Corporate Restructuring and the Workforce

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What is the future of work?

- The end of employment security and upward mobility?
  - Downsizing
  - Outsourcing
  - Offshoring

- New “White-Collar Sweatshops”?
  - Call centers in particular

- Misery and mayhem in the labor market?
  - All the world a Wal-Mart and McDonald’s
  - *Universal* and *unidirectional changes*
The data are mixed

<table>
<thead>
<tr>
<th>The sky is falling</th>
<th>No it’s not</th>
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<tbody>
<tr>
<td>Large numbers of extended mass layoffs (1-2 million/year)</td>
<td>Small changes in average job tenure</td>
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<td>Increase in small business’s share of employment</td>
<td>Employment of Fortune 100 as % of total US private:</td>
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<tr>
<td></td>
<td>➢ 1989: &lt;9%</td>
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<td></td>
<td>➢ 2004: 11%</td>
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<tr>
<td>Growing earnings inequality</td>
<td>Rising average earnings (though not much: 2004 real hourly wage is 3% higher than in 1979)</td>
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The Study: Design

- Case studies of 41 firms, over past decade
- Four industries:
  - Electronics manufacturing
  - Food service
  - Financial service (call centers)
  - Retail (call centers)
- Look for examples of “de-integration”:
  - Outsourcing
  - Creation of remote sites (e.g. call centers)
The study: Goals

- Focus on:
  - Organizational change
  - Jobs
  - Management strategies

- Gather new evidence, but also develop a *model* of corporate restructuring
After de-integration: Monarch Electronics

- In the beginning: vertically integrated, highly unionized
- **Outsourcing to reduce costs:** 12,000 parts in 18 months
- Shift to outsourcing *components* rather than parts → Problems with quality, missed deadlines, cost overruns
- Change in outsourcing strategy
  - Outsourcing to larger suppliers (sometimes much larger)
  - Assisting smaller suppliers to grow and vertically integrate
  - Some re-insourcing.
- Purchaser: “I went from looking for a $2 million [per year in sales] company to produce sub-assemblies, to $5 million, $10 million, $15 million--now I think it takes more like a $50 million company.”
- But then...decision to require that suppliers move operations to Mexico to keep contracts with Monarch → *Not* unidirectional
After de-integration: Food service

- Outsourcing shifted food preparation backwards, up the “food chain”
  - Manufacturers
  - Distributors
  - Restaurants and cafeterias

- Improves the jobs!
  - Food manufacturing pays 76% more per hour than food service
  - Average food manufacturing plant employs more than 4x as many as average eating place

→ The shift in jobs is not universally bad
After de-integration: Call centers

- Creation of call centers de-integrates selected functions from core firm activities
- But call centers highly stratified
  - Outbound jobs lousy, but future growth limited
  - Inbound more varied
- And inbound call center structure evolving
  - Clarendon’s (general merchandise chain): 7-level stores → 3-level call centers → 6-level call centers
  - Degradation of jobs mixed with improvement of jobs
    - Decline of the experienced/skilled retail clerk, but rise of the experienced/skilled CSR
    - In some cases, transformation of call center from cost center to profit center. Just for Her: mass market boutique sales via call center

→ Changes neither universal nor unidirectional
Bottom line: Overall changes in these cases of restructuring

- Shifting of functions to remote sites
- Some net “flattening” of organizations
- Other changes
  - Reduction of implicit lifetime employment guarantees, for various reasons
    - “Focus-shift” to new workforce type, e.g., blue to white collar;
    - Motivation through insecurity;
    - Preparing for the unknown
  - Broadening of jobs
  - “Rung removal”—filling higher-level jobs by external hires rather than internal promotions
- Throughout, little change that is universal or unidirectional
What determines outcomes?

<table>
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<tr>
<th>Macro factors (affecting entire market)</th>
<th>Product market</th>
<th>External labor market</th>
</tr>
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<tbody>
<tr>
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<td>Especially: Commodity vs. customized products</td>
<td>Degree of labor market tightness</td>
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<table>
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<tr>
<th>Micro factors (within the firm)</th>
<th>Managerial strategy</th>
<th>Worker preferences and strategies</th>
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<td>Beliefs, understandings, and strategies at the level of the company and the individual manager</td>
<td>Explicitly or implicitly expressed preferences and needs of employees of the firm, and the strategies they use to pursue them</td>
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</table>
More on managerial strategy

1) Standard cost-cutting model
2) Company culture and avowed company strategy.
   Example:
   - Ocean Fresh: majority of workforce part-time, seasonal, 1/5 temp; starting pay 10% above minimum wage
   - Maritime Products: year-round employment, average pay 67% above minimum

3) Learning curve
   - The leaders learn as they go along
   - Followers adopt strategies of leaders, often without understanding
   - But continuing change, so never reach the “bottom” of the learning curve

4) Idiosyncratic component (what one manager believes)
   - Cost vs. quality focus often depends on a single manager, and may change when the manager changes
Workers help shape outcomes:
- Explicitly by preferences and demands
- Tacitly by responding to positive opportunities (e.g., career ladders)
- Through the market, depending on local labor markets
Summarizing this model of how restructuring takes place

Restating the four factors:

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<th>Labor markets</th>
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<td>Worker preferences/strategy</td>
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- Macro: Overwhelming market advantages may drive change, but grey areas are more common
- Ongoing change + uncertainty = No “one best solution”
- Constant choice between reducing cost or enhancing innovation and quality
- Micro: Though it is an uneven playing field, managerial intentions do not dictate
- These tensions lead to varying outcomes, continuing evolution
Some implications for strategy to achieve good jobs

1) Most important: avoid oversimplification
   - Not universal: Some jobs getting better
   - Not unidirectional: We have leverage points for better jobs

2) The “new jobs” may actually be a lot like old peripheral jobs
   - Learn from unions that have done well at organizing those jobs

3) Firms in period of transition
   - Don’t get locked fixed into a single strategy
   - Learn from successful firms, nimble, step-by-step

4) Differing and contradictory goals within businesses

5) Understand worker preferences in new historical circumstances
   - Some new job structures do reflect worker preferences and needs not addressed by old structures
   - Unions and public policy advocates should be able to find ways to articulate worker aspirations better than these companies do!