Managing in the MODERN CORPORATION

The Intensification of Managerial Work in the USA, UK and Japan

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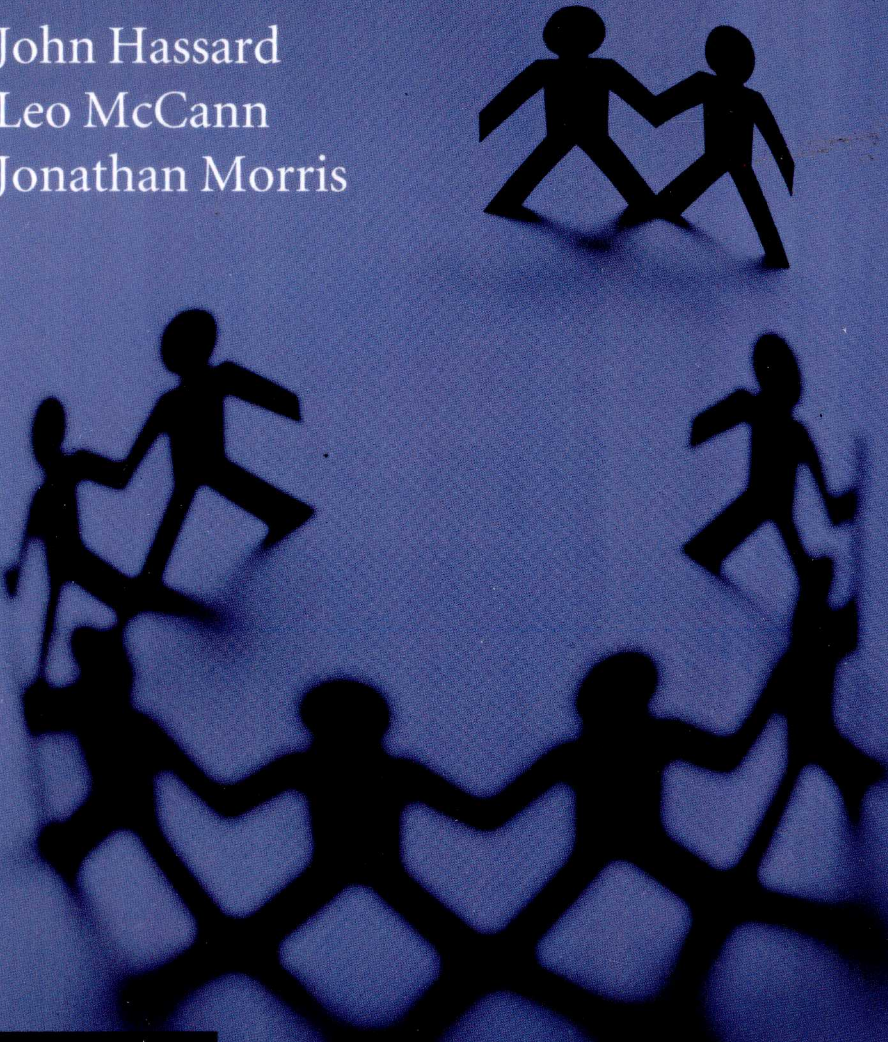

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For Roisin, Kate and Catherine

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About the cover

In seeking a suitable cover graphic for the book, we scanned literally hundreds of images on various websites; in the end we picked a simple paper-chain. As some readers may have guessed, this was chosen to resonate with the book that provides much of the inspiration for our study, Harry Braverman's *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century* (1974/1998), the cover of which features a similar paper-chain design. However, whereas Braverman's paper-chain from the 1970s is continuous and strong, ours of the new century is divided and weak: in contrast to Braverman's intact and united workforce, ours has been downsized and restructured.

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1 *Going under the knife: Downsizing and de-layering the modern corporation*

I think this will make us simpler, nimbler and quicker.

(Mark Hurd, CEO, Hewlett-Packard)[1]

One could be forgiven for thinking that the large, publicly listed corporations – for decades the economic cornerstones of modern developed societies – are now in crisis. Business change consultants regularly denounce them as organisational dinosaurs, collapsing under their own bureaucratic dead weight. In today's era of hyper-competition, so the argument goes, the management systems and organisational structures of large firms have become redundant, along with thousands of their employees. Firms are arguably obliged, under the pressures of globalisation and the logic of shareholder value, to become flatter, leaner and faster to react to changing conditions. As international competitive pressures grow in their intensity, those corporations that fail to restructure face stagnation or collapse.

This view, of the urgent requirement for corporations to change, has become widespread and influential since the 1990s. Media stories appear regularly of large blue-chip companies making significant job cuts, adding to the sense of corporate crisis. While job losses have always been a harsh fact of life under capitalism, white-collar workers were traditionally insulated from the risk of redundancy. Now their careers are more precarious. For example, in just three weeks in July 2005, Kodak, Sanyo, Hewlett-Packard and Asda all announced deep employment cuts to the British media, referring in their press releases to 'unnecessary' white-collar management and 'back office' staff.[2] The Ford Motor Company stated its plan to shed 14,000 salaried staff,

[1] 'New HP boss plans 14,500 job cuts', *The Guardian*, 20 July 2005.

[2] 'Asda cuts 1,400 managers in fight to stay No. 2 grocer', *The Guardian*, 6 July 2005; 'New HP boss plans 14,500 job cuts', *The Guardian*, 20 July 2005; 'Kodak cuts 10,000 more jobs as its film division weakens', *The Guardian*, 21 July 2005; 'Sanyo looks to shed 14,000 workers', *The Japan Times*, 6 July 2005.

one-third of the total, in September 2006.[3] Citibank announced its intention to shed 17,000 staff in April 2007, 'removing certain layers of management and eliminating some corporate offices'.[4] Indeed, since the onset of the 2008 global economic downturn similar announcements have become even more commonplace.

Such restructuring notices, however, are not restricted to the most open, flexible and liberalised market economies of the USA and the UK. High-profile, household-name companies based in all societies, even in Japan and Germany – until recently the standard-bearers for long-term employment and durable, committed capital – have undergone similar restructurings, including, for example, Sony, Siemens and Volkswagen.[5] No company, no matter how large, no matter how well regarded, appears immune from pressures to reform. Mainstays of the motor industry such as Ford, GM, Volkswagen and Mitsubishi repeatedly announce job cuts to the stock markets, citing reasons such as fierce competition, increased raw material costs and (particularly in US companies) rising healthcare and pensions liabilities. In a real sign of the times the UK's last remaining volume car manufacturer, MG Rover, finally collapsed in April 2005 after years of intense struggle, and what future it may have left lies in the hands of China's Nanjing Automobile Corporation. This collapse symbolises the apparent weakness of large-scale manufacturing in established Western countries, as the locus of production shifts ever eastwards.

The corporate squeeze is by no means restricted to the manufacturing sector. Just as manufacturers of consumer goods have subcontracted production to low-cost Asian firms, or opened greenfield plants in these countries, financial services companies have increasingly offshored jobs to English-speaking low-wage countries such as India and Sri Lanka. Again, the motivation for change is pressure to reduce costs, with this tending to exert more influence on the minds of senior executives than other pressures, such as customer service and the domestic retention of jobs and skills.

Amid the whirlwind of corporate change there is one group, however, that emerges unambiguously as 'winners' – a small cadre of elite

3 'Job cuts and sales slump could put Ford $9bn in red', *The Guardian*, 16 September 2006.

4 'Citigroup plans 17,000 job cuts', BBC News, 11 April 2007.

5 'VW may axe 30,000 jobs', *The Guardian*, 13 September 2005; 'Sony fights losses with 10,000 job cuts', *The Guardian*, 23 September 2005.

managers that has benefited from huge rises in salaries and stock options. Nevertheless, other stakeholders in the firm have not been so fortunate. Dramatic increases in executive compensation have frequently occurred hand-in-hand with job cuts and pay freezes for staff further down the organisational hierarchy (Erturk *et al.* 2004). Alongside such growing income inequalities in modern corporations there have also been concerns about gender and ethnic inequalities. Women and ethnic minorities are still under-represented in the higher echelons of corporate life (Hite 2007; Watts 2009). In other words, transformations in some areas of the corporation have been radical, but elsewhere change is slow. All kinds of organisational traditions (for good or ill) persist despite rounds of corporate change. So what exactly is happening to large-scale modern corporations?

Media stories about job loss and poor corporate performance have been commonplace for some time as companies have struggled to stay competitive in what is widely perceived as an increasingly turbulent and unpredictable world environment. This situation took a dramatic turn for the worse from October 2007 onwards when the full scale of what became known as the 'sub-prime mortgage crisis' started to emerge. The crisis originated in the USA, but it has made a heavy impact on all OECD economies; it demonstrated just how far these financial markets had exposed themselves to risk in their bids to achieve higher returns. All manner of companies and institutions displayed a cavalier attitude towards debt, ignored concerns about trading highly complex and vaguely understood new financial instruments, and rashly rewarded risk-taking employees with lavish bonuses. Supposedly arm's-length institutions, such as the UK's Financial Services Authority or the USA's Securities and Exchange Commission, which were supposed to regulate the finance industry, were exposed as weak and complacent, ceding the banks' excessive freedom of action following liberalisation and so-called 'soft touch' regulation. Rating agencies were guilty of providing falsely boosted ratings for all kinds of investment products as there were few incentives to provide lower, more realistic appraisals. Taken together, these effects generated the largest economic bubble since the Wall Street Crash of 1929.[6]

The ensuing bankruptcy of the venerable US brokerage Lehman Brothers and the hasty sale of Merrill Lynch in September 2008 were

[6] For an early academic assessment of the crisis and the possibilities for recovery, see Shiller (2008).

among the most dramatic examples of corporate failure in modern economic history. Their sudden demise triggered further market fallout across the world as investors panicked at the extent to which they had become exposed to sub-prime-related investment products which had collapsed in value. In an effort to prevent further bank failures, US Congress authorised the largest financial bailout package of all time, the $700 billion Troubled Asset Relief Programme (TARP), which provided capital injections to dozens of US banks. Similar relief packages were developed in other OECD nations (most notably in the UK) to bail out and partly nationalise their banks. Governments in Europe, Japan and the USA announced a series of fiscal stimulus packages of tax cuts and public works programmes in desperate attempts to reflate their economies.

It did not take long for large firms in other sectors to suffer following the investment banking collapses. Ford, GM and Chrysler requested financial bailouts from US Congress in their bids to avoid bankruptcy.[7] Citigroup announced a plan to make an astonishing 52,000 job cuts in late 2008, the largest announcement of cuts since those at IBM in 1993. Citigroup was eventually partly nationalised by the US government.[8] In the UK, BT expressed its intent to cut 10,000 posts, and Rolls-Royce 2,000.[9] All of the above took place in just one week in November 2008. That particular month saw a total of 533,000 job losses reported in the USA, the worst monthly figures since 1974.[10] Job losses also hit Japan. Its major carmakers experienced collapses in sales and cut thousands of temporary jobs in response. Sony announced the loss of another 8,000 posts in December 2008.[11]

Large workplaces have therefore experienced significant processes of change in recent times. Amid the stories of crisis and stagnation, most large firms hold massive financial assets. Some of them have annual revenues that dwarf the GDP of developing countries. Nevertheless, they are facing considerably tougher times than they did in the 1980s

7 'Big 3 automakers make bailout case to the public', *Washington Post*, 20 November 2008.
8 '52,000 jobs to be cut at Citigroup', *USA Today*, 17 November 2008.
9 '10,000 jobs to go as BT joins rush to cut workforce', *The Guardian*, 14 November 2008; 'Rolls-Royce plans 2,000 job cuts', BBC News, 20 November 2008.
10 'America isn't working: jobless total grows by most for 34 years', *The Guardian*, 6 December 2008.
11 'Sony to cut plants and 8,000 jobs', BBC News, 9 December 2008.

and early to mid-1990s. Corporations face increased levels of competition from domestic and foreign competitors. The logic of 'shareholder value' (although often misunderstood and overstated) is almost certain to exert more pressure on costs than in previous economic eras. In short, many powerful, household-name firms, headquartered in a range of countries, have been jolted out of their relatively stable existence and into a more complex and challenging era. This has had very serious implications for the livelihoods of their employees. The impacts of restructuring have been felt at many levels of the corporation. Traditionally it has been workers on the lowest rungs of the organisational ladder who have suffered most, through pay freezes, redundancies and the removal of fringe benefits. However, since the early 1990s, the burden of change has fallen increasingly on a hitherto rather better protected and better rewarded group of people – salaried white-collar middle managers.

This book is about the changing employment fortunes of managers in large corporations in America, Britain and Japan. It is based primarily on in-depth, life-history interviews with middle managers and strategy-focused consultations with senior human resource executives. Wherever possible, we have attempted to gain an 'inside' view of corporate restructuring. By this we mean making a detailed examination of both formal company structures and employees' subjective interpretations of changing working conditions. During times of change hitherto more secure conceptions of working life become subject to difficult transformations. What is meant by fair remuneration when reward levels differ so greatly? What is meant by loyalty when jobs are being cut? What is my real career position when hierarchies are being flattened? What am I worth when pay scales are being regraded?

In recent times middle managers in large corporations have been castigated from several directions. They have been most heavily attacked by the business 'gurus' and consultants who regularly condemn them as surplus to requirements in the new 'digital networked economy'. The widespread use of ICT has seemingly eliminated the need for many of the traditional roles of middle managers, such as monitoring the performance of front-line employees and conducting horizontal and vertical communication. Besides, the 'gurus' argue that tougher times call for tougher measures: that one cannot mourn the passing of 'cradle to grave' employment systems or shed a tear for the death of the kinds of privileges and stability that bureaucratic hierarchy brings. Out go long-service awards and retirement trophies, with these being replaced by performance monitoring and short-term financial bonuses. Organisational hierarchies are flattened as 'de-layering' policies strip out levels of management. Pay systems are transformed from tall 'scales' to broad 'bands'. Corporate headquarters are redesigned; boundaries between office and shop floor are (supposedly) removed as managers are encouraged to 'muck in' with the mundane work and 'buy in' to new corporate cultures. Welsh-born Sir Howard Stringer, Chief Executive of Sony, summed up this new order with a very Japanese turn of phrase: 'We must be Sony United, and fight like the Sony warriors we are.'[12] In short, ours is a leaner, tougher age in which all forms of corporate tradition are subject to revision or erasure. Just as large firms have faced up to increased competitive pressures in recent years, white-collar salaried personnel in many developed economies are confronting increasingly severe pressures in their working and personal lives.

In adopting a more local, personal perspective, and taking seriously the accounts of people on the receiving end of corporate transformation, this book attempts to cut through some of the hyperbole surrounding organisational change in order to provide a more 'grounded' analysis of the realities of restructuring than presented in, for example, excited press stories of 'corporate crisis', the 'death of the middle manager' and the 'slashing of jobs'. Rather than assert the widespread destruction of bureaucracy and the white-collar managerial class, our study suggests that while thousands of middle managers have indeed been eliminated from large corporations, many thousands more remain in gainful employment. Far from being redundant pen-pushers and time-servers, their roles have increased massively in scope and scale. The middle managers in this study almost universally described substantial changes to their work tasks, a major growth in their responsibilities and volume of work, but with significant shrinking of promotion prospects. These changes have important implications for middle managers' quality of life, morale, productivity and willingness to make continual sacrifices for the benefit of the firm. Interestingly, despite some clear differences in corporate governance across countries, and differences in the ways in which changes were executed across firms, seemingly the same organisational pressures are being felt by middle managers in all three countries studied, suggesting a surprising degree of *convergence* as regards

12 'Sony fights losses with 10,000 job cuts', *The Guardian*, 23 September 2005.

the changing role of middle management. Moreover, rather than accepting, at face value, current accounts of the trend towards 'organisational networks' and 'flows of digital information' – accounts that have become dominant in mainstream academic explanations of the modern corporation – our analysis suggests that bureaucracy and traditional top-down control, not to mention authoritarianism, are alive and well.

Some readers might regard our use of the phrase 'modern corporation' outdated given the recent discussions about 'postmodern', 'networked' or 'fluid' forms of organisation. We decided to use the more classical terminology as it reflects a long and distinguished history of discussion about the power and influence of large firms, and especially the relationship of that power to the broader society. The classic work of Berle and Means (1933) is still a critical reference point for these debates. It is perhaps more relevant than ever, given the continued accretion of corporate power since their day. The first edition was published during the Great Depression which was triggered by the dramatic Wall Street Crash of 1929, so further echoes to 2007–8 are obvious.

Berle and Means argued that the larger, more powerful and more influential the modern corporation grows, the more potential it has to cause social disruption when crises occur. Berle and Means were quite forceful in their original argument, suggesting that new forms of social and political power need to be developed to regulate and counteract the power of publicly traded corporations:

> Such a great concentration of power and such a diversity of interest raise the long-fought issue of power and its regulation – of interest and its protection. A constant warfare has existed between the individuals wielding power, in whatever form, and the subjects of that power. Just as there is a continuous drive for power, so also is there a continuous desire to make that power the servant of the bulk of the individuals it affects. (Berle and Means 1933: 353)

This phrase was highly prescient: Berle and Means could not possibly have imagined in the 1930s quite how powerful and potentially disruptive these firms, and the wider financial architecture into which they are embedded, would become. The need for a rebalance of social and corporate interests is precisely what is being discussed in the aftermath of the bank failures brought on by the sub-prime crisis. Their argument was recalled in more recent work on corporate governance by Smith and Walter (2006: 61–2, 271), who refer to Berle and Means' pertinent identification of the key issue of rebalancing social interests against corporate interests. Smith and Walters' very thorough and thoughtful study predates the sub-prime mortgage crisis, which is unfortunate timing. Perhaps in light of recent events they could have been even more forthright in their criticisms of recent practices that have led to the collapse.

While these debates are highly relevant to our discussions, the analysis we offer in this book differs somewhat from the above in that it describes the modern corporation from within; discussing how the corporation functions by an analysis of the daily working world of its white-collar managerial employees.

In the remainder of this chapter, we discuss the extent to which large organisations have engaged in major restructuring. We take an historical approach to this question, observing the changing nature of firms themselves and the shifting philosophies surrounding issues of management, hierarchy, authority, work, loyalty and career. We delve into the sociological 'classics' of the US corporation and its white-collar staff dating back to the 1950s (e.g. Drucker 1947, 1964; Mills 1953; Whyte 1960) to demonstrate that in a bygone era, issues of collegiality, stability, loyalty and mutual gain were given a much higher profile, in the minds of both management and staff. We suggest that recent disruptions to traditional career structures, while possibly leading to increased worker involvement and larger financial rewards (Barley and Kunda 2004), have also been accompanied by reduced employee security, widespread job losses, heightened performance pressures and increased stress levels. Although the cutting of jobs and entitlements has been less severe in Japan than in Western countries (Jacoby 2005; Matanle 2003; Robinson and Shimizu 2006; Iida and Morris 2008), the flattening of managerial levels, diminution of loyalty and collegiality, and the intensification of labour result from very similar organisational restructuring measures taken by top management.

How much corporate change?

As the previous section indicates, structural changes to large corporations have been substantial since the 1980s. In response to renewed competitive threats, firms have attempted to cut 'unnecessary' ranks of management (often dismissed as 'bureaucracy') and subjected themselves to the tenets of 'lean' thinking, ending the 'entitlement culture' of the firm and making significant reductions in headcount. In the last thirty years large firms across the world have engaged in making major cuts to their employment levels. Burke and Nelson (1997: 325) state that more than 43 million US jobs were eliminated between 1979 and 1996, and that 90 per cent of the firms in a Canadian survey no longer offer job security to employees (1997: 326). Cameron *et al.* (1991: 58) state that more than 85 per cent of the *Fortune* 1000 firms downsized their white-collar workforce between 1987 and 1991, affecting more than five million jobs, and that '[a]lmost a million American managers with salaries exceeding $40,000 lost their jobs' in 1990. Many other studies provide similar evidence of widespread cuts, reduction of employee entitlements and collapsing morale (Heckscher 1996; Gowing *et al.* 1998; McGovern *et al.* 1998; Burchill *et al.* 1999).

However, it would be wrong to assert that the era of restructuring in large firms has meant universal downsizing and employment cuts. Under certain circumstances the headcount figures for large corporations have grown. This is what Littler and Innes (2004: 1160–3) call the 'paradox' of managerial downsizing; i.e. despite widespread reports of redundancies and corporate shrinkage, macro numbers of managers have often increased through, for example, mergers and acquisitions, movements into new markets, or simply through the retitling of staff as 'managers'.[13] Froud *et al.* (2006: 16) reveal that the total numbers of employees in large firms in the UK and the USA have been surprisingly stable in recent times. In 1983 the average FTSE 100 firm employed 36,548 staff. This number rose to 48,185 in 1990 before declining to 44,741 in 2002. In the USA, there is even less change. The average S&P 500 firm employed 36,421 in 1983, a figure that crept to 44,517 in 2002. A similar picture is painted by Matanle's research on levels of corporate growth in Japan (2003: 88–9). Data on job tenure in the UK also shows limited change (Doogan 2001), with several analysts noting in recent years that the widely held view of increasing job insecurity is a myth, based on unsubstantiated 'nightmare' scenarios that posit a radical new environment of flexibility and constant change (as popularised by high-profile commentators such as Anthony Giddens and

[13] One senior HR manager we interviewed in the US Hospital case study disparagingly referred to this latter phenomenon as 'title creep'.