Global Competition’s Perfect Storm: Why Business and Labor Cannot Solve Their Problems Alone

Denise M Rousseau, Carnegie Mellon University
Rosemary Batt, Cornell University ILR School

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Denise M. Rousseau  
*Carnegie Mellon University*

Rosemary Batt  
*Cornell University*

**Executive Summary**

A perfect storm is a conjoining of forces that intensifies effects. This commentary addresses the economic perfect storm that the United States and many other developed countries face as they attempt to become globally competitive. Its forces conflate strategic change with the erosion of employment and income security as firms shed labor and old institutional arrangements, in turn degrading quality of work and family life for workers as well as the futures of retirees. We evaluate the responses of our commentators—Louis Uchitelle, J.T. Battenberg III, and Thomas Kochan—who assess the current crisis and possible solutions to it. Their responses and the supporting evidence indicate that the current misalignment among labor, management, and government and the 20th century institutions they maintain make any effective solution nearly impossible. That is, unless there is a renewed partnership among business, labor, and government to create 21st century institutions capable of achieving both global competitiveness and high quality of life and well-being for workers.

*“The significant problems we have cannot be solved at the same level of thinking with which we created them.”*

-Albert Einstein

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Our contributors, a journalist, a business executive, and a public scholar describe what executives, their companies, workers, and their families have encountered in the face of a perfect storm: escalating corporate competition worldwide, rising job insecurity, and reduced government attention to jobs and worker health and safety, coupled with shifts in the burden of training, pensions, and healthcare from firms to workers. A perfect storm is the simultaneous occurrence of events which, if occurring individually, would be far less powerful than their combination. In contrast to its meterological counterpart, which eventually passes, this economic perfect storm continues to operate full force in contemporary society. Its force is amplified by the misalignment of business, labor, and government, which in turn undermines the common good—and national competitiveness.

At the Academy’s 2006 annual meeting Louis Uchitelle, J. T. Battenberg III, and Thomas Kochan participated in a public-affairs forum on the withering of traditional workplace compacts between workers and employers. In this Exchange, they updated their observations on the decline and challenges to U.S. competitiveness coinciding with the loss of jobs and their associated benefits via layoffs and cutbacks. The problem is not unique to the U.S. According to the Organization for Economic Cooperation and Development, workers’ share of gross domestic product fell by 3.1% in Germany in the last half decade, and 3 points in Japan, compared to 2.5 in the United States (Porter, 2006). The general failure to address these matters effectively, particularly in ways that aid workers, has led to the erosion of employment and income security along with the quality of work and family life in many developed nations. The U.S.’s problems may be distinct, however, from those of other developed nations in its government’s abdication of policy addressing job growth, worker well-being, and long-term corporate competitiveness. In these insecure times, the present commentary addresses the assumptions underlying our contributors’ perspectives, the key questions they raise, and what management research suggests are their implications for public policy change.
American Institutions Based upon 20th Century Assumptions

Our contributors agree on several points. Old institutions face new circumstances that they are ill-equipped to handle. The firm-centric welfare system where workers depend upon employers for healthcare and retirement benefits, the breadwinner model of the family, the trade union form of worker representation, and the minimalist approach to government intervention—this set of 20th century institutions has become a patchwork of ineffective mechanisms for ensuring middle class livelihoods.

The firm-centric model for providing health and welfare over one’s lifetime no longer functions or does so only sporadically, leaving broad sectors of the American public at risk. At the heart of this failure is the migration of risks from firms to workers via reduced job security and greater personal vulnerability. Strikingly, the journalist, the business executive, and the scholar all agree that these problems aren’t solvable at the firm level. Firms saddled with retiree health and welfare costs cannot readily compete in global markets. Markets alone cannot generate appropriate solutions, a fact attested to by the failure of HMOs and private insurance to provide sustainable quality healthcare to workers, retirees, and their families. All agree that globalization represents a threat to the American worker, but none advocates such traditional measures as tariffs or trade barriers, eschewing them in favor of other means of leveling the playing field between employees in developed and developing economies.

Business

Former chief executive of Delphi, J.T. Battenberg explains why corporate executives have sought to solve these problems via heavy reliance on layoffs and reducing the compensation and benefits of remaining employees. Many of his recommendations for the future involve workers’ absorbing costs and co-pays that have traditionally been borne by employers. He is blunt about employees’ incentive to do so: keeping their jobs.

Battenberg evinces no doubt that workers are capable of coping with a greater level of risk than they have had to deal with in the past. To help them adapt, Battenberg argues that companies owe workers full
disclosure of their financial situation and competitive position. Employee understanding of company financials requires business literacy—that is, understanding on the part of workers of financial information relevant to their employer along with their own personal finances (Ferrante & Rousseau, 2001). The spillover effects of such practices include identification by workers with their financial portfolios, recognizing a link between employer business outcomes and their own future financial well-being (Nadler, 1998). Firms that share business information with their employees also would need to develop employee capabilities for understanding and making decisions with respect to this information (Case, 1997; Stack & Burlingham, 2003)—but how best to cultivate these critical capabilities is far from clear.

Currently, access to information regarding the financial health of one’s employer is often limited to senior management. Consequently, most workers are poorly prepared to understand, let alone manage, the new risks. Those who are able often have accepted the notion that their careers are boundaryless and interorganizational, participating in numerous kinds of work and employment relationships over the course of their work lives (Barley & Kunda, 2004; Cappelli, 1999; Rousseau & Arthur, 1999). However, for workers bearing ever greater responsibility for their own retirement, real limits may exist to their capacity for doing so. Even educated professionals often lack the financial expertise and access to information critical to successfully manage a pension portfolio (Solomon, 2005). As yet, unions and worker associations have played little role in helping their members become more financially literate.

Lou Uchitelle, economics writer for the *New York Times*, disagrees that workers are likely to be able to absorb the costs and risks of business restructuring. Insofar that those out-of-work are most in need of health care, their inability to afford it further undermines their capacity to return to productive work. Exacerbating the problem, Uchitelle maintains, firms are over-using or misusing layoffs when other managerial practices or investments might serve them better. He asks how firms can be made more accountable for their effective use of labor and impact on worker welfare.
Labor: Workers, Families, and Labor Organizations

These problems strike at the heart of the second institution in transition—the American family—from a male breadwinner model to a dual or multiearner household. With stagnant real wages over the past three decades, most families need two or more members at work in order to achieve a reasonable standard of living. Thus, as firms shift risks to employees, the critical unit of analysis is the family, not the individual—the essential point made by Thomas Kochan, a leading scholar of labor and employment relations. How workers experience their employer’s demands for higher performance or cuts in benefits needs to be understood in relation to its impact on the family. In the United States, the family unit often is as much a party to new employment relationships as are individual workers, where the joint actions of two-wage earners affect individual mobility, the family’s current income and benefits, and its financial future. Laid-off workers cannot simply find work in new cities without undermining other sources of family income. Failure to consider the family as a unit in employment undermines our understanding of the consequences of risk migration.

The pressure on both partners to work, as Kochan points out, is substantial for most Americans. Married couples with children in the middle income range worked 500 hours more per year in 2000 than in 1979 (Mishel et al., 2005, p. 40). For working parents, even in the middle class, the choice is not whether to work but how to manage its consequences for their families. Many families are working poor or single-parent households for whom the adverse consequences of risk migration are more difficult to offset.

A third 20th century institution—union representation through firm-level collective bargaining—also is not fulfilling its past role, as all three commentators agree. Beyond the large loss of union manufacturing jobs and ongoing anti-union activities by businesses, long procedural delays in elections haven’t kept pace with the rapidity of organizational restructuring and relocation. Nor do the rules of firm-level collective bargaining respond well to the growing number of temporary workers, independent contractors, new forms of self-management, networked forms of organizations, the mobility of work occasioned by information technologies, and new immigrant groups (Stone, 2004). Paradoxically, these constraints come at a time when
American workers are increasingly interested in unions. A national survey of workers has tracked attitudes towards unions for 25 years. When asked if they would vote to unionize their workplace, in 1985 just 30% of nonunion workers said they would definitely or probably vote yes. That figure increased to over 40% in 1999 and over 50% in 2005. The 1999 survey also asked workers about other forms of employee participation, and 78% of non-union workers said they would support it in their workplace—suggesting that there is even more worker demand for voice mechanisms to discuss their concerns with management outside of collective bargaining (Freeman 2007, pp. 83-84).

Nevertheless, most unions have not responded to this worker need—due a combination of administrative failure, inability to innovate, limited resource allocation to organizing, lack of attention to issues facing new social and occupational groups, and non-enforcement of labor laws (Wheeler, 2002). There are isolated cases of success (Turner, 2007), for example the Las Vegas wide UNITE-HERE local, immigrant organizing in Los Angeles (Milkman, 2005), living wage campaigns, worker centers serving day laborers and immigrants (Fine, 2006), and other new forms of employee organizations such as the Professional Association of Contract Employees in the U.S. These examples of innovative organizing and union-community coalitions show that things could be different, but they require a new institutional environment to become more than islands of excellence.

**Government**

All three commentators criticize the inadequacy of government’s current minimalist role in promoting the competitive capacity of U.S. firms and the welfare of American families. Uchitelle challenges the old supply-side argument that all labor problems can be solved through retraining and skill upgrades. In contrast to the current period, the U.S. government’s commitment to a full employment policy lasted from the 1930s, when it assumed the role as employer of last resort, through to 1978, when Congress passed the Humphrey-Hawkins Bill. With the 2008 election campaign already underway, few candidates have even mentioned issues of employment, jobs, and worker/family well being. Further, we note that the Department of Labor from the Depression through the 1970s supported the collection of data on worker welfare—including job satisfaction,
safety, and health—only to discontinue this important activity in the Reagan era.

Key Questions

All three sectors—labor, business, and government—have not yet come to grips with the failure of our policies and institutions to meet 21st century demands. In place of dialogue based upon shared recognition of the seriousness of the problem, we observe inertia. The issues raised by our three commentators prompt us to consider critical questions that can be addressed only if labor, business, and government join forces.

One set of issues concerns the sources of competitiveness for American firms in the global economy and the mix of policies needed to sustain it. We note that labor productivity has grown substantially compared to earlier eras from the early 1990s through this writing (Hansen, 2001; Bureau of Labor Statistics, 2004). Firm investments in high performance work systems—new technology, workforce skills, and collaborative forms of work organization—no doubt have contributed (Appelbaum & Batt, 1994; Bresnahan, Brynjolfsson, & Hitt, 2002.). But competitiveness requires more than firm-level investments—American steel and apparel industries dramatically improved their performance based on these strategies (Appelbaum et al., 2000), yet still did not succeed in the global market.

A second concern involves how layoffs are used. When are layoffs appropriate and justified? When are they not? With Uchitelle and Kochan, we question whether layoffs are really the best strategy for making firms globally competitive. Ample evidence exists that top management is prone to follow fads (e.g. Abrahamson & Fairchild, 1999) and to emulate the practices instituted by executives in other firms with whom they have personal or professional ties (Davis & Greve, 1997). Cascio and colleagues (1997) further observe that layoffs are often attempts at a quick fix in response to Wall Street pressures: In a longitudinal study of stock price changes in firms, they found that subsequent to layoffs, firms typically enjoyed a brief spike in their stock price only to see a drop below its pre-layoff value over time. Excessive layoffs can undermine the kind of labor-employer ties that make possible unique firm capabilities and competitive positioning (Leana & Rousseau, 2000).

Given evidence that layoffs may be overused, we wonder whether there has emerged a management
culture that vests blind faith in layoffs and related practices (e.g., offshoring) without justifying evidence. More systematic research is needed to establish the conditions under which layoffs can indeed promote firm competitiveness, and when they don’t. In turn, American executives display little faith in a practice that has promoted competitiveness in other nations, that is, greater labor involvement in corporate governance (e.g., Martin & Maskus, 2001). Financial interests are often unfriendly to labor involvement at corporate levels, perhaps with the exception of venture capital in start up-firms. Is this view well-informed or might labor participation generate a broader array of effective alternative strategies to compete? The ultimate benefit firms obtain by shifting risks to employees may depend upon whether the employer is making strategically appropriate demands of its workforce in the first place. Unfortunately, the practical knowledge regarding how to promote performance improvement in the face of changing demands is not readily available or consistently acted upon across firms (e.g., Pfeffer & Sutton, 2006; Rousseau, 2006). Contemporary managers even in the largest firms often have limited understanding regarding how to improve performance across organizational units and levels (Goodman, 2000). Contemporary management’s over-use of strategies likely to be ineffective and under-use of promising practices is genuine cause for concern in the face of the perfect storm.

To the extent that firms continue to shed employees and reduce the supports for those who remain, the question is: What impact do layoffs have on the mental health of Americans? What intervening factors might mitigate layoffs’ adverse effects? There are many unanswered questions regarding the supports and enabling arrangements needed to improve the psychological well-being of American workers and their families. Uchitelle raises the issue of how to achieve psychological well-being among temporary workers and contractors, whose job insecurity is a first cousin of layoffs. The strain workers bear appears to be largely the result of a lack of benefits and income insecurity. What mix of policies can turn other forms of labor flexibility, such as non-standard work arrangements, into better quality employment? Surprisingly little attention—by policy makers and scholars—has been given to what workers actually understand about changes in their employment, with all its implications for their mental health, family well-being, careers, and financial futures.

A related question concerns the distribution of gains from productivity: What mix of firm and public
sector policies can provide middle class jobs and adequate health and welfare for families? There is question of whether this is a policy issue at all, whether we simply “let the market decide.” Nonetheless, the productivity growth of the last two decades represents an increase in the value workers add to the firms that employ them (Pfeffer, 1994). Workers however have not shared in those gains, with their real wages remaining basically stagnant over the same period (Mishel & Bernstein, 2005). The contemporary outrage generated by enormous CEO payouts is further evidence of the uneven distribution of burdens in today’s firms. It too raises policy concerns. The divergence of CEO pay from the average worker’s has increased from 24 times in 1965 for U.S. CEOs in major firms to 300 times at the end of the 2000 recovery, falling to 185 in 2003 (Mishel et al., 2005, p. 214). Waging a war for talent based on the notion that a single individual makes the critical difference to a company’s success ignores the strategic value of a firm’s asset mix (i.e., human and intellectual capital). It reduces the overall performance of the firm as employees with flattened wages react with a sense of outrage to lavish CEO salaries (Cowherd & Levine, 1992). Tax penalties for firms that overpay CEOs against some metric could improve competitiveness by generating greater alignment between the interests of workers and management in service of the organization’s mission.

Implications for Policy and for Management

Research

At this point let’s consider two critical matters our contributors have raised: First, are the proposals of Uchitelle and Kochan feasible in view of the concerns Battenberg raises regarding the need for American firms to be globally competitive? Second, assuming these proposals are compatible with global competitiveness, how will such changes come about?

We answer yes to the first question. Supports for quality of work and life for workers, retirees and their families are compatible with American competitiveness, but only if we create new policies and institutions appropriate for competing in a global economy. These include American macroeconomic policies to reduce the budget and trade deficits and multilateral institutions that create fair trade rather than ‘free trade’. They also in-
clude negotiation of pacts reinforcing social contracts worldwide that raise labor standards and the welfare of working people. Supporting fair trade while maintaining quality of work and life for the world’s workers requires that global labor standards be established; in turn these standards must be designed to avoid penalizing those nations behaving responsibly toward workers (Fung, O’Rourke, & Sabel, 2001). In this context, offshoring and other forms of third world industrial development can be a means of reducing poverty that Americans can endorse if balanced by better labor policy in developing countries.

The distribution of supports in our political and economic systems must be better aligned with the level of risk workers confront. Workers need greater access to capital, providing income security as well as other financing sources, if they are to manage in the face of economic downturns. If greater risk is to be borne by workers, it should also provide them with the potential for proportionate gains. A broader distribution of participation in both firm ownership and entrepreneurship can reduce worker dependence on employer-based wages (Blasi, Kruse, & Bernstein, 2003; Rousseau & Shperling, 2003). Tax policies promoting entrepreneurship along with alliances of entrepreneurs, venture capitalists and others can provide greater opportunity for job creation as well as ownership participation.

When people have certain needs in common, such as food, education, and protection, there is advantage in serving those needs via a collective infrastructure. Healthcare and retirement security are shared needs too. Uninsured workers risk destitution for themselves and their families should injury or illness strike. Numerous creative solutions have been proposed to reduce the employer-centric nature of American healthcare, but the fact remains, people need healthcare and the employer provision isn’t an adequate solution. With respect to economic security into retirement, we note that even worker ownership is not an unmitigated blessing. Although financial investors can diversify risks, workers/owners whose primary assets are attached to their jobs cannot (Rajan & Zingales, 2003). An approach to enable both ownership and diversification is for firms and worker to pay an appropriate amount into a public trust fund, one structured in a sustainable fashion, perhaps within the basic framework of the current U.S. social security system. Sustaining such a system should be done in collaboration with knowledgeable policy specialists, business leaders, and labor representatives.
Alliances among labor, management, and government were at one time fundamental to American competitiveness (Kochan, Katz, & McKersie, 1986). They led to productivity gains that sustained American competitiveness from the 1930s through the 1960s. Though labor, business, and governmental institutions successfully confronted yesterday’s challenges, out of alignment today they exacerbate problems rather than facilitating solutions. New forms of partnership are needed to create enabling structures and institutions better suited to global competition. This commentary is a call for renewed business-labor dialogue brokered by government. The goal of such dialogue is to create a process through which new policy and its enabling institutions can emerge. Solutions haven’t come from business, labor, or government acting alone. Nor are solutions likely to in the future if each party continues to downplay or ignore problems they have been unable to resolve. Only sustained attention by these key players acting in concert can redress the perfect storm.

Turning our attention to how these changes might actually come about, we note that any institutional innovation requires political will. In this regard, opinion leaders including former CEO Battenburg increasingly question the presumption that markets as currently structured are sufficient to promote global competitiveness and bring sustained national benefits. As this commentary was written, the Wall Street Journal’s front page headline “Job Prospects: Pain from Free Trade Spurs Second Thoughts” reports on a radical shift in views by Alan Blinder, former Federal Reserve Board vice chair and noted economist. Blinder reversed his long-standing position that the U.S. and its trading partners obtain a net benefit, now and in the future, from free trade, despite its harm to some workers. Still an “implacable opponent of tariffs and trade barriers” (Wessel & Davis, 2007, p. A1), Blinder now maintains that workers may not ultimately be winners from free trade, instead facing the loss of as many as 40 million jobs, necessitating fundamental institutional changes to offset globalization’s impact.

Beyond influential opinion leaders, political will derives from alliances that make creation of new institutional arrangements feasible. Energy for new alliances comes from recognizing the costs of not solving a problem along with discovery of new ways of solving it. Integrative problem solving across sectors permits the design and adoption of new arrangements that business, labor, or government cannot carry out on their own.
Here, academic researchers have a responsibility to help recovery from the perfect storm — and to date, we have not. Most management research has informed organizations about how to compete in the global arena through strategies to improve innovation and organizational performance. But we have paid little attention to the relationship between public and firm-level policies and institutions. We have often focused on management strategies and outcomes without regard to their effect on workers and their families. In conducting research more reflective of globalization’s pertinent stakeholders, management research can play an important role informing the multi-party negotiations required to form effective new institutions, providing evidence of possible solutions and anticipation of concerns pertinent to their implementation.

Our research agenda should focus on the kinds of issues raised in this commentary. Research is needed in how to better develop capacities for adjustment in the face of new and changing circumstances (e.g., Langer, 1990; Cappelli et al., 1997). How would collective approaches to health and retirement systems influence firm competitiveness and employee well-being? What is the relationship between alternative approaches to layoffs and competitiveness, and what are the mental health consequences? What are the risks and benefits of varying degrees of employee investment in the firms that employ them, and what changes in public policy are needed in this context? How would changes in tax laws and CEO compensation influence firm performance and income inequality? Why do businesspeople distrust government, and under what conditions would their attitudes change? Where are ‘promising practices’ for public-private collaboration and how and why are they successful? What lessons can we learn from comparative international research?

In addition, management researchers need to lay bare the relationships of power and organization that shape the public-private interface and facilitate or thwart policies for the collective good (Barley, 2006). Management researchers should also launch a major investigation of the data gathering by the U.S. government regarding quality of work and life for America’s workers and their families, and develop proposals for what is needed to inform effective policy-making. If it is true that individuals and organizations ignore problems when they don’t know how to solve them, we can play an important role in empirically demonstrating how and why some sets of firm and public policies are more successful than others. Only renewed industry, labor, and
government collaboration can achieve effective responses to the perfect storm global competition engenders.

References


