

BUILDING THE COMPETITIVE WORKFORCE

INVESTING IN HUMAN CAPITAL
FOR CORPORATE SUCCESS

BASED ON THE GROUNDBREAKING
LOUIS HARRIS AND ASSOCIATES
"LABORFORCE 2000" SURVEY

PHILIP H. MIRVIS
EDITOR

BUILDING THE COMPETITIVE WORKFORCE

**INVESTING IN HUMAN CAPITAL
FOR CORPORATE SUCCESS**

**Based on the groundbreaking Louis Harris and Associates
"Laborforce 2000" Survey**

Philip H. Mirvis

Editor



John Wiley & Sons, Inc.

New York • Chichester • Brisbane • Toronto • Singapore

In recognition of the importance of preserving what has been written, it is a policy of John Wiley & Sons, Inc. to have books of enduring value published in the United States printed on acid-free paper, and we exert our best efforts to that end.

Copyright ©1993 by John Wiley & Sons, Inc.

All rights reserved. Published simultaneously in Canada.

Reproduction or translation of any part of this work beyond that permitted by Section 107 or 108 of the 1976 United States Copyright Act without the permission of the copyright owner is unlawful. Requests for permission or further information should be addressed to the Permissions Department, John Wiley & Sons, Inc.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. *From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers.*

Library of Congress Cataloging-in-Publication Data

Building the competitive workforce : investing in human capital for corporate success / Philip Mirvis, editor.

p. cm.

Includes bibliographical references and index.

ISBN 0-471-59257-9 (alk. paper)

1. Personnel management—United States. 2. Human capital—United States. 3. Competition—United States. I. Mirvis, Philip.

HF5549.2.U5B865 1993

658.3—dc20

92-42165

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

BUILDING THE COMPETITIVE WORKFORCE

INVESTING IN HUMAN CAPITAL FOR CORPORATE SUCCESS

Today's headlines predict trials ahead for the American corporation. Intense global competition, pressures to cut costs, problems finding skilled workers and engineers, growing diversity in the workforce, an aging population, health care costs run amok—these factors promise to make competing claims on the resources of business of all types. This study shows that to succeed in the '90s companies must meet these human resource challenges head-on.

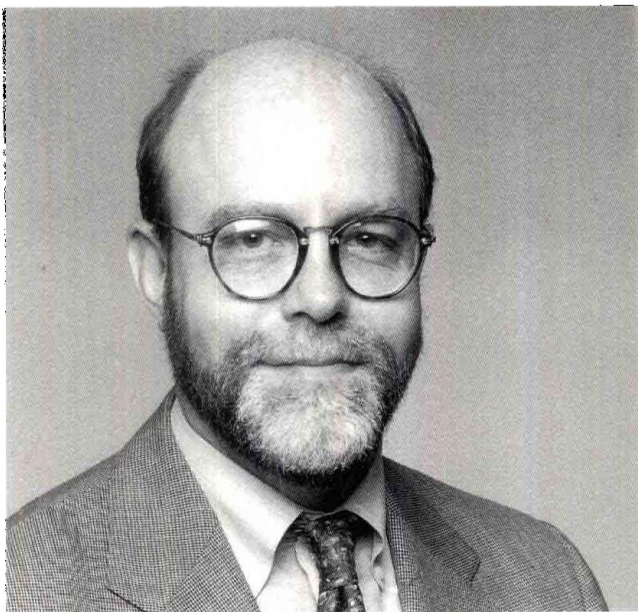
Building the Competitive Workforce is a sober assessment of the competitive strengths and weaknesses of the management practices of North American companies. Prepared by leading academics and business researchers (including Ed Lawler, Mitchell Marks, Mike Useem, Tim Hall, Karen Davis and Mike Barth), it's an invaluable guide to executives, human resource professionals, and managers who are willing to face tough problems, are determined to innovate, and are prepared to invest in people.

Building the Competitive Workforce offers an authoritative analysis of the challenges posed by the new workforce. The book:

- Compiles and analyzes the results of an intensive survey of the human resource strategies of over 400 Conference Board member companies conducted by Louis Harris and Associates
- Examines practices across firms of different sizes and industries
- Outlines the innovations of leading companies that have had a demonstrable result. Shows why other companies have not kept pace
- Compares American companies with their European and Japanese competitors in areas such as education and training, work/family programs, health care costs, productivity and quality improvement

(continued from front flap)

With its intensive analysis of human resource strategies combined with a wealth of real-world examples, *Building the Competitive Workforce* provides business professionals with a starting point from which to target their own human resource problems and formulate solutions to succeed in the turbulent business climate of today and the rest of the decade.



About the editor

PHILIP H. MIRVIS monitors the contours and attitudes of the U.S. workforce and is a specialist in organizational change. A well-known researcher, speaker, and corporate advisor, Dr. Mirvis is the author of *The Cynical Americans* and was guest editor of *The New Workforce and Workplace*, a special issue of the *Human Resource Management Journal*.

Jacket Design: Jeannette Jacobs

Foreword

Readers of this book may be surprised to find that it was sponsored by the Commonwealth Fund, a private foundation best known for supporting innovations in medical care. Yet the subject of this study based on the Harris Laborforce 2000 survey—the dilemmas facing America’s companies and workforce—has proved a compelling foundation investment. The Commonwealth Fund, like most foundations, is in the business of developing human potential. The workplace, as we learn here, is one of the nation’s prime arenas for enhancing individual growth and collective capacity. Supporting efforts to better understand and ultimately improve conditions of work promises to benefit working people and the communities in which we live. This purpose inspired and guided the authors whose analyses and recommendations stock the chapters of this book.

In their efforts to develop human potential, foundations typically enlist partners from voluntary organizations, educational institutions, and governmental agencies or programs. Few foundations have viewed the workplace as fertile soil for reaping knowledge or have seen corporations as partners in cultivating it, perhaps because the terms of employment seemed relatively fixed and few of the societal ills that foundations seek to redress seemed dependent on them. But today these terms are in transition as American business undertakes its largest restructuring since World War II. And changes in work opportunities and work conditions are leading to dramatic changes in the life circumstances of tens of millions of Americans.

The workplace of tomorrow could unleash more of our nation’s human potential. Alternatively, it could undermine prosperity and incite the divisive

urges latent in our society. To inform those who lead or work in business, government, and unions of where things stand and to guide future decisions, this book provides an up-to-date picture of what is behind the changing workplace conditions that are already reshaping our lives. It also highlights what lies along the path to the twenty-first century. Readers learn of the varied ways in which businesses are coping with a vastly more competitive environment and how their actions both create and preempt opportunities for different groups of American workers.

Corporate responses to several major petitions for developing human potential are investigated in this volume. Basic needs for steady employment, a living wage, and fair treatment are, of course, requisites for human development. So are jobs that make use of our talents and a work environment that encourages responsibility, initiative, and personal growth. Beyond these, the petitions on the doorstep of business are more diverse than at any time before: They come from working women who seek improved pay and more opportunities for advancement; from parents who seek relief from the problems that their children can encounter without suitable, stable alternatives to parental supervision during working hours; and from young adults with limited scholastic success who need training and entry level jobs.

People today expect that business should insist on adequate academic preparation of students and that it should help communities undertake the difficult changes required to improve student performance. The majority of Americans without health insurance are employed adults (or their dependents) who cannot get affordable coverage through their employers. At the same time, millions of insured workers fear the loss of their financial protection as employers pass on to them steep yearly increases in the costs of insurance. Still other workers avoid changing jobs, afraid they will not be able to replace the insurance protection they now have.

Meanwhile, older workers seek part-time or rescaled employment throughout the sixth decade of life. Armed with the best educations, work histories, and health status of any generation of senior Americans, today's older workers regard continued work as vital to their happiness and well-being. This change in expectations alone could transform the workforce within a decade, once the baby boom generation begins to swell the ranks of seniors.

There are also petitions from former welfare recipients who now actively seek employment. Welfare is no longer viewed as a lifelong means of support. Redefined, it is a program aiming to transform temporary recipients into self-sustaining employees. Finally, there is a growing number of people laid off via corporate downsizing who need retraining to be reemployed and

assistance during a period of worrisome transition. The nation's economic health and civil harmony depend on whether these individuals, too, can find productive employment.

The public continues to look to business, more than to government, to devise solutions for this list of workforce petitions. Business is believed to have the opportunity, the motive, and the competency to get the job done. *Opportunity*—business creates wealth and jobs; it commands half the waking time and attention of most adults; it determines who gets hired, retrained, and promoted; and it sets the terms of the health insurance, retirement benefits, and vacation and leave policies that protect and facilitate family life. *Motive*—business can reap the benefits of responding to these petitions if, in so doing, it increases the value of the workforce, boosts productivity, and advances the competitive agendas of individual firms. *Competency*—business has its own considerable shortcomings in the minds of the public, but local action developed through private initiative, rather than through government policies, continues to be seen by most Americans as the better path to improving our individual and collective lot.

Devising solutions to these petitions is a formidable challenge. The competitive position of American business is in decline, and the nation's standard of living is severely threatened. The basic dilemma for business explored in the chapters of this book is this: American industry is confronting a competitive struggle for its very existence at precisely the moment when the public has heightened its demands for more and better responses to human-potential challenges in the workplace.

Business is dealing with unprecedented global competition by restructuring and reinventing itself on a massive scale. This enormous task is preoccupying, and many senior managers and human resources officials have little time left for sustained attention to human-development petitions. Even worse, restructuring efforts are exacerbating many of the very problems the nation has been appealing to business to improve. Massive layoffs, a much-larger part-time-only workforce, tens of thousands of jobs moved overseas, a fractious and rough-edged corporate atmosphere: These are the effects on employees of deploying the tactical weapons of the new, globally competitive era.

The dynamics are manifest in individual firms. Forging a new spirit of employee commitment is considered crucial for succeeding in today's competitive environment. Yet the very covenants on which commitment has historically been based have been broken. Gone, or at least significantly eroded, is business's commitment to provide lifelong employment, guaranteed annual raises, comprehensive health insurance, and substantial retirement benefits.

Yet there are strategies and practices identified in this study that present workable alternatives to the continuous retreat from corporate paternalism. They are brought to life by companies that believe that developing human potential is a competitive necessity and that take seriously the importance of investing in human resources. These firms, as described throughout this book, set the pace by investing in new work designs and other workplace innovations, by aggressively training and retraining their employees, and by responding genuinely to the requirements of the *new workforce*.

The covenants of the new competitiveness will doubtlessly place more responsibility on the individual worker. It will come as an irresistible union: Business necessity will join the worker's prevailing faith in individual liberty and responsibility. Business can use to its advantage the prevailing ethos that, through individual choice and striving, each of us can control our own destiny. The message of the 90s will sound like this: Keep your own skills marketable and see to your own financial security. Already, there are whispered exhortations to be more self-reliant and individualistic.

Each of us must increasingly invest in ourselves. To be globally competitive, our workforce must undergo periodic skills upgrading on a scale much larger than the nation yet comprehends. Technological innovation is dramatically outpacing the training currently available. Methods for financing and providing the requisite training will have to be devised and put in place.

Although the public embraces the idea of individual striving and financial self-sufficiency, its behavior lags far behind. For example, most baby boomers report they do not expect to collect adequate social security payments to sustain a decent retirement—yet few have increased their woefully inadequate savings levels to prepare for tomorrow. The majority of workers fail to understand that their fringe benefits are an earned part of their total compensation, just like the cash in their pay envelopes. Instead, they tend to view fringe benefits as benevolent gifts from their employer, gifts that they are watching their employers take back. Today, few employees have choice over which benefits give them real value, and few press for the kind of choices that well-stocked “cafeteria” plans offer.

The public has another dilemma to consider. Even as people campaign for those new work rules that will improve their own well-being, they realize that their neighbors' needs may be precluded and that satisfying immediate desires may jeopardize the standard of living that the nation's children will inherit. They understand that business must put its shoulder to the competitive wheel and steer the tough course. But whether our collective behavior will be self-interested and short-sighted or be generous-minded and future-directed is

still up in the air. The workforce is struggling to come to grips with its priorities and values.

Forging new workplace covenants will test the ingenuity and tenacity of businesses, government, foundations, and academe; and coalitions of these groups may produce society's best response to the dilemmas. For instance, businesses are reluctant to shoulder the burden of entry level education and worker retraining alone. Most do not have the scale of operation large enough to conduct continuous skills training or the extra resources to finance the substantial ongoing expense. Moreover, firms that can underwrite training fear the loss of their investments as employees are lured away by high-wage bids from competitors who do not pay for training. Other resource-strapped firms are likely to limit skills building to those with the greatest potential to increase profitability: up-and-coming executives and professionals who are already highly skilled, such as engineers and scientists. This response is logical for an individual firm, but such a response will not improve the skills of the tens of millions of Americans looking for upward mobility. The promise of upward mobility has been the workplace covenant that has most helped to hold together our diverse nation.

It is plausible to ask employees to meet some of the costs needed for their periodic skills building by providing tax incentives. And perhaps the cost of retraining classes taken at a community college could be paid through a fringe benefit option. Or perhaps the release time necessary to attend such sessions would be provided at the employer's expense. Many such *new covenant* possibilities, including business–public school partnerships and European-style apprenticeship programs, merit careful analysis. This book examines several of them.

Health care reform offers another opportunity for collaborative action. Corporate America has neglected to use its market muscle to insist that affordable, competitive health care plans be made available to employees. Nor has business yet endorsed the reform proposals that would facilitate cost-sensitive purchasing on the part of the individual employee. Caught in a philosophical muddle between providing for employees and letting them fend for themselves, employers have simply let standard insurance coverage erode. Isn't it time for business to work more directly with government, education, and foundations as partners in order to find a better means of financing cost-effective health care?

Then there is the vital goal of building a corporate spirit of cooperation, interdependence, and teamwork. Some fear that the widespread celebration of ethnic, gender, and cultural diversity is an upsurge of "tribalism"

that threatens to dissolve the values that hold Americans together. Building one workforce out of many diverse groups of workers is an increasingly precarious task. To take diversity seriously requires respecting the separate preferences, customs, and beliefs of each subgroup. The task before us is to reconcile different notions of teamwork and good process into common core values. Can diversity be synthesized into a competitive strength for America's economy?

The authors of this volume launch every reader on a voyage to the twenty-first-century workplace, by charting significant shifts that influence how we work and live. They describe the vast challenges we will confront on the course to a better life and the routes that companies will follow as they make their way. The authors' expert commentary underscores just how complex but fulfilling the journey could be.

Major credit for this achievement goes to Philip Mirvis, who has skillfully woven the dozens of critical observations the authors have made into this engaging, purposeful document; to Michael Barth, who has steadfastly captained both this work and the Commonwealth Fund's efforts in search of better solutions to workforce dilemmas; to William McNaught, who—as an expert on the workforce aspirations of older Americans—now places them in the context of the twenty-first-century economy; and to Penny Duckham, who has contributed handily to the content and structure of this project, which she so capably managed on behalf of its sponsor.

Full partners in the success of this venture include Arlene Johnson and Fabian Linden of the Conference Board, each of whom has brought key perspectives and energies to the development of this project. Humphrey Taylor, Robert Leitman, and Ron Bass of Louis Harris and Associates have brought their years of experience in the surveying of business executives about laborforce issues to bear, refining the direction and improving the caliber of this project. Dennis Ross has lent skillful assistance to the data analysis and preparation of chart materials in the book.

Finally, we thank the Commonwealth Fund's board of directors for their expansive view of the health of the American people. The support of this work has opened up grand vistas for achievement. May many more foundation officials and business executives learn from this work and take up the vital challenges it inspires.

THOMAS MOLONEY
Institute for the Future
New York, New York

Contributions

A broad agenda of human resources issues will compete for the attention of business and its leadership in the decade of the 90s. Each contributor to this volume considers specific laborforce issues and how companies are responding to them based on in-depth interviews of top human resources executives by Louis Harris and Associates in 406 randomly sampled Conference Board companies.

Chapter 1 A Competitive Workforce: The Issues and the Study

Philip Mirvis—the editor, a private researcher and consultant—presents the framework underlying the research and details the data base and sample of the Laborforce 2000 study. He looks at the key competitive strategies of the studied companies and what current and future laborforce issues mean for their success. This chapter also examines the changing contours of the American laborforce and how the studied companies rate the impact of several human resources issues.

Chapter 2 Strategic Human Resource Management

Edward Lawler, Susan Cohen, and Lei Chang—specialists in human resources management trends and strategies at the Center for Effective Organizations of the University of Southern California—hone in on the priorities and positioning of human resources management in the sampled companies. They compare the human resources philosophy of “cutting edge” organizations, which lead change in the corporate world, with more traditional outfits, which tend to lag behind. Their findings provide a clear distinction between firms that are well positioned to deal with future challenges and those that are at risk.

Chapter 3 Restructuring and Downsizing

Mitchell Marks—an expert on change management with William M. Mercer Incorporated, an international human resources consulting firm—examines corporate restructuring and downsizing. He discusses the overall impact of deindustrialization and corporate consolidations, including what has caused them and why they will continue through the rest of the decade. He also describes the manner in which companies have downsized and how many people have been affected.

Chapter 4 Company Policies on Education and Training

Michael Useem, a professor of sociology from the Wharton School of the University of Pennsylvania, looks at the needs of business for skilled workers, professionals, and managers—today and tomorrow—and whether or not the needs can be met. His data highlight the necessity of more training and retraining. The chapter describes the training methods used by the studied corporations: whom they reach and how effective they have been.

Chapter 5 Workplace Flexibility: Faddish or Fundamental?

Victoria Parker and Douglas (Tim) Hall, experts on careers and workforce planning from the School of Management at Boston University, focus on the question of corporate flexibility: Do companies understand the issues posed by increasing diversity and the conflicts between work and family life? And are they responding genuinely and effectively? The authors find that most companies are doing something about these matters, but they see sharp differences between leaders and laggards in these areas.

Chapter 6 Corporations and the Aging Workforce

Michael Barth, Senior Vice-President of ICF Incorporated; William McNaught, former Research Director for the Commonwealth Fund; and Philip Rizzi, with ICF, focus on the employment of workers over age 55, the fastest-growing segment of the workforce. Based on the data collected, they report that a majority of employers think that workers over 55 are more reliable and have better work attitudes than younger employees. Yet the authors find a pervasive gap between attitudes and practices and make a case for investing in older workers.

Chapter 7 The Changing Nature of Employee Health Benefits

Karen Davis—a specialist in public health, health care management, and corporate health insurance, and Executive Vice-President of the Commonwealth

Fund—finds U.S. businesses making dramatic changes in their health coverage. Health care costs seriously threaten competitiveness. Hence almost all companies studied have cut back on their health care benefits in the late 80s. But few think that further changes will bring costs under control. Her analyses show that business is seemingly ready for government-mandated cost containment.

Chapter 8 The Findings and Their Implications

In this concluding chapter, Mirvis reviews key findings from the Labor-force 2000 survey and shows how the practices of “cutting edge” companies set an example for business to follow. He notes that fundamental issues—regarding the future compact between employees and companies, the diffusion of change management skills throughout business, and the urgent need for investment by business and government in human capital—will require vigorous attention if America is to build a truly competitive workforce.

Harris Surveys

Throughout the text Ron Bass, Vice-President, Louis Harris and Associates, presents results of American's attitudes about public education, the skills and attitudes of young people, health insurance and the American health care system, and other relevant subjects.

Contents

1. A Competitive Workforce: The Issues and the Study	1
Philip H. Mirvis	
2. Strategic Human Resource Management	31
Edward E. Lawler III, Susan G. Cohen, and Lei Chang	
3. Restructuring and Downsizing	60
Mitchell Lee Marks	
4. Company Policies on Education and Training	95
Michael Useem	
5. Workplace Flexibility: Faddish or Fundamental?	122
Victoria A. Parker and Douglas T. Hall	
6. Corporations and the Aging Workforce	156
Michael C. Barth, William McNaught, and Philip Rizzi	
7. The Changing Nature of Employee Health Benefits	201
Karen Davis	
8. The Findings and Their Implications	220
Philip H. Mirvis	
Index	249

1

A Competitive Workforce: The Issues and the Study

Philip H. Mirvis

The headlines today portend trials tomorrow for corporations and their leaders. Intense global competition, pressures to cut costs and reduce staff, declines in the nation's skill bank, growing diversity in the workforce, an aging population, health care costs that are running out of control—all of these factors promise to make competing claims on the resources and imagination of business executives for the rest of the decade. In this Laborforce 2000 study, leading experts examine the priorities and practices of 406 companies in order to highlight where industry is keeping pace with the demands of change and where, in some cases, it is seriously behind.

The following list highlights some of the issues that we examine:

- Many companies do more than pay lip service to the value of people. But given competitive pressures, is there any evidence that human resource management is a top priority of senior executives?
- Most firms downsized in the decade past. Will periodic downsizing become a fact of life in the years ahead? Are companies prepared to handle massive retraining and redeployment?
- High-skill jobs require high-skill workers. Do firms foresee critical skill shortages? Will they change their recruiting and retention strategies? Or will they move more employment offshore?

- The skills of entry workers are suspect. Are businesses able to provide the necessary basic and remedial training? Will apprenticeship programs and corporate involvement in public schools become essential in the years ahead?
- Demography could be destiny. Are companies poised to capitalize on diversity in the workforce, to deal with work/family issues; or will most just muddle through?
- The population is aging. Are more workers over age 55 destined to be considered deadwood, or can they find a meaningful place in corporations?
- The health care cost crisis looms large. Are more cutbacks in health benefits coming? Does industry expect government to intervene?

The need for authoritative knowledge about the ways that companies perceive and manage these issues is urgent. Anecdotal accounts of “excellent” companies or the “100 Best Firms” portray corporations as traveling the yellow brick road to Oz. By comparison, daily news stories about corporate cutbacks in staffing, training, and health insurance and about indifference to the needs of their workforce and society show firms to be shortsighted and self-serving. Both of these caricatures of business are misleading. This study of 406 corporations—large and small, public and private, from many different industries—presents a truer picture of corporate conduct today. It shows where business is at its best and at its worst—and all the points in between.

HUMAN CAPITAL

John Kenneth Galbraith declared in the late 1950s that America had successfully “solved the problem of production.”¹ Another decade and a half of steady increases in productivity, rising standards of living, and dominance in the marketplace seemed to affirm such bullish confidence in U.S. industry. Since the mid-1970s, however, the nation has experienced declines in annual productivity growth, income stagnation among its wage earners, and a flood of imports from Japan, Pacific Rim nations, and Europe, coupled with an erosion in the U.S. share of world trade. Hence the problem of production has reappeared as a vital issue on the nation’s agenda.

America’s economic rise following WWII and its relative decline over the past fifteen years are clearly reflected in investments in physical capital,