How the relationship between employers and workers changed

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Decades ago, many workers spent their whole lives at the same job, retiring with a full pension, and maybe even a gold watch from their boss.

Now, almost no one works at the same place for life, and there's much less loyalty between employers and employees.

But these changes didn't happen overnight. Although the recession accelerated them, the workplace began changing decades ago, experts say.

In the 1970s, companies had lifetime employment models and long-term plans for developing talent internally and honing good employees for life. But their forecasts for how much their businesses would grow — and thus how many employees they would need — were wrong, said Peter Cappelli, a management professor at the Wharton School of Business. When the recession hit in the early 1980s, companies had more talent than they needed.

Companies that had promised their employees jobs for life had to renege on their deals, shocking many in the business world by firing workers they'd spent time and money training, Capelli said. When demand picked up again, there were so many unemployed trained managers in the labor pool that companies had no trouble finding the employees they wanted. Thus the "free agent" model became more firmly entrenched, he said.

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"By the time the genie got out of the bottle, it's difficult to put it back in," Cappelli said. The erosion of the relationship between employer and employee had begun.

Another factor during the same time period also began wearing down employees' strength in the workplace, Mary O'Sullivan writes. For most of the 20th century American corporations were able to make big profits, and reinvest in their companies and retain their employees. But as corporations grew and became less efficient in the 1970s, they were less able to compete with the new array of global companies coming into the marketplace.

As some companies floundered, investors became more involved in forcing out inefficient management and voicing their opinions about the company. They pushed for profits, O'Sullivan writes, and found that doing so produced results. New regulations meant that management that did not listen to the demands of activist investors could lose their jobs.

"By the early 1990s even U.S. firms known for their no-layoff commitments -- IBM, DEC, Delta -- had undergone significant downsizing and layoffs of blue and white collar workers," she writes.

In order to create shareholder value, O'Sullivan says, corporations have turned away from "retain and reinvest" to "downsize and distribute." They're more inclined to listen to the demands of investors than the needs of employees.

"Under the new regime, top managers downsize the corporations they control, with a particular emphasis on cutting the size of the labour forces they employ, in an attempt to increase the return on equity," she writes.

Efficiency has also been the focus of many management strategies taught at business schools to the people who one day end up running some of America's biggest companies. They include management strategies such as the "Six Sigma" approach -- pioneered by Motorola and popularized by General Electric Chairman Jack Welch in the 1990s -- that put an emphasis on achieving quantifiable results, and on ranking workers based on measurable performance. Companies are now urged to keep labor costs, which stay largely the same regardless of how well a business is doing, low. That's why so much of the workplace has no guarantee of an annual paycheck, and only works for short periods of time.

"Fifty years ago, when you went to business school you were taught that you want a loyal, dedicated, skilled workforce," said Nelson Lichtenstein, director of the Center for the Study of Work, Labor and Democracy at UC Santa Barbara. "Today, if you go to business school, they tell you don't want a permanent workforce. That's considered new standard operating procedure. It reflects a real shifts in power."

Though some companies may try to resist these changes in their relationship with their employees, it can be difficult. Once a company find ways to lower its labor costs and make their employees more efficient, its competitors have to follow suit or lose out in the marketplace.

"There are these competitive pressures -- there are innovators who found their way around what were once standards," said Laura Dresser, co-author of "The Gloves-Off Economy: Workplace Standards at the Bottom of America's Labor Markets." "If you have one company move around standards, its very hard for their other companies to maintain their standards."

Some employees are skeptical that new pressures to boost efficiency are bearing fruit. They include workers at National Envelope Co. in Westfield, Mass. After the company was taken over by a private equity firm, the factory floor was reconfigured for efficiency. Each employee was asked to take on more responsibilities. It made work grueling, employees say. But it may not have made the factory more efficient.

"They get these ideas out of somewhere, go and change the entire workforce and find out it doesn't work," said George Magnan, a union representative for the workers at the National Envelope. "Every few years, they take some new trend that comes down the road that they're doing in Japan and Korea and they think it's one-size-fits-all, and it just ends up being a lot more work, and a lot more wear and tear on the employees."

Some companies, including Costco, do not place such an emphasis on maximizing the profit they make out of each employee. The company has earned a reputation over the years for treating workers relatively well. Costco pays a starting wage of $11.50 an hour, gives most employees healthcare and other benefits, and has not switched to the model adopted by many big-box retailers of using temporary employee firms in warehouses to keep costs low.

“Instead of minimizing wages, we know it’s a lot more profitable in the long term to minimize employee turnover and maximize employee productivity, commitment and loyalty,” said Craig Jelinek, Costco’s chief executive.

Does it work? Hard to tell. Since 1986, the company’s stock has been on an upward tear, growing 900%. But the stock of competitor Wal-Mart, which is often criticized for its labor practices, has grown 2,500% in the same period.

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