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How to Restore Employee Trust in Management: A New Social Contract for the American Workplace

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Introduction

As I look out at the membership of the Public Relations Society of America, especially the corporate members, and consider how downsizing has soured the attitudes of so many American workers, I must report that, in the area of employee communications, you have been given a variation of Mission Impossible.

If you have any doubt about that, just look at the evidence from a recent survey of management views by Arthur D. Little, Inc. Only 12 percent of companies said that they embarked on downsizing and other changes to improve profitability or to increase shareholder value. Oh, heavens, they are not such Philistines. Rather, a major purpose of corporate overhaul in a clear majority of cases (60 percent) was — brace yourselves — to improve employee satisfaction.

Ladies and gentlemen, we're dealing with a beautiful example of what researchers call "cognitive dissonance." That is the psychological conflict resulting from holding incongruous beliefs simultaneously. Of course, employees are going to mistrust a management that attempts to peddle this line.

The simplest and most direct reaction to this kind of situation was given by Paul Newman in that great film, "Cool Hand Luke." Recall that Newman, or rather Luke, was in a chain gang when the captain of the chain gang explained to him that the rough treatment he was receiving was for his own benefit. Luke responded, "I wish you'd quit being so good to me." He was rewarded for his wisecrack with another blow to the head. Obviously, that's not a useful response to cognitive dissonance and I don't want to carry too far the comparison between the chain gang and the workplace.

Let's focus on the management. There are two possibilities for interpreting the survey results. Either management believes what it is saying or it does not. Frankly, if the top

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executives of American companies really think that they are downsizing to make their employees happy, they are a bunch of idiots and the only sensible answer would be to replace them — and quickly.

However, as someone who serves on four corporate boards — or at least I did as of early this morning — I don't believe for a moment that they believe this nonsense. Maybe the staff assistant who filled out the form was trying to show that the boss was high-minded and socially responsible. Or the executive himself was giving the answer that he thought would please the survey people.

In either case, the serious response is clear. I'll skip the abstract language that you expect from a Ph.D. in economics speaking to communications professionals. Business can try to restore employee trust by cutting out the baloney and leveling with the people. The most brilliant public relations campaign cannot show that one and one are three. The messenger is not at fault, nor is the packaging of the message. The problem is with the substance of the message.

My purpose this morning is to try out a new message on you. It is based on a report that Ken Chilton and I prepared at our Center for the Study of American Business. The report was commissioned by the Public Relations Society of American (PRSA), but the views we express are not those of PRSA or Washington University (where our Center is located). They are strictly the considered response of two academics who have spent many years in private industry and who do not hesitate to let their former business colleagues know when they have B.O.

Where We Stand

For a few moments, let us consider where we stand. During the first six months of this year, publicly announced company downsizing was at a record high and that phenomenon shows no sign of ebbing. For many American workers, this means that the American dream has been shattered. However, too much of the focus has been on the people who are laid off.

They surely merit our concern. Nevertheless, the primary attention should be given to the far larger numbers who stay on the job.

That's hard to do. For one thing, the stock market loves news of restructuring or downsizing or any other euphemism for a corporation going on a crash diet. From the time that IBM announced on July 27, 1993 that it would cut 60,000 jobs by 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 the end of the year. By contrast, the S&P stock market index rose only about eight percent during 1993.

But, with all due respect for the high powered talent advising large investors, short-term movements in stock prices are too simpleminded a measure to guide long-term company planning. Like the academic who could simultaneously publish and perish, some firms have succeeded in both cutting back the size of their work forces and reducing the productivity of those who remain.

In 1993, Kepner-Tregoe, an international consulting firm, studied 271 manufacturers undergoing corporate restructuring. They found that employee morale plummeted with little or no quality improvement and little improvement in the bottom line. An earlier Conference Board survey of human resource executives also examined the consequences of corporate downsizing. More than three-fifths of the respondents said that their firms experienced declines in employee morale.

A word of caution is in order. The entire U.S. work force is not disgruntled and insecure. Organizational change has not touched all working Americans the same. Since 1973, interviewers of Roper Starch Worldwide have been asking Americans, "How satisfied are you with your chosen field of work?" The "extremely satisfied" response reached an all-time low in April of this year, 27 percent of all employed persons surveyed — compared to 40 percent in 1976. However, most of the shift has been to the response "fairly well satisfied."

The Roper Starch data do provide some support for the general perception of people having to work harder, or at least longer. 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 recent and very comprehensive census bureau study goes into great statistical detail on corporate restructuring and provides some balance as well as surprises. As we would expect, of those companies who downsize, the number who succeed in raising productivity is larger than the total who experience declines in their efficiency. But that is not the end of the story. The largest group consists of firms who increase their productivity while they are *expanding* the size of their employment rolls. Indeed, the overall level of employment in the United States is rising.

That important bit of good economic news seems to have escaped the attention of many management gurus. Take the one, affiliated with MIT, who wrote just last month that "a major objective of good management is to reduce the number of employees." This highhanded bit of nonsense was supported by a supposed "acid test" of whether a company needs a particular employee: would cash flow fall if the company laid off this person? By this criterion, every business ought to close down its research lab. Such ignorant action would surely raise this year's cash flow — but it would devastate the high-tech sector of American industry, which is the major growth area of our economy and one of the few sectors where exports predictably exceed imports.

Clearly, layoffs are no panacea. Downsizing is just one strategy in an array of alternative ways in which businesses can respond to rising competition. And that is a point that needs to be emphasized: for the typical American firm, competition has become far more virulent than it was in the past. Three powerful forces account for that:

1) The rise of foreign competition due to the increasing globalization of markets,

2) The rise of domestic competition due to the deregulation of the transportation and communication industries and soon the banking industry as well, and

3) The growth of new products and production processes as a result of an accelerated pace of technological advance.

To clear the air, I am not faulting American business leadership for responding to competition. That's their job. However, as you'll see, I'm very concerned about how they are responding. In any event, there is no need to launch a broadscale attack on efforts to reduce low priority activities, whether they are in the public sector or the private sector.

Technological advance does more than make organizational change possible. It causes it. When senior 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.

What does deserve greater attention than it has received thus far is the widespread reports of declining job satisfaction on the part of the workers who continue to be employed after downsizing. Why does an economist focus on such a "soft" and subjective factor? Because this helps to explain why so many companies report that their attempts at restructuring have not yielded the expected results in terms of improved business performance. Those who want to see the specific data backing up these points should turn to the new report that Ken Chilton and I have written. It's called *A New Social Contract for the American Workplace* — which also tells you where our thinking is heading.

The Old Social Contract

It is always difficult to generalize across the broad and diverse spectrum of the American economy. Nevertheless, we must acknowledge that for some time many people in private industry — blue collar as well as white collar, management as well as the rank and file — believed that they were working under a widely understood Social Contract.

Of course, there always were important variations in how different people in different companies viewed the matter. Nevertheless, two common sets of elements were widely followed.

- Employees, by and large, understood that they would have to provide satisfactory attendance on the job. They also would have to demonstrate an acceptable level of effort as well as loyalty to the organization.

- Employers, in turn, were expected to provide "fair" pay and fringe benefits, and advancement based on seniority and merit. And, to a greater or lesser degree, they would provide job security.

It is instructive to quote the recent statement of the executive vice president of a major regional telephone company in charge of downsizing: "My dad would have thought I'm breaking a social contract we have with our employees." Along the same lines, I quote a director of human resources, "Lifetime employment is not something we can guarantee any more. Not that we ever guaranteed it. But it was implied."

The sad fact is that years of complacency under the old social contract 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 follow orders. Meanwhile, Japanese workers were called upon to make suggestions through quality circles and to arrive at decisions through consensus building.

The traditional social contract was never followed universally. Those of us who grew up in the depression years of the 1930s know that it was hardly an eternal verity. However, in the period since World War II, the dual set of responsibilities I just described did characterize a great many American workplaces, from the largest to the smallest. Whatever form it took, the old social contract is a dead letter today. Wave after wave of corporate downsizing eliminated it.

Toward a New Social Contract

Traditionally, large staff reductions only occurred during periods of crisis, which justified hardnosed re-examinations of company activities and the resultant tough actions. Today, in contrast, continual downsizing and organizational restructuring has often become an accepted way of business life. One key factor — often conveniently overlooked by top management — makes it especially difficult for corporate personnel to accept this state of affairs. That sticking point is the unfortunate coincidence between the rising uncertainty and belt-tightening facing most corporate employees and the increasingly generous compensation packages and the security in the form of "golden parachutes" granted to the most senior executives.

This is very sensitive ground, so let us tread it carefully. As an outside director, I am a strong and enthusiastic supporter of generous compensation for outstanding performance of key executives. I would strongly resist reducing those incentives simply because people in other parts of the company hierarchy are unhappy about them. However — and this is a fundamental but — I would take those gripes seriously. The challenge is to develop a positive and constructive response which simultaneously meets the needs of the rank and file while promoting the objectives of the enterprise.

This leads, of course, to developing a new social contract for the American workplace. I must confess that, as a hard-nosed economist, it has taken a lot of soul-searching for me to support the notion of a social contract, old or new. But I am now convinced that the situation requires such a response. On the basis of our research and experience, I suggest that an unwritten, informal contract already exists in many American workplaces. As pollster Dan Yankelovich puts it, "all employees develop a set of quid pro quos" or expectations about what they must give to the job and what the employer must give in return.

It is fascinating to note that attempts to define a new workplace "social contract" are currently being developed by a disparate array of sources. Suggestions have come from the White House, the Congress, executive suites, union leaders, and inevitably management consultants. Many of the suggested approaches merit our attention and we can note some overlap of ideas from unexpected places.

Dick Gephardt, majority leader of the House of Representatives, contends that 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. The Clinton administration suggests that job security has given way to employment security as the reward for satisfactory job performance. This new definition of job security means that workers are equipped to handle the next job — even if it is with another employer.

I can't resist a little needling. There is a compelling need for forbearance — on the part of government officials who want to do good. Each new government mandate increases the cost of U.S. labor, making it more difficult to stay ahead of foreign competitors. The rising resultant costs of hiring new full-time employees also lead to greater use of part-timers who are less committed to the firm's objectives than full-time workers.

In contrast, the AFL-CIO has developed a new model for the workplace in which a fundamental redistribution of decisionmaking authority occurs from management to teams of workers. Also, the rewards from transforming the work organization are to be distributed on equitable terms — agreed upon, of course, through negotiations between labor and management. Given the low and declining rate of unionization in the private sector, we must wonder how those "negotiations" will be carried out. Nevertheless, the union acknowledgment of the basic changes in business decisionmaking now occurring surely is noteworthy.

Interestingly, a variation of that theme has been presented by an incoming CEO of a major *Fortune* 100 firm. Bob Shapiro of Monsanto puts the matter in the following straightforward way:

> 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.

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 often reducing the work force.
- Increasing competitiveness while meeting costly new social mandates from Washington.
- Decentralizing corporate decisionmaking while meeting the requirements of rising governmental regulation of the workplace.
- Motivating American workers while expanding the reach of the firm on a global basis.

The only way for business executives to negotiate this maze is to address these paradoxes head on, with candor. They need to avoid setting unrealistic expectations for the employees, or for themselves. They need to do more than mop up after downsizing.

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. It is effective communication. This means setting up a process of dialogue. Such two-way communication is very different from persuading or educating. It requires utilizing one of the truly neglected parts of the human anatomy — the ear. Yes, management has to listen as well as talk.

Along these lines, the AFL-CIO 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." They are right. But that type of trust is hardly evidenced by the AFL-CIO's insistence that workers interact with management only through union representatives.

It is the responsibility of management in each company to initiate the development of a new social contract suitable to its special situation. The motivation for business action is basic: it reduces the likelihood that government will step in to fill the void.

Restoring trust and credibility should receive the highest priority. In that spirit, Ken Chilton and I have developed an outline of a new social contract.

First we identify five *employer* expectations of each employee:

1. Each person performs to the best of his or her ability.
2. Each person is committed to the objectives of the firm.
3. Each person actively participates in the work of the company, which includes making suggestions for improvements that will be seriously considered.
4. Each person is willing to take training to improve personal productivity, and
5. Each person follows ethical and honest codes of behavior.

Jack Welch, GE's hard-driving chairman and CEO, emphasizes the new worth attached to the individual employee:

> The best companies now know, without a doubt, where productivity — real and limitless productivity — comes from. . . . 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.

Then, we identify six *employee* expectations of their employers:

1. The employer provides fair pay and benefits proportional to the person's contribution to company success.

2. Job security is tied to the fortunes of the company and to the individual's ability to perform.

3. The employer shows respect for each worker, grants recognition to the individual, and provides opportunity for participating in the work of the firm.

4. The employer provides each employee with opportunity for growth.

5. The employer provides a safe and healthy workplace, and

6. The employer provides access to timely information and openness on the part of candid leaders.

Those are two sets of tall orders. Yet the most ambitious part of the new social contract will be the three *joint* expectations that we identify:

1. Partnering replaces paternalism.

2. Employees are value-adding resources, not merely costs to be cut.

3. Employees and employers both must focus on the customers' needs and desires.

We do not mean a literal partnership in the legal sense of the word. Rather, we have in mind as a precedent the figurative partnerships between suppliers and customers that are growing rapidly in popularity in private industry. "Partnering," in this context, is quite demanding. It requires an understanding of each other's needs, common goals, commitment, trust, communication, and a willingness to work through problems.

The American workplace is undergoing a dramatic change brought on by powerful forces — global competition, domestic deregulation, and technological change. No firm can resist this dynamic combination. 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. Let's avoid easy outs such as saying that employees are only being asked to work smarter. They are also being asked to work harder — often much harder — and to be more committed to the company objectives. At the same time, employees are being told, and shown, that there is no such thing as job security. This is a difficult work environment to accept with any degree of enthusiasm, but the potential rewards for doing so are very substantial.

Today's business leaders need the wisdom of Solomon to respond to 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.

Yes, the move to a new social contract in the workplace implies an important feedback effect on government policy makers. They have to acknowledge the fact that the locus of business decisionmaking is shifting back to where it belongs: the factory floor, the company offices, and the boardroom — all in the private sector.

Historically, one of the most important 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. In a few short years, we enter a new century. The new relationships between management and labor that are evolving will hold sway at least through the early part of the 21st century.

I would like to end with the consolation provided by historical perspective. It is useful to quote economist Eugene Staley: "Ability to understand new situations, courage and initiative to adjust to them, both individually and in co-operation with others, are the qualities that will be needed more than ever in the world of tomorrow." Perhaps it is comforting to note that Staley wrote those words a half century ago.