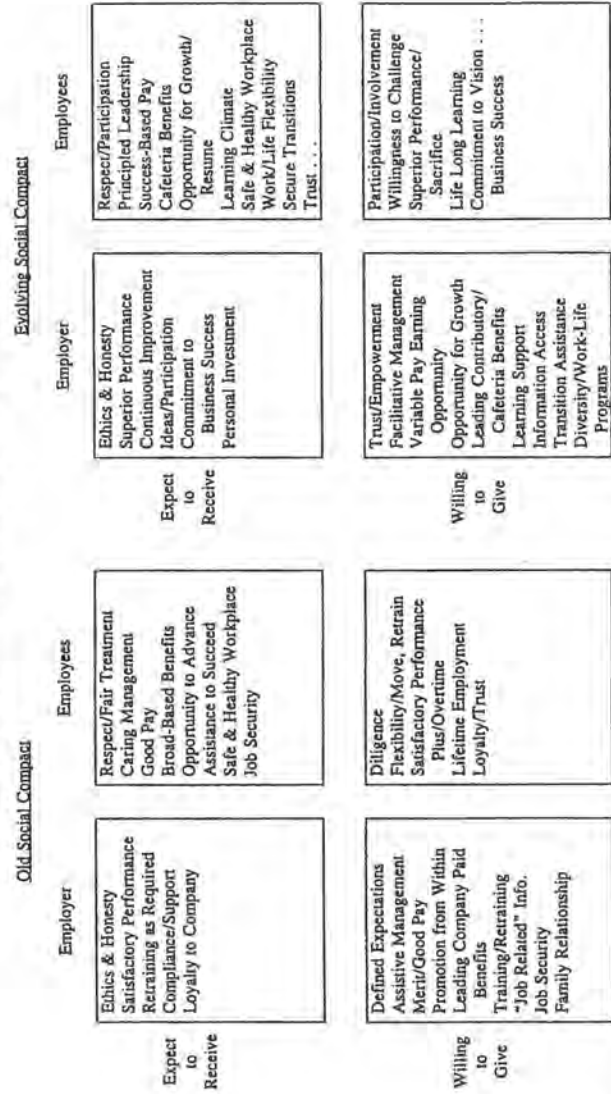
A more obvious shift is from the employer expectation of loyalty to the company to commitment to business success — or, from the employee perspective, from job security to "secure transitions." The latter change is a candid admission that the old no-layoff policy cannot be reinstated.

Common Positions

Each of the differing perspectives of the developing new social contract for the workplace has something useful to offer. The Clinton administration's emphasis on "employment security," or employability, is a sensible substitute for the old concept of "job security." This reformulation acknowledges that American firms are operating in a dynamic global economy, that to try to "stop the world" or to maintain the *status quo*, would be counterproductive.

Figure 5

IBM's Efforts to Redefine Its Workplace Compact



Source: Ross J. Williams, Director of Leadership and HR Development, presentation to the 21st Issues Management Conference, Human Resources Institute, St. Petersburg, FL, February 18, 1993.

The old social contract has to change to one that emphasizes job discretion and responsibility, and continuous learning.

But it is always difficult for public policy makers to accept the harsh reality that their best efforts to help to shape the new workplace contract may not be needed — or may even worsen the situation. For example, the Clinton administration and the Congress are actively adding to the existing array of employer mandates. More fundamentally, they tend to see employers as responsible for the full task of making workers “employable,” rather than viewing this as a shared responsibility.

Increasingly, organized labor also has come to understand that it cannot hold back the forces of global competition, deregulation, and technological change. Most labor leaders know that the workplace must become a more cooperative environment. But union leaders are typically skeptical of management’s motives and adamantly protective of their positions of power. As a result, they cling to elements of the old social contract that defined worker-management relations in unionized firms. In particular, they insist that union representatives *must* continue to act as middlemen between workers and management. They acknowledge the need to reduce management hierarchy in order to expand individual decision-making and enlarge jobs, but they fail to recognize that the existing union hierarchy produces similar inefficiencies.

Not all business leaders are aware of the need to revamp the worker-management compact. Those who are seem to have the most balanced view of how it needs to change. There is widespread agreement that human capital — worker knowledge — is one of the few remaining competitive advantages in this highly competitive world economy. To tap that knowledge, the old social contract has to change to one that emphasizes job discretion and responsibility, generally called empowerment, and continuous learning.

Companies that promised job security in the past cannot credibly continue to do so. They can only show that the company’s fortunes and those of the employee are intertwined. To the

extent that business leaders can back up their "talk with their walk," they can forge a new social contract for their own firms. But that compact is necessarily tailored to the individual circumstances of each company, as in reality was the old implicit contract between employer and employees.

Toward a New Social Contract for the American Workplace

Reconciling Paradoxes

Developing a new social contract for the typical workplace in the United States is an extremely challenging task. It requires reconciling a variety of paradoxes.

Enhancing Productivity while Reducing the Work Force. Earlier, reference was made to the fact that "there is downsizing and then there is downsizing." While this is not a report about the proper way to conduct a downsizing program, it is appropriate to consider how to mitigate the negative effects of work force reductions on the survivors — ways to avoid "survivor sickness." After all, the direct benefits of reducing the size of the organization can be offset by loss of productivity of those who remain.

One of the key principles for reducing the negative effects of downsizing on survivors is what organizational behaviorists refer to as "procedural justice." With regard to reductions in force, the elements of procedural justice include: advance notice, clear and adequate explanations of the reasons for layoffs, and dignified treatment of the people who leave the firm as well as those who stay.⁴²

A report by Joel Brockner et al (1994) showed that survivor commitment was adversely affected when procedural justice was low, and the outcome of the downsizing — severance pay, continuation of other benefits, and the extent of the cutback — was also viewed negatively. In contrast, if employees had advance notice, clear explanations, and received dignified treatment, commitment was not affected by how adverse was the actual downsizing. Thus, how the organization went about the downsizing was more important for influencing the commitment of the survivors than was the company's generosity toward those who left.

Other research results indicate that these conclusions should not be taken too literally. An analysis of voluntary cutbacks in U.S. Army personnel found that the perceived value of the retirement incentive was positively related to survivor organizational commitment. In addition, greater contact with persons taking

"early out" programs was negatively related to survivor commitment.⁴³

These conclusions do not overthrow the Brockner, et al, findings but they do weaken them. Procedural justice is important but part of the perception of justice involves how those who leave are treated, at least for voluntary programs. The extent and/or frequency of downsizings also affects the commitment of survivors to the organization.

David Noer, vice president for training and education at the Center for Creative Leadership, suggests several ways to reduce "survivor sickness" at downsizing companies. In his view, one problem is that most layoff decrees come from the top, but the extent to which people participate in a decision is the extent to which they buy into it. He believes it is important to involve people in the process, to give them options such as a voluntary early retirement or incentive package, job-sharing, or part-time work.⁴⁴

Noer acknowledges that the old paradigm would say that you can't trust employees with information that they're going to lose their jobs because then they won't be as motivated. "But," says Noer, "the new paradigm — and the new reality — is that we are all temps. . . . The extent to which we know how long we're going to be at a job, the more control we can have over our destiny, and thus, having control, we can do a better job because we won't be paralyzed by uncertainty and fear."⁴⁵

Noer's reference to the old and new paradigms, of course, relate to what we have been calling the old social contract and the new social contract. The old social contract may have implied that the company would take care of the employee but its implicit paternalism often meant that employees would be treated as children. The information needed about the business to enable individuals to make wise choices for themselves was often withheld because of lack of trust about what the "child" would do with that information. To avoid survivor sickness, management must seriously begin to grapple with how the old paradigm, the old social contract, must be reformed.

Increasing Competitiveness while Meeting New Employee Mandates. At the same time that widespread downsizing is shaking up so many work environments, many larger firms are still attempting to offer a host of programs to take care of specialized needs of portions of their work forces. Workplace diversity programs attempt to accommodate differing cultural backgrounds and to sensitize employees to hidden prejudices. Work-family practices provide special consideration to parents and to children of ailing aged parents.⁴⁶

In some instances, less-favored workers may resent the special consideration given selected groups of co-workers. Childless workers who must pick up the duties of parents who leave early for a ball game or who take off to care for a sick child begin to wonder what's in it for them. Of 14,000 workers questioned by Hewitt Associates, an employee-benefits consulting firm, more than 20 percent said that they had to work longer hours or tackle more difficult assignments to cover for co-workers who are parents.⁴⁷

Noer expresses cynicism about proliferating company benefits. He says:

I don't think organizations can hold up their end of the bargain. They can't take care of people over time, and by making them dependent on the company for more than their work, they may be setting themselves up for deep-seated layoff-survivor problems. That's not to say that day-care and elder-care aren't good, or that employees shouldn't have other good benefits, but it is to say that it's up to each individual employee to make sure that who he is is not [bound up in] where he works.⁴⁸

A rising array of government regulation is reducing the discretion and flexibility to make changes in the workplace.

Decentralizing Decision Making while Workplace Regulation Expands. Decision making in a business firm does not occur in a vacuum. A rising array of government regulation is reducing the discretion and flexibility to make changes in the workplace. A host of agencies and programs — such as OSHA, EEOC, Affirmative Action, ADA, etc. — determine much of the workplace policy previously determined by management or through collective bargaining.

The federal government continues to come up with new workplace "rights." Two of the most recent of these programs, the Americans with Disabilities Act and the Family and Medical Leave Act, add the force of law to the voluntary activities of more progressive firms. These two new laws pale in significance compared to proposed mandates for employee health care.

In spite of their concern for American competitiveness, Congress and the White House appear unable to stop themselves from doing good with other people's money. Each new program mandated, however, increases the cost of U.S. labor, making substitution of capital equipment more attractive in order to increase worker productivity and stay ahead of foreign competitors not saddled with the same expenses.

The rising costs of hiring new full-time employees — resulting in large measure from government mandates or fringe benefits required by collective bargaining agreements — has also led to greater use of part-time workers and contracting out of peripheral functions. Roper Starch survey results show few feelings of career development among part timers. When asked whether their employment was a career or "just a job," 84 percent of part timers responding in the April 1994 survey answered "just a job." Approximately 54 percent of full-time employees indicated that they considered their job to be a career. Surely, the "involuntary" portion of the part-time work force is less likely to be committed to the firm's objectives as are full-time workers.

Worker Insecurity and Golden Parachutes. Many boards of directors and top executives do not fully sense the depth of employee dissatisfaction. That fundamentally negative attitude is reinforced by the knowledge that top management compensation and income protection are becoming increasingly generous at a time when job security for blue-collar and white-collar employees is being substantially reduced.

Motivating American Workers while Expanding Globally. The increasing globalization of the marketplace means that many successful firms are expanding overseas while they reduce their domestic work forces. Many of our companies make more of their new investments overseas than here at home. Some of the best known American companies already have deployed a majority of their assets overseas — Manpower, Inc. (72%), Gillette (66%), Mobil (63%), Digital Equipment (61%), Exxon (56%), IBM (55%), Chevron (55%), Bankers Trust (52%), and Citicorp (51%).

This global shift creates new opportunities for the mobile members of management and is readily justified as a business necessity. Yet, it is hard to explain the benefits of globalization to those whose jobs have been eliminated.

Today's business leaders need the wisdom of Solomon to make sense of the paradoxical demands facing them. On the one hand, they must control costs and improve customer satisfaction in order to remain competitive. On the other, they are being pressured by societal and government demands to provide costly added

consideration to special subgroups of their workers. Management wants to reduce employee turnover and increase commitment, but it is difficult to do so while attempting to "cut all the fat" and asking for more output from each employee. Government tells management to improve competitiveness and focus on "employability." But it passes laws that make American businesses less competitive and American workers less employable.

The only way for business executives to negotiate this maze is to address these paradoxes head-on with candor, avoiding setting unrealistic expectations for the employees, or for themselves.

The most effective way to carry out a corporate restructuring is to communicate in small group meetings.

Vital Need for Honest Communication

The key to developing a new workplace compact is the same key that unlocks the door to high performance workplaces built on trust and mutual purpose — communication. However, this word is so broad and so over-used that it can lose its meaning unless further clarified.

A careful reading of a recent survey sponsored by Arthur D. Little, Inc. reveals several shortcomings in the ability of managements to communicate effectively with their employees during periods of substantial change. The composite of the views of 350 business executives concludes that the major barrier to successful change is the failure to convince managers and employees that change is necessary in the first place.⁴⁹ Some 64 percent of the respondents took this position.

No other obstacle to change was cited by as much as one-half of the executives surveyed. In the words of an energy industry executive, "If I had to do it over again . . . I'd increase communication: it helps to settle people."⁵⁰

Most of the managers polled agreed on what was *not* useful for gearing the organization to change. They rejected the conventional wisdom that focuses on training, distributing publications, and changing the compensation system. Instead, they preferred more individual-oriented actions:

- Communications direct from the CEO.
- Departmental meetings.
- Recognition of individual or group performance.
- Staff changes such as hirings, terminations, promotions, and transfers.
- One-on-one discussions.
- Employee focus groups or surveys.
- Changes in the performance appraisal process.⁵¹

This list is similar to the information shown in Table 2 which was compiled by Wyatt Co. from their 1993 survey. The most effective way to carry out a corporate restructuring is to communicate in small group meetings. Also helpful are briefings for managers and supervisors and increased senior management visibility. Regular employee publications came dead last, along with letters and memoranda. Yet, Wyatt found that letters and memoranda were the most frequently used means of communication.

The most effective types of communications in forging common understanding do not allow management to be passive. They also depart from the traditional top-down style of "communication."

In discussing how to make the transition from a command and control style of management to a coaching/teamwork style, Daniel Yankelovich says that the key is to learn how to substitute *dialogue* for top-down communications. He believes that most companies know how to conduct genuine dialogue at high levels of the corporation, but not between the top level and lower levels.

According to Yankelovich: "Genuine dialogue occurs when both sides modify their positions to accommodate each other. . . . The process of dialogue is far different from selling or persuading or educating or imparting information."⁵²

Similarly, a firm's new social contract cannot be unilaterally formed by top management. It may be introduced from the top but will only be understood and embraced if modified through a process of dialogue.

To buttress the principle that an employee "owns" his own employability, Intel, America's most successful logic chip maker, has quarterly business update meetings with all its workers. These meetings outline the firm's financial health. Twice a year, executives participate in strategic long-range planning meetings. Furthermore, a key part of every manager's job is to help co-workers determine if the demand for their skills is changing and

Table 2

Use and Effectiveness of Communication Tactics
in Support of Restructuring

	Used By Percent	Rated "Very Effective" Percent	Rank
Letters and memoranda	83%	28%	(7)
Briefings for managers/supervisors	74	51	(2)
Small group meetings (<30 workers)	65	63	(1)
Develop communication strategy	63	41	(4)
Large group meetings (>30 workers)	60	38	(5)
Regular employee publications	44	25	(8)
Increased senior mgt. visibility	43	51	(2)
Telephone hotline	18	32	(6)
Special restructuring publication	13	42	(3)

Source: "Study: Which Communications Do/Don't Work in Downsizing,"
PR Reporter, Vol. 36, No. 43, November 1, 1993, p. 1.

to recommend training, if necessary.⁵³ These actions back up Intel's view of providing employability to workers but tying job longevity to company and individual performance.

If the new compact is being communicated on the heels of a downsizing, then tone, as well as content, can play an important role. As David Noer, in his book *Healing the Wounds: Overcoming the Trauma of Layoffs and Revitalizing Downsized Organizations*, puts it: "When you are dealing with people who are really in trauma, the best way to deal with them is lead from the heart instead of the head."⁵⁴

And, when it comes to communicating to survivors, there is no such thing as too much of a good thing. According to Noer, it is impossible to overcommunicate to employees during layoffs. The survivors have a real hunger for information — oral, written, formal, informal.⁵⁵

This new challenge in communications falls squarely on the shoulders of top management but it may be recognized first by the public relations professional. John Onoda, vice president of corporate communications for Levi Strauss & Co. acknowledges:

Besides being responsible for opening up lines of communication from management to others, we are also responsible for opening up lines of communication from employees to other employees and to management. Historically, communications was about communicating fact. Now we are talking about visions, values — the sort of cultural norms that companies are operating in. We are no longer about conveying [company] information. We are about . . . changing behaviors.⁵⁶

*The new challenge in employee communications
may be recognized first by the
public relations professional.*

But if American businesses are to get past the elixir of downsizing and get on with establishing a new social contract in the workplace, other external audiences must be addressed simultaneously. To relieve the pressure to downsize in order to realize short-term stock price gains, the investing community needs to be made aware of the mixed results of corporate cutbacks. Information such as that presented in the earlier section of this report — "Downsizing's Impact on Productivity and the Bottom Line" — need wider distribution. A soundly developed public relations effort in this area could help remove the false impression of a conflict of interests between important corporate stakeholders — employees and stockholders.

Interestingly, the Department of Labor has been active in this regard. Indeed, the Labor Secretary cited the 1993 Wyatt Co. study in his October 1993 speech to the Council of Institutional Investors. The representatives of the California Public Employees Retirement System (Calpers) must have been listening because on June 16, 1994 Calpers announced it will start making investment decisions in part according to how well companies treat their employees. Among the workplace issues Calpers will analyze are the availability of employee training programs and the degree that

responsibility is given to lower-level workers.⁵⁷ Of course, that is not quite where the analysis in this report leads. The proper role of institutional investors such as Calpers does not extend to influencing the specifics of workplace operations.

The downward trend in employee satisfaction in the workplace — and the damaging effect on long-term productivity — calls for courageous steps by American business leaders.

Similarly, however, the Labor Department is becoming a bit overzealous in spreading its dogma that a "happy workplace is a profitable workplace." Labor Secretary Robert Reich has proposed pension investment guidelines that would *require* fund managers to take a more active role in these matters. According to the *Wall Street Journal*, Reich "wants fund managers to become more involved in companies' decisions on employment matters, such as how much to spend on job training."⁵⁸ In advocating these measures Secretary Reich is edging his department into the area of corporate governance, which is surely far afield of the focus of the Department of Labor.

New Versus the Old Social Contract

Status Quo of Old Contract. Nostalgia for the old nearly always accompanies the birth of the new. This is certainly the case for the old social contract. It is widely described as a universal promise of job security in exchange for loyalty and satisfactory performance. But this formulation of the old compact is a stereotype.

In practice, the departures from the theoretical norm were always widespread. The Depression years that preceded the Second World War certainly offered little job security, so the old contract is not really so old. Even during the times of American global economic dominance, many firms offered very little job security, growing and shrinking with their individual economic fortunes.

Nonetheless, the downward trend in employee satisfaction in the workplace — and the damaging effect on long-term productivity — calls for courageous steps by American business leaders.

No Turning Back. One theme coming through clearly in Congressman Gephardt's speech of June 8, 1994 is the realization that there is no hope of returning to the old social compact. In fact, he acknowledges that the old contract had its faults and that defining a new compact is as much an opportunity as a problem.

A positive and forward-looking attitude is warranted. John Reed, Chairman and CEO of Citicorp, emphasizes the continuous nature of organizational change in American business: "We are on a treadmill that will require added organizational restructuring. Jobs will continue to be affected."⁵⁹

Lewis Platt, CEO of Hewlett-Packard, trimmed the company's annual operating expenses from 38 percent of revenues to 31 percent after taking over the company leadership in 1992. H-P did not downsize, but it did re-deploy 5,000 employees. In Platt's view, restructuring is a continual challenge: "I don't care whether you're running an airline or a retail store or an electronics company, we're all going to have to learn to operate on lower gross margins. We're all going to drive for productivity, particularly in the white-collar area. And that's going to mean continued restructuring."⁶⁰

As has been emphasized throughout this report, the forces of increased competition (especially global competition) and advancing technology make it impossible to reestablish the old social contract. Wage differentials between U.S. and foreign workers that are not justified by greater productivity cannot be maintained. Work restrictions that only add to costs cannot be sustained either. High levels of quality do not guarantee higher margins, only that the product or service may be able to stay in the competitive game. In a rapidly changing marketplace, product and service cycle times must be continually shortened. Organizational structures must be flexible; they must organize workers in a way that allow the firm to meet changing consumer demands and to counter competitors' changing strategies.

Technology will also continue to alter how workers interact with one another and with the marketplace. The impact of technological advance on production processes and product composition will make some skills obsolete while calling for individuals to adapt to new, and often more demanding, job requirements. Middle management ranks will go on shrinking — although some reaction is likely where the cutbacks, in faddish fashion, have been overdone. Blue-collar workers will have to be better educated and more motivated as low-skill tasks continue to be "exported." Organizational structures ultimately can be only as flexible as the people who are "organized" by them are adaptable.

Principles of a New Contract. All parties see a new workplace reality, one that will not accommodate many elements of the old implied social compact. Intense competition and technological changes have led to restructurings that have cut the number of employees of individual firms but have also redistributed responsibility downward. Those same forces have also led to the creation of many new firms and to a rising level of overall employment in the United States. In any event, the old social contract that presumed all the thinking would be done in senior management offices, with the rest of the organization charged with the responsibility of carrying out top-level commands, is dysfunctional in the new environment.

Intense competition produces winners and losers, among firms as well as individuals. Though job security was always illusory, widespread downsizing has shattered the illusion for many American workers. Employability may be the successor notion but it is a concept calling for joint efforts by employers and employees, not a one-sided affair.

Findings and Recommendations

Key Findings

Downsizing Is No Panacea. Shrinking payrolls does not guarantee bottom line improvements. Some downsizing efforts improve productivity while others do not. Firms that grow often improve labor productivity in the process. In U.S. manufacturing, successful "upsizers" contribute as much to overall productivity gains as do successful downsizers.

American Workers Are Becoming Less Satisfied with Their Jobs. The reports of widespread employee dissatisfaction are a useful thermometer of the state of the work place. Workers are not all despondent, but job satisfaction and employee morale are trending downward. Management ignores these trends at its peril. The reasonable response is not to kill the messenger but devise some sensible cures.

Change Provides Threat and Opportunity. The old social contract was not all it was advertised to be. The tradeoff of job security for acceptable performance created a paternalistic (and elitist) view by top management and often a resentful response by the employee (who often felt like a child). Illusions of job security have been dispelled but so too has the notion that all thinking and decision making should only take place at the top of the cor-

porate hierarchy. Jobs may be more tenuous today but they are also more challenging.

Recommendations

To Government. The changes affecting the workplace are so massive that many parts of society are affected and need to respond. Government agencies need to improve their understanding of the private-sector economy. Many of the burdens they impose on domestic firms are unintentional impediments to U.S. competitiveness in the international economy. Comprehensive reform of regulation of business is long overdue. There is no shortage of sensible suggestions for improving the effectiveness and reducing the cost of the federal regulatory system.⁶¹

To Employees and Unions. Workers and their elected representatives must realistically acknowledge that the old social contract does not work in the modern economy. A basic reorientation of worker thinking is in order. In view of the declining rate of private-sector unionization, the incentive for organized labor to modernize its traditional activities is clear and compelling. The company is not the "enemy."

To Business. It is the responsibility of management in each company to initiate the development of a new social contract suitable to its special situation. Employees at all levels need to be involved, blue-collar as well as white, front-line and middle management as well as the executive leadership. The basic motivation for business taking the lead is very straightforward: it reduces the likelihood that government will step in to fill the void.

Restoring trust and credibility should receive the highest priority. Adopting the attitude that bad news will be reported as well as good is helpful. More managers need to learn how to "tell it like it is."

In this context, we outline a new social contract for the American workplace. (See box on page 43.) It draws on the extensive experience and research thoughtfully conducted by a broad group of company executives and management researchers.

Employer and employee expectations, though similar, can vary in perspective. From the employer's perspective, an employee must be willing to perform to the *best* of her, or his, ability. The employee, in turn, expects fair (competitive) pay and benefits that are proportionate to his, or her, contribution to the company's success.

Employers need committed employees who are invested in the firm's objectives. This type of employee cannot expect job secu-

riety; however, only that, if the firm succeeds, the job will not be threatened.

Managements need workers who contribute with their intellectual capacity but they must recognize and respect employee suggestions and psychic involvement in order to elicit this type of positive behavior.

Training is a similar two-sided coin. For the work force to continue to increase its productivity and competitiveness, both management and labor must support training — continual investments in human capital. The trained employee must then be given responsibilities that make use of that training, producing opportunities for growth.

Both employers and employees must come to understand that the highly competitive environment in which they find themselves binds them together.

Access to timely information and openness by candid leaders are prerequisites for building the type of trust that is needed to put the new social contract in place. After all, the new compact is an “implied” agreement. Without mutual trust and respect, employer and employee participants will not honor the new compact.

The key elements of this new contract, however, are the joint expectations. Both employers and employees must come to understand that the highly competitive environment in which they find themselves binds them together. We do not mean a literal partnership, in the legal sense of the word, but rather the figurative partnerships between suppliers and customers that are growing rapidly in popularity. “Partnering” in this context calls for suppliers to be so familiar with their clients’ operations that they can devise solutions to problems, or create new products, that can make the customers more successful. The clients, in turn, must be more open with the suppliers so that they benefit from the suppliers’ unique knowledge and abilities. Both supplier and client firms flourish in a partnering environment.

Employees are, in effect, internal suppliers. They must desire to see their “client,” their employer, succeed. They must be given more information and responsibility to devise solutions to the “cli-

Outline for A New Social Contract

Employer Expectations of Employees

- Performance to the best of one’s ability
- Commitment to the objectives of the firm
- Participation (suggestions)
- Willingness to take training to improve productivity
- Ethical and honest behavior

Employee Expectations of Employers

- “Fair” pay and benefits proportionate to contribution to company success
- Security tied to fortunes of the company and ability to perform
- Respect, recognition, and participation
- Opportunities for growth
- Access to timely information and openness by candid leaders
- Safe and healthy workplace

Joint Expectations

- Partnering replaces paternalism
- Employees are value-adding resources, not merely costs to be cut
- Employee and employer must focus on customer needs and desires

ent's" problems if they are to be fully utilized. Both employer and employees must see each member of the organization as a source of the firm's competitive advantage. In the end, the firm's customers are the ones who need to be better served; if they are not satisfied, no one's job is secure.

The American workplace is undergoing a dramatic change brought on by powerful forces — global competition, domestic deregulation, and technological change — that no firm can resist. The process of organizational change taking place presents new challenges and new opportunities. Employees are being challenged to use their minds and to link arms with management to successfully compete in the new environment. They are also being asked to work harder and to be more committed to the company objectives while at the same time being told, and shown, that there is no such thing as job security.

Historically, one of the characteristics of an effective business manager has been the ability to live with ambiguity. In the years ahead, all employees will need to develop that special ability. Whether employees and managers realize it or not, they are forming new social contracts to govern their places of work.

Appendix

April 1994 Roper Starch Worldwide Survey Results for Persons Employed by Someone Else

The following tables examine job security and loyalty, both employee and employer loyalty. They display "snap-shot" data taken in April of 1994, not time-series information. The data are broken down by type of business (profit-making, non-profit, and government) and subcategories within profit-making — full versus part-time employees, type of occupation (executive, professional/technical, clerical, production), and by size of firm (number of employees).

Table A-1 shows that employees in the profit-making sector are more insecure than employees of non-profits and government organizations. Only 27 percent of respondents rated their job security prospects as "excellent" versus 39 percent who believe their job security is excellent in the other two sectors. One-third of those in the for-profit sector believe their job security is "fair" or "poor." Only about one-fifth of the workers in the other two sectors feel so insecure.

Within the profit-making sector, production workers are the least secure — only 21 percent believe their security is excellent and 38 percent rate their security as fair or poor. Interestingly, the most secure worker type is the professional — 35 percent excellent and only 25 percent fair or poor. Large-firm workers (more than 500 employees) are less secure than mid-size or small-firm workers. Only 26 percent of employees at large firms rate their job security as excellent and a third believe it is fair or poor.

Personal loyalty is analyzed in Table A-2. Non-profit and government employees are far more loyal. More than three-fifths said they feel "a great deal" of loyalty to the place they work, versus only two-fifths of workers at for-profits. Within the profit-making sector, executives are the most loyal (62 percent "a great deal") while clerical workers and production workers feel less attached (29 percent and 36 percent responding "a great deal," respectively). More than a quarter of production workers answered "not too much" or "very little" loyalty, compared to only 10 percent for executives.

The data on feelings of employer loyalty toward the worker shown in Table A-3 indicate a case of unrequited love. As the old social contract is being dissolved, workers remain more true to the "marriage" than they perceive the firm is to them. Only 28

percent of workers at for-profits believe that the company has a great deal of loyalty toward them, while 24 percent believe it has not too much or very little loyalty. Again, clerical workers and production workers feel the least loved. One-fourth of clerical workers and 30 percent of production workers believe the firm exhibits not too much or very little feelings of loyalty.

Table A-1
Job Security

Survey Question: Please indicate how well the following statement describes your personal work situation in your current job: I have security, that is, little danger of becoming unemployed.

	Excellent	Good	Fair	Poor	N/A	Don't Know	Total No. of Resp.
<i>Overall:</i>	29%	38%	20%	10%	1%	1%	994
Profit-Making Business	27	38	22	11	1	1	775
Private Non-Profit	39	37	15	4	3	2	110
Government Unit	39	37	15	7	1	1	109
<i>Profit-Making Business:</i>							
Full Time	27	38	21	12	1	0	609
Part Time	25	37	25	8	2	2	166
Executives	32	36	26	4	0	2	53
Professional/Technical	35	38	18	7	1	1	183
Clerical	29	36	19	13	2	1	168
Production	21	39	24	14	1	1	365
Other	17	50	33	0	0	0	6
Large Firms (> 500)	26	39	22	11	1	1	242
Medium Firms (50-499)	29	34	26	10	1	1	242
Small Firms (2-49)	26	41	19	12	1	1	280

Source: Compiled from survey data collected by Roper Starch Worldwide, April 1994.

Table A-2
Loyalty Toward Place of Work

Survey Question: How much personal loyalty would you say you feel to the place you work? Do you feel ...?

	Great Deal	Some	Not Too Much	Very Little	N/A	Don't Know	Total No. of Resp.
<i>Overall:</i>	45%	38%	10%	6%	1%	1%	994
Profit-Making Business	41	39	12	7	1	1	775
Private Non-Profit	60	35	3	1	0	1	110
Government Unit	61	29	4	5	2	0	109
<i>Profit-Making Business:</i>							
Full Time	43	39	10	7	0	1	609
Part Time	33	39	17	7	2	2	166
Executives	62	28	6	4	0	0	53
Professional/Technical	55	34	8	3	1	1	183
Clerical	29	49	12	7	2	2	168
Production	36	39	18	8	0	1	365
Other	50	17	17	17	0	0	6
Large Firms (> 500)	46	36	10	7	0	1	242
Medium Firms (50-499)	41	39	11	7	1	1	242
Small Firms (2-49)	36	43	15	6	1	1	280

Source: Compiled from survey data collected by Roper Starch Worldwide, April 1994.

Table A-3

Loyalty of Employer

Survey Question: How much loyalty would you say the place you work has to you?

	Great Deal	Some	Not Too Much	Very Little	N/A	Don't Know	Total No. of Resp.
Overall:	30%	47%	11%	11%	1%	1%	994
Profit-Making Business	28	46	12	12	1	1	775
Private Non-Profit	37	49	5	5	0	3	110
Government Unit	34	47	7	9	3	0	109
Profit-Making Business:							
Full Time	29	46	11	12	0	1	609
Part Time	23	48	16	10	1	2	166
Executives	38	45	8	9	0	0	53
Professional/Technical	43	40	10	5	1	1	183
Clerical	21	51	11	14	1	2	168
Production	22	47	15	15	0	1	365
Other	50	17	17	17	0	0	6
Large Firms (> 500)	24	48	12	13	0	2	242
Medium Firms (50-499)	31	42	13	13	1	1	242
Small Firms (2-49)	28	49	13	10	0	0	280

Source: Compiled from survey data collected by Roper Starch Worldwide, April 1994.

Notes

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5. Richard Stevenson, "Europe Inc. Has a Novel Idea: Cut Costs," *New York Times*, July 17, 1994, p. 1.
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