

THE CHANGING EMPLOYMENT CIRCUMSTANCES OF MANAGERS

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October, 2005

Prepared for the book, Work In America to be edited by James O'Toole and Edward Lawler

In 2003 just under 6.5 million Americans worked as managers and they earned an average annual salary of \$83, 400. This compares to the average of \$36, 520 for all workers.<sup>1</sup> The unemployment rate of managers that year was 2.9 percent compared to the overall rate of 6.0 percent. Clearly managers are a privileged group yet, perhaps surprisingly, they are often seen as victims.

Middle managers, their travails and moral dilemmas, have long figured prominently in American literature. From The Man In the Grey Flannel Suit to Joseph Heller's Something Happened novelists have mined the challenges of working and advancing in corporate America. But for the managers in today's labor force the challenges are more than fictional. The restructuring of the past two decades has remade their work world, or at least so it is alleged by many observers. The goal of this paper is to understand just what, if anything, has changed in the nature of work and careers for the people who make the modern corporation function.

The concerns of novelists have been mirrored in the writings of social scientists. Over fifty years ago the sociologist C. Wright Mills (1953, p. 87, 107) characterized the world of middle management in the following terms:

As with any 'middle' group, what happens to the middle managers is largely dependent on what happens to those above and below them-to top management and to foremen. The pace and character of work in the middle management are coming increasingly to resemble those in the lower ranks of the management hierarchy...middle managers become the routinized general staff without final responsibility and decision.

The views of Mills mirror one side of a debate that has taken on renewed vigor in face of widespread corporate layoffs and restructuring. Many, perhaps most, observers believe that world of middle managers has been radically transformed. Kunda and Ailon-Souday (2004, p. 210) write that "often the target of downsizing, managers went from one of the most secure occupations to one of the least" and their perspective is mirrored in the comment of corporate raider Carl Icahn who described his objective as eliminating "layers of bureaucrats reporting to bureaucrats." (Smith, 1990, p. 14).

These views reflect two distinct perspectives that, nonetheless, lead to the same result. In one view managers over the years succeeded in building and protecting wasteful bureaucratic empires that were, in effect, the white collar analog to featherbedding. Protected both by weak corporate governance and by the widespread acceptance of norms that held that white collar employees were a fixed factor of production, managerial ranks grew and prospered without reference to need or to productivity. The revolution in corporate governance and the rise of aggressive stockholders and takeover artists have put an end to this.

The second perspective points to the emergence of new ideas about management itself. The bible of this view, Champy and Hammer's Reengineering the Corporation, introduced the idea of process reengineering, or what General Electric calls its "work-out" process. The spread of information technology permitted firms to get their work done with fewer intermediate layers and, to the extent that the role of middle management was to process information for high levels, to dispense with many of the human information processors. The spread of new organizational ideas, such as outsourcing and contract work, contributed to this trend.

Regardless of whether the impetus was tougher governance or organizational innovation, at a first approximation the results were the same for many middle managers: they lost their jobs or, at the minimum, came to live with much higher levels of insecurity than they had ever experienced in the past. There is, however, another perspective. Some observers argued that the new organizational architecture fundamentally changed the nature of middle management for the better. Instead of being the automatons portrayed in the novels and by C. Wright Mills, modern organizations invite middle managers to become "intrapreneurs," to take charge of their careers and to express their creativity. Speaking of intrapreneurship Rosabeth Moss Kanter (1989, p. 384) writes:

One offshoot of many of these programs is the weakening of hierarchy and the reduction of levels of organizations as employees are given more opportunities to influence decisions and to exercise control.

In this perspective the organizational redesign that seems at first glance to undermine job security is really an opening for middle managers to find new roles and to manage their own growth and careers in ways that had never before been permitted.

It is clear that there are very different views about what has happened to managers. To sort this out this paper will begin with a discussion of the forces that have led firms to reorganize work. I then turn to a discussion of what the evidence shows regarding the impact of these shifts upon middle management. I examine available data on the employment patterns of managers and then review the findings of field based research on changes within firms and industries. The final section of the paper discusses what policies may be appropriate to deal with the new employment situation of middle managers.

### **Why The World Changed**

There are several conceptually distinct explanations for why the employment circumstances of middle managers may have shifted. These explanations are often conflated in the popular discussion but it is worth attempting to make the distinctions clearer.

Times are tougher, competition has increased. For a variety of reasons many firms are operating in a tougher environment than before. In some industries, such as telecommunications, deregulation and the emergence of new competitors has radically changed the game. Changes in interstate banking laws have triggered fierce competition, mergers, and layoffs in many large financial institutions.

Deregulation is not the only source of more difficult times. The insurance industry, for example, faces numerous challenges. Large firms are increasingly self-insuring, banks are going after easy business such as workers compensation, and nimble smaller firms are offering new products which old multi-line insurers find hard to match. The consequence has been restructuring in firms such as Prudential, Travelers, and Aetna.

The foregoing examples are driven by largely domestic considerations. It is important to see this because so much attention has been devoted to issues of trade. Nonetheless while not the whole story, trade clearly adds to the list of reasons why life is tougher as the auto, steel, and textile industries can attest.

Evidence of tougher competition is real and could be multiplied many times. In some sense, however, the point is too facile. Firms have always faced competition and have responded by cutting prices, laying off employees (historically blue collar ones), and

innovating new products. However, only recently have fundamental organizational structures been called into question. If firms had been optimally organized before, then the presence of competition should stimulate the traditional responses but not necessarily lead to radical rethinking of the organization itself. Something else must be at play which enables a more far-reaching response than was possible in the past or which overcomes past political and social obstacles to such a response. This is a crucial point because it gets us beyond overly simple appeals to tough competition as an explanation for changes in employer organization and strategy.

Technology, Hard and Soft. Alfred Chandler, the dean of business historians and chronicler of the traditional American bureaucratic firm, likens the spread of micro-computers and chips to the extension of the railroad. The railroad created the modern corporation by enabling mass-markets and analogously the microchip enables new forms of management and control. With over forty percent of new capital investment spent on information technology and with a 6000 percent quality adjusted price decline in computers over the past thirty years this argument is more than plausible (Brynjolfsson, 1993).

At a crude level computers can substitute for labor, enabling more to be produced with less. However, the more interesting impact is deeper because computers enable new systems of management and control. A great deal of energy inside of firms and business schools is spent thinking about how to use computers to radically change business processes. Classic examples include combining steps in customer service and order entry or streamlining backroom processing of financial records in banking and insurance.

As impressive as is the impact of micro-processors it is crucial not to overlook the importance of a “soft” technological innovation: new ideas about organizational design. These new ideas, which have become broadly accessible to the managerial community in recent years, have implications which may well equal or exceed more traditional technological change. Although perhaps arbitrary I would list the central organizational ideas as follows: (a) A new approach towards quality which shifted it from being the province of a separate unit and instead diffused accountability throughout the production process; (b) devolution of increased responsibility to ordinary workers (white and blue collar) to come up with new ideas and processes and the related organization of the workforce into

teams with substantial training and job rotation; (c) the notion that some workers are core to the organization while others are peripheral and can be managed with quite different sets of rules and expectations; (d) production process innovations, notably just-in-time systems of inventory; (e) long term and intimate relationships with suppliers and hence a considerable inter-penetration between what others might perceive as distinct organizational units.

While these organizational innovations quickly became part of American business vocabulary it is important to understand that they played out in different ways in different settings. Furthermore, in many firms it is doubtlessly the case that the vocabulary has been adopted with little real change in practices. Nonetheless, the diffusion of these ideas has been substantial (Osterman, 1994, 2000).

However, even with these qualifications in mind, it is clear that these new organizational ideas present firms with opportunities similar to those offered by information technology as they seek ways to respond to competitive stress. There is perhaps even more scope for values, external constraints, and internal power/politics to shape just how these opportunities are used but their far reaching implications seem undeniable. The very boundaries of the firm are placed into question, the flow of work is again open to reconsideration, and fundamental issues arise regarding to which set of workers the firm is willing to make any degree of commitment.

Capital Markets Are Calling The Tune. Informational and organizational technology are tools offering firms new ways to respond to competitive stress. The capital market explanation is different in that it looks outside the organization and calls attention to the role of the financial community in influencing the motivation and objectives of firms. There are basically three lines of argument. The first is that the institutional investors currently place much great pressure on firms to perform than they faced in the past. The second is that in general the stock market undervalues “soft” investments in people. This might happen because these investments are hard to observe and hence are subject to the suspicion that they really represent managerial featherbedding. Another possibility is that analysts simply don’t believe that such investments payoff. The third argument is that the stock market places unreasonably short time horizons on firms who must then manage for quarterly performance and not long term growth.

The stories summarized above suggest two related but distinct hypotheses. The first is that capital markets are making firms more performance oriented than in the past. This might help explain the rapid adoption of the new organizational and IT technologies. The second argument is that capital markets bias firms away from investments in people and that this bias is increasing. Here, it is worth making a few points. First, for capital market explanations to hold water it must be the case that firms were either sub-optimally structured in the past or else, absent capital market pressures, would be too slow to take up the opportunities offered by the “hard” and “soft” technologies described above. If firms were doing their best in tough circumstances then capital market participants would have no incentives to pressure managers. From the viewpoint of capital markets this sub-optimality can take two forms: either managers are simply making bad decisions and need to be set back on course or managers are doing fine on their own terms but are pursuing somewhat different objectives than simply maximizing stockholders returns. For example, if managers placed a positive value on loyalty to long standing employees this might be seen by the investment community as wasteful spending. The trick in assessing claims regarding the impact of capital markets lies distinguishing between firms who really need a wake-up call from cases in which capital markets are simply struggling for a higher share of profits at the expense of employment and wages.

These qualifications and amendments aside, the interaction of heightened competition and shifting capital market constraints are most likely an additional source of pressure on firms. Although the complaints of incumbent management probably have a strongly self-serving element (attacks on “impatient” investors may be simply pleas by management to retain their unchecked and poorly utilized discretion) observation of managerial behavior does suggest that, for good reasons or bad, concerns about capital markets are shaping behavior in ways which was not true in the past. Michael Useem, in his study of the impact of institutional investors, concludes that “Management has been responding. In reviewing executive compensation plans...general counsels often review the plans privately with activist pension funds. When considering...an acquisition chief executives turn to investor specialists for a prediction of how the markets will react. Whether in setting strategy or selling divisions, investor preferences now unite with regulatory constraints and legal risks as part of the operating environment that executives no longer ignore. (Useem, 1996, p. 138)”

## What Has Happened To Middle Managers

A casual reading of the business press would lead to the conclusion that managers are an endangered species. The drumbeat of layoffs implies that managerial ranks are shrinking. If this were true it would be a remarkable reversal from a long-term trend of increased administrative intensity in American firms. The story of the rise of large corporations in the economic landscape is the story of the need for more managers. The emergence of the Visible Hand, to use Alfred Chandler's formulation, is the story of managers substituting for impersonal market forces in guiding the paths of production and distribution. As the scope of corporations expanded so has the need for managers and, one would expect, the relative importance of managers in production should also have grown. The data do in fact support this expectation. Guillen (1994, p. 36) reports that in manufacturing the ratio of administrative employees to production employees grew from 8 in every 100 in 1900 to 16 in every 100 in 1920, and 18 in every 100 in 1929.

But, one might reasonably ask, has restructuring reversed this trend? The answer appears to be "no." David Gordon (Gordon, 1996, p. 46) reports that the percent of non-production and supervisory employees in total private sector employment grew from 6.6 percent in 1960 to 11.4 percent in 1980 and 13.0 percent in 1989. Gordon used Bureau of Labor Statistics establishment surveys to arrive at this estimate but a similar tale is told by the household based Current Population Survey. These data show that between 1969 and 1999 managers and administrators increased from 8 percent to 14 percent of total employment (Levy and Murnane, 2005, p. 42).

The data cited above are broad-brushed and do not finely distinguish among types of managers nor do they focus uniquely upon the large corporations that are at the center of the restructuring debate. Nonetheless they are strongly suggestive that what has changed is not the overall importance of managers in the economy. Restructuring has not eliminated the need for managers. What it has done is to change the conditions and nature of managerial work.

To sort out the different perspectives on the fate of middle managers it makes sense to begin with what can be discerned in labor market data. The limitation of these data, of course, is that they can tell us little about what managers actually do. To get at this question I will turn later in the paper to reports of a number of observers as well as interviews I conducted with a range of middle managers. However, the data are useful in understanding the broad outlines of recent events.

One angle on the question is to ask what has happened to job tenure for managers over the decades of restructuring. Information on job tenure, the number of years employees have spent with their firm, has been collected by the Census Bureau from the household survey every two years since 1983. There are a series of complicated technical issues involved in analyzing these data. In addition, it is important to understand that job tenure is a function of both quits and layoffs and these tend to be offsetting behaviors. That is, in a period of high layoffs quits are likely to fall as employees become risk adverse. Hence tenure data do not speak directly to the question of whether work has become less secure. Nonetheless they do help us understand if it has become less stable.

The table below provides the basic facts on job tenure. Because of changes in

#### Job Tenure

	1983	1987	1991	1996	1998
All, 16 plus in age	3.5 years	3.4 years	3.6 years	3.8 years	3.6 years
Executive, Administrative, Managerial	5.3 years	5.1 years	5.5 years	5.5 years	5.3 years
Precision Craft, Repair, Production	4.8 years	4.7 years	4.8 years	4.9 years	4.6 years

	2000	2002	2004
All, 16 plus	3.5 years	3.7 years	4.0 years
Management Occupations	4.9 years	5.2 years	5.5 years

Source: United States Bureau of Labor Statistics

occupational classifications the data are shown in two parts, but both tell the same story. Managers enjoy more years of job tenure than does the labor force as a whole and than blue collar workers. Furthermore, there is little evidence of a decline in recent years.

There are two important qualifications to this optimistic picture. First, the data represent the entire American workforce whereas much of the discussion about the reduction of managerial employment has been centered in large firms. Second, these data are for both men and women whereas the tenure data suggest that the experience of the two genders has been quite different. For example, between 1983 and 2000 the median job tenure of 45-54 year old men declined from 12.8 years to 9.5 years while for women of the same age group tenure increased from 6.3 years to 7.3 years.

Another source of national data comes from surveys of worker displacement which are conducted by the Census Bureau. Employees are defined as “displaced” if they have three or more years of tenure on their job and have lost that job due to plant or company closing, insufficient work, or abolition of their position or shift. In the latest survey of all those who were displaced between January, 2001 and December, 2003 17 percent were classified in the occupation “management, business, or financial operations.” This displacement rate should be compared to the overall occupational distribution. Employees in this grouping accounted for 9 percent of overall employment.<sup>2</sup> Hence it does appear from these data that managers are disproportionately at risk.

### The Changing Shape of the Managerial Ladder

One implication of both the popular discussion and the data reviewed above is that the structure of organizations have shifted in ways that impact managerial careers. The quantitative data that we have on this question is thin, but is supportive of the view that the world is quite different for middle managers today than in the past.

One important issue is whether the shape of the managerial hierarchy is in fact shifting in ways implied by the popular discussion. That is, is the firm getting flatter with fewer rungs on the ladder? Recent research by Raghuram Rajan and Julie Wulf (2003) suggest that this is indeed happening. Working with an original database that includes the job descriptions and reporting relationships of senior managers in three hundred large

American corporations Rajan and Wulf find that the number of managers reporting to the CEO has increased substantially in recent years, from an average of 4.4 in 1986 to 7.2 in 1999. This implies a substantial flattening in the hierarchy of organizations and the reduction of managerial levels.

Rajan and Wulf explore several possible explanations of this trend. The candidates they examine include strengthening corporate governance (which might lead to reduction in empire building), CEO entrenchment (which might lead to reduction in the number of potential competitors to the CEO for power), and the increased importance of human capital and intangible assets (which leads firms to look more like partnerships which are unwilling to permit lower level managers to have significant power or access to clients). The evidence on each of these is fairly weak, but they favor the last explanation. However, regardless of what lies behind the trend, the development itself—the flattening of corporate hierarchies—seems not to be in doubt.

A second important organizational trend within firms for which we have data is the spread of self-managed work teams and quality programs which together are often called High Performance Work Organizations. These systems have spread substantially in American firms (Osterman 1994, 2000). These HPWO system tend to devolve substantial authority to frontline workers and as such have important potential implications for the responsibilities, employment levels, and wages of managers. Analysis of the surveys cited above did in fact find that these systems impacted the employment circumstances for managers. First, as the use of HPWO systems increased the employment levels of managers fell (Osterman, 2000). Second, establishments with greater usage of HPWO systems tended to pay their managers more than establishments with less utilization (Osterman, forthcoming). Taken together these patterns suggest that new work systems require fewer managers (as responsibility is devolved to frontline employees) but that the required skill for managers does in fact increase.

### The Changing Basis of Compensation

The compensation of managers at the top of firms is widely publicized and has been the source of much public discussion and debate. For example, in 1965 CEOs in major companies earned 26 times the average workers' pay while in 2000 they earned 310 times average pay.<sup>3</sup>

Stunning as are these numbers, of greater interest for this paper is compensation developments for the millions of managers lower in the hierarchy. One of the most noted trends in the U.S. labor market in the 1980s and 1990s was a rise in wage inequality. The compensation trajectory of managers has followed the same trend. Using a national data-set of managerial salaries maintained by the Hay company (the firm that devised the widely used Hay points system of compensation) O'Shaughnessy, Levine and Cappelli found that between 1986 and 1992 the standard deviation of managerial wages rose from 31.6% to 34.3%, a nine percent increase in inequality (O'Shaughnessy, Levine, and Cappelli, 1998).

One of the major consequences of restructuring has been a shift in the basis of compensation. In the past most compensation regimes were based on systems that emphasized internal equity. A large fraction of pay increases took the form of across-the-board raises that applied equally to everyone. Merit pay systems were relatively mild, with superiors asked to rate their employees on a simple scale and with the tendency for these supervisors to emphasize equity rather than performance in making these ratings. All of this has changed. Firms today put much greater emphasis on distinguishing among levels of performance and rewarding and punishing accordingly. This can be interpreted as an extension to compensation of the same "at risk" attitude that has been applied to employment itself. For example, the BLS Employee Benefits Survey finds that the percentage of employees eligible for bonuses grew from 29 percent in 1989 to 39 percent by the late 1990s (cited in Cappelli, 1999, p. 158).

A sense of the extent of this, and also of the fact that it applies more severely to managers than to other employees, can be gained from my 1997 survey of American establishments (Osterman, forthcoming). The survey asked what percentage of an employee's wage increase was due to an across-the-board increase related to firm or group performance and what fraction was due to individual merit. For blue-collar core employees, the former accounted for 62 percent of wage increases, while individual performance or merit accounted for 38 percent. By contrast for managers the relative importance is reversed:

across-the-board increases accounted for 33 percent and individual performance factors 67 percent

### **How Managerial Work Has Changed**

The data presented above are aggregate, frequently taken from surveys of individuals, but in any case with very little grounding in the firm itself. However, there are both ethnographic and statistical studies of managers that draw on the actual experience within firms.

Perhaps the classic ethnographic study of managerial careers in the “old economy” is Rosabeth Moss Kanter’s (1977) description of “Indesco” in Men and Women of the Corporation. Kanter portrays a world of hierarchies and job ladders in which upward mobility is the *sine quo non* of success. At the time of her writing many managers did, in fact, have reasonable expectations of climbing these ladders. What has changed since?

Studies of managerial work in a range of industries have, in fact, documented substantial changes in these traditional patterns. I begin by reviewing findings from three quite distinct industries: automobiles, high technology, and insurance.

In his examination of how restructuring has affected managers in the automobile industry John-Paul MacDuffie’s (1996) summary view is that (pp. 81-82) that

The middle managers, corporate and divisional staff, engineers, clerical employees and first line supervisors at General Motors, Ford, and Chrysler now find themselves affected by all the woes commonly associated with blue collar production workers—layoffs, outsourcing of work, concessions in pay and benefits, and redundancies due to the reorganization of work for greater efficiency... Besides the erosion of status that this implies, white collar employees also face many new demands in their jobs, including more work, more decision-making responsibility, more cross-functional interaction, and more of a support role vis a vis blue collar workers

The starting point of these changes is the recognition that in many respects the auto firms represented the classic bureaucratic form. In fact, it was at General Motors that the multi-division corporate form, organized in silos with a central headquarters performing the

coordination function, was invented. Yet over time this style of management came to be dysfunctional. In the words of one employee (quoted by MacDuffie, p. 97)

Unless you're working on the Fourteenth Floor, you have about a zillion bosses. Every small thing requires approval up the line. They have thirteen thousand checkers in this company to make sure things are done right. Hell, they have checkers to check the checkers. It's madness.

In response to this, the firms in the early 1990s began to make structural changes. Jack Smith, the CEO of General Motors, moved his office out of the Fourteenth Floor and reduced central staff from 13,500 to 2,500. Ford for its part expanded cross-functional activities and set up teams that included representatives from engineering, manufacturing, finance, components, and suppliers.

However, the sources of pressure for change in managerial work were deeper than simple changes in the organization chart. Spurred by the example of their Japanese competitors, American automobile firms began to implement versions of lean-production systems. This production system, with its emphasis on reducing buffers, team production, continuous improvement, and quality had deep implications for the nature of managerial work (MacDuffie, p. 106).

Under lean production there are a series of shifts in managerial work: (1) managers are more exposed to the market and to customer pressures, yet the dynamics of lean production dampens the impact of market volatility; (2) managers have to broaden what they do. They cannot limit themselves anymore to just "conceptual" tasks. Because of the absence of buffers they also have to worry about execution. However, from this they gain a broader knowledge of the production process and can play a more integrative role; (3) managers have to pay more attention to the process of decision making. They are less likely to simply make decisions by fiat. The decisions that do get made are less intuitive and more data driven than in the past; (4) managers have much more interdependence with managers from other functions and also from other companies (suppliers), yet they also experience lower coordination costs and faster decision making.

The “market-in” philosophy of lean production leads to lots of data being distributed to many more people in the organization. This reduces managers role as “owner” of information. Instead they work with large numbers of people in interpreting data.

All of this requires important shifts in the nature of managerial skills (MacDuffie, p. 109)

With their specialized expertise either subsumed by subordinates or more open to challenge, managers must find ways to contribute that draw on their broad knowledge of the organization, its products, its suppliers, and its customers. With less ability to command based on positional authority, managers must instead persuade based on their skills in analyzing and interpreting what they have learned from their subordinates and from their interactions across functional and company boundaries. Knowing how to guide subordinates as they develop expertise, how to pull together the appropriate people and resources to address various problems, and what balance to strike between autonomy and direction when allowing subordinates to take on ‘thinking’ tasks become important skills for managers under lean production...

The shifts in managerial work in high tech and insurance track the developments in automobiles remarkably closely. In her study of Hewlett-Packard Sara Beckman (1996) describes organizational shifts away from narrow silos and towards broader cross-functional structures. She goes on to comment that (p. 167)

These three changes—consolidation, vertical disintegration, horizontal process management—have created a substantively different environment for manufacturing managers and white collar professionals. That environment is more networked externally, with more critical vendor relationships and tighter outbound partnerships, as well as internally, across both functional and divisional boundaries.

Her description of the new skills that managers need in this environment track closely MacDuffie’s analysis of automobiles (Beckman, p. 173)

many manufacturing managers in today’s environment share the need to accomplish their objectives through influence rather than direct control. Forced to operate in teams, either with internal R&D and marketing partners or with external operators, they must learn to take others’ perspectives and to

think strategically in integrating other's needs with their own. Interpersonal, negotiation, and business skills are far more critical than technical skills...

Finally, in that most quintessential white collar industry, insurance, the shifts in managerial work are remarkably similar. Scott, O'Shaughnessy, and Cappelli (1996) used a combination of field work and analysis of Hay data to map what has happened to managers. They describe an "old world" that could have been General Motors (p. 128) :

Managers had to be sure that each functional unit completed its tasks effectively in a timely fashion...Career ladders were defined hierarchically, and steep hierarchies were needed to ensure coordination among various functional areas...The skills needed from managers were planning, delegation, motivation, evaluation, coordination, and control.

The "new world" also tracks the changes we have already seen (p. 128)

insurance management jobs are more like those in lean-production manufacturing organizations, where teams of workers are responsible for production and the manager is responsible for leadership...Different skill sets are needed for managers to coordinate these independent teams...One manager said, 'managers' jobs are not as well defined as they were.' Managers are having to demonstrate more 'soft' skills.

Their analysis of the Hay data shows that the organizations have become much flatter, with wider spans of control. They also conclude that while the compensation of top management increased substantially over the period they examine (1986-1992) the pay of middle managers role only modestly. In this they again match the automobile story. MacDuffie found that middle managers were hit badly in terms of pay. Top managers continued to get bonuses based on the profitability of non-production areas such as finance operations. Blue collar employees were protected by the union. The middle management got pay freezes and increased share of medical costs. (MacDuffie, p. 101).

### An Important Qualification

All of the foregoing discussion refers to the changing employment situation of managers in large bureaucratic firms. This focus has long seemed justified despite the common understanding that many Americans work in small firms which operate

under very different rules. The rationale has been that, while small firms are numerically important, the tendency in the American economy is towards the large bureaucratic form. Furthermore, large firms were long seen as the desired outcome and the epitome of best practice.

These assumptions have been challenged in recent years most particularly by the rise of new entrepreneurial firms in regions such as the Silicon Valley. It is possible to exaggerate the differences between many of these firms and the traditional model. After all, companies such as Hewlett-Packard and Intel are certainly large and bureaucratic and have well structured managerial career paths. Nonetheless, there are reasons to believe that there are important differences between the models.

One key distinction lies in the higher rate of mobility that is said to characterize the Silicon Valley labor market. Most observers believe that there is a great deal more job changing than in other regions. A second difference lies in the fluidity of occupational roles. The nature of new start-ups is that the content of jobs is up for grabs as founding teams work out their division of labor (Beckman and Burton, 2005). Although titles may seem traditional the actual nature of the work may vary substantially over time within a start-up and also across start-ups.

Although the emerging pattern in the Silicon Valley and other similar labor markets may represent a new model we as of now lack enough data or description to accurately characterize it. Furthermore, the vast majority of American managers continue to work in more traditional settings and it is for these settings that we have our best understanding of what has happened.

### **How Managers Feel About The Changes**

We have seen that managerial work has changed in a variety of ways. It is less secure, it requires new and in many cases more complex skills, and compensation is much more at risk than in the past. Not all of these changes are for the worse but it is certainly the case that pressures have ratcheted up. What are the reactions of managers to these developments?

Early in the process of restructuring Viki Smith (1990) reported on the attitudes of managers in a large bank and found them to be confused and ambivalent about the changes. This pattern is consistent with the most extensive ethnographic study of the state of mind of managers in the current situation, a study of fourteen firms conducted by Charles Heckscher (1995). Heckscher focused his attention on their attitudes towards the firm, on how their loyalties were shifting, and on how they viewed their careers.

Most of his managers are in a state of shock. Perhaps paradoxically they remain loyal to the firm, but they have withdrawn and lost sight of the larger purpose. As Heckscher writes (p. 95)

the problem...is that this goodwill has not led to coordinated and effective organizations. Rather, it leads managers—after an initial phase of shock and rage—to dig into their own trenches, trying to do their narrow jobs as well as possible, but losing touch with the whole. Their reaction has all the earmarks of defensiveness: denial of reality, avoidance of difficult questions; they consistently underestimate their company's competitive problems and sidestep questions about their future careers. They remain inwardly focused and reactive unable to grasp the full import of the changes they are facing and therefore unable to respond creatively to them.

The mixed set of attitudes of managers is reflected in a survey conducted for this paper by the Society for the Study of Human Resource Management, the largest organization of HR professionals. The survey of Human Resource Managers in private sector firms asked about their attitudes towards their employer. HR managers are probably among the most likely managers to remain loyal and committed to the firm and this is reflected in the data. In response to the question "I feel little loyalty to my employer" 49 percent strongly disagreed and 22 percent disagreed. On the other hand, the respondents are hard-eyed in their view of what the firm is about. In response to the question of whether the senior management made decisions in the best interest of the employees only 59 percent were somewhat or very confident that this was the case. On the other hand, when asked whether senior management made decisions in the best interest of stockholders or owners 84% were somewhat or very confident.

To pursue these topics I interviewed 75 middle managers in two large corporations. The corporations were chosen because together they represent the range of transformations that have shaken work world of managers. One of the firms is a large financial institution which has gone through a number of mergers and whose managers I interviewed just as it was being acquired by another, larger, competitor. The other is a large high technology firm operating in a highly volatile product market and which has made considerable use of internal project teams and other flexible organizational designs.

The managers whom I interviewed were several levels removed from the top. They are the account managers, project leaders, IT supervisors, lenders, sales managers, customer support managers, human resource managers, and other representatives of the army of managers who constitute the modern corporation. These people by and large are not candidates for the top positions in their organizations and most of them have no interest in climbing that high. In any case, these are the people who make the firm function and they are also the people who represent the largest group of potential victims of the new rules of corporate careers.

Four major themes emerged from these interviews: (1) the managers I interviewed were committed to their work. They enjoyed their tasks. In this sense they were very much like craft workers; (2) The managers feel that over time the nature of their work has changed in negative ways. They face more controls, they have lost discretion, and in some instances their job has been disassembled in ways that resemble what happened to factory work; (3) While the managers feel committed to their work, to the tasks, they feel much less commitment, respect, and loyalty to their employer than they had in the past; (4) Despite this latter point the conclusions that they draw tend to either be very privatized or else broadly a-political. They see the changes that have taken place as inevitable and, in some cases, desirable.

### Craft Work

Virtually all of the managers that I interviewed took what might be termed an attitude of craft pride in their work. Regardless of their attitude towards the organization when it came to their job itself there was a high degree of enjoyment and commitment. Consider this comment by a bank manager:

Love the people, love managing people... I have no associate turnover, everybody stays with the company, everybody goes to other opportunities within the company. I pride myself on that. In the past year I have probably trained four or five managers here.

The managers in the high technology firm echoed these sentiments. When asked what they liked about the work a typical comment was

Building things and getting products out to a customer... To me that's the most exciting part of project is getting the hardware and making it work and then getting out to the customer.

### Loss of Control

Many, although not all, of the managers whom I interviewed believe that in recent years they are subject to more control, they have lost a degree of discretion, and their jobs have been narrowed or split apart.

Consider the case of the bank manager cited above who took a craft like pride in his work. At the same time, his discretion over his time has been sharply reduced. The senior management of the bank has established a list of behaviours and goals that the bank manager must follow *on an hourly basis*. In his words

Our company has 7 priorities, and those don't define everything they do, but instead of having a priority, it has 7 priorities and then you have 50 goals and you can do 49 of them 120% but you know what, we are going to talk about that one. That happens so often, that you are just numb to it, you are frustrated by it... I have a goal every hour, I have to refer a product. Everyone that has walked through here today I know already, it is not going to happen. It is impossible.

A lender described her job as being "blasted apart" into pieces and another manager commented that

There is a huge thing of tracking... Everything gets tracked to a degree that I think is unreasonable but - you are trained, every time you do the - this month

you might do your web base training, it gets tracked. So you do 15 hours you have got to do this quarter, it gets tracked. It gets recorded. I guess the demands for information sometimes – all of the company looking for similar things, data from you - it gets to be overbearing. ....I think it is very hierarchical and it is very top down driven.

Ironically, what many of these managers describe is a process that the Marxist economist Harry Braverman described for blue collar workers. Employers, in a search for both more control and for lower costs, divide up the work and impose various forms of monitoring. There is a certain irony in this since for blue collar workers the spread of High Performance Work Organization has led to a reversal of this process and a broadening of responsibility.

### Loyalty and Commitment

The turmoil of the past two decades has, not surprisingly, taken its toll on the loyalty and commitment of managers to their firms. There is certainly variation in this, and a non-trivial minority of the managers I interviewed expressed a strong continuing commitment to their employer. Nonetheless, this group is a minority. The majority of managers expressed severe doubts about their employer and their loyalty. The following comment by an engineering manager at the high tech firm was typical

I think that it's really taken a big hit... I don't think that there's much loyalty between business and employees period nowadays. Within -- you have people who have been here for a very long time and have a history of performance and I think are very loyal to the company because they know that they're in the culture, they know what to do to succeed, they feel comfortable. I think anyone who isn't in that group has to be somewhat concerned, you know, you're one cycle away from ... one cycle and boss who doesn't think you're a major contributor to being job hunting, so it's difficult to be loyal in these situations.

Even successful employees feel this way. One of the managers I interviewed at the bank had survived the merger and, in fact, was in a better position than prior to the restructuring. Nonetheless, she had the following view:

I think it has changed a lot in 18 years, I mean you look at it, so you have a lot more stats in terms of loyalty even in Japan where everyone is loyal, with the same company till the day they die, that will not happen anymore. That does

not happen here in the states anymore. It is interesting I have been here for 18 years but I go around the table and a lot of folks that worked with the institution for 18 years, 20 years, 25 years, which is pretty mind boggling quite frankly and I wonder if I am stupid or I am just comfortable and I am pretty conservative, so I do not like to take certain risks and I have been the more constant work force within the two income of the household. I cannot say I am loyal.

## CONCLUSION

It is clear that managerial work has changed quite dramatically. Managers retain their privileged position compared to most other workers in the economy. They are paid more and they keep their jobs longer. At the same time it is undeniable that managerial work is much less secure than in the past, that pay is more at risk, and that the nature of the work itself has changed. Today's managers are expected to take on a much broader array of tasks than in the past and to be able to operate effectively across organizational boundaries. Furthermore, even setting aside the possibility of job loss, the career trajectory of managers is much more uncertain as organizations have flattened their hierarchies and reduced opportunities for promotion. In some important sense the situation of middle managers has come to resemble more closely that of frontline workers than that of the most senior management.

In thinking about how managers might respond to these developments one theoretical possibility is the kind of collective response that characterized other labor force groups exposed to sudden economic dislocation. For example, one possible collective response might be efforts to limit the ability of firms to restructure and to lay people off. At least in the realm of managerial employment there appears to be no support for this option. Although many of the managers I interviewed were angry none of them thought of their plight in political terms. They all took the view that the changes in their circumstances were the inevitable result of economic change. They saw specific examples of inequity (e.g. the high severance pay of top level managers compared to the support given to those lower down) but they drew no general conclusions from this.

A more hopeful path for collective action is for managers to establish professional associations that can provide assistance in skill acquisition and job search. Associations of this sort are increasingly common in professional fields. Examples include the Graphic Arts Guild and the Web Designers Guild. There is no reason why such a model should not also apply to managers.

These associations can be formal, as in the Forty Plus Club described by Katherine Newman (1999). This was a self help group unemployed managers who helped each other cope with their situation and to find new work. The groups can also be informal, as was the case with a group of laid-off managers who met regularly at a church in Dallas where I interviewed some of them. Organizations of this kind can also be sponsored by larger entities, and American unions are increasingly thinking about non-traditional alternatives that they might offer people who need help but are not ready to sign a union card.

One of the important functions of such an association is to help people find new jobs. This is the classic role of a labor market intermediary and the importance of these intermediaries in today's economy can be seen in a variety of ways. At the highest level the U.S. Revenue of the four largest executive search firms rose from \$214 million in 1993 to \$738.3 million in 2000 (Khurana, 2002, p. 123). More generally, in 2000 there were 3,000 on-line job boards, 7,000,000 unique resumes, 29,000,000 not-necessarily unique jobs posted (Autor, 2001). Between 1972 and 2000 employment in temporary help firms grew five times more rapidly than average, accounting for ten percent of all job growth (Autor, 2004).

The private sector has clearly responded to the need for intermediaries but there is also scope for public policy. In recent years the Department of Labor has sought to reform the Employment Service, the major public intermediary, by creating so-called One-Stop centers that are intended to provide a broad range of services and to be customer friendly.

Another policy tool may be to reconsider issues of corporate governance. The central issue posed by governance discussions is "In whose interest does the firm act?" The last several years have witnessed growing academic and political interest in these questions. What might be termed the "pro-employee voice" perspective on governance is motivated by takeovers and downsizing which seem driven by quick stock market gains regardless of the

cost to employees or communities. Actions of this sort are contrasted with what would presumably result if the firm has broader objectives than only enriching those who own its stock

In thinking about whether reforming corporate governance may be a solution to the woes confronting managers it is important understand that most current interest in governance proceeds from a quite different angle. The debate is being driven by those who believe that stockholder interests are insufficiently valued by firms. The concern is that top managers have not been restrained by effective oversight and hence have followed poor policies for too long or engaged in self-serving empire building and perk expanding activities. A variety of solutions have been offered but they all start from the proposition that the ultimate goal of the firm is and should be to maximize the wealth of people who own its stock. Employee interests are considered only to the extent that they benefit when stockholders do well.

It seems clear that the pro-stockholder perspective is currently triumphant. In the academic literature the implicit assumption, deriving from micro-economics, has always been that economic efficiency is maximized when firms maximize profits and, since the owner of these profits are the owners of shares, firms should in this view maximize the wealth of their stockholders. This view has been given greater credibility and a more sophisticated defense by emergence of the so-called “finance view” of the firm. From this perspective the firm is nothing more than a “nexus of contacts” or a collection of financial assets. The problem is how to maximize the return on these assets and this requires a market for corporate control which permits the buying and selling of these assets and hence applies the discipline of market forces to those who manage them. This discipline is effective because if the assets are mismanaged the stock price will fall inviting takeover by those who will do a better management job and hence raise the stock price.

The finance view stands in contrast with the traditional conception of the American firm in which the wide dispersion of ownership gave professional managers a great deal of leeway in how they ran their business. Although these managers, and their defenders, never overtly questioned the assumption that ultimately they were managing in the interest of stockholders, in fact there is some reason to doubt that this was the case. While from the perspective of finance theorists the managers may have engaged in empire building or even

more wasteful activities (and they probably did buy too many corporate jets and hire too many friends) these managers also had an implicit stakeholder view of the firm and hence made decisions (increasing wages when profits were high, being reluctant to layoff except under duress) which were sometimes shaded towards the interests of employees and away from the immediate interests of .

Scholars and activists who view shifts in governance arrangements as a central strategy for improving outcomes experienced by employees make several different points, some of which are more threatening to the traditional conception of the role of the firm than others. The least threatening arguments focus upon the particular institutional framework within which governance is conducted. One version accepts the centrality of stockholders but argues that the institutional set-up of financial markets leads to an excessive focus on short term stock gains rather than maximizing value in the long run. The emphasis on the short-term makes it difficult for the firm to undertake investments, such as those in people, which have long time horizons. A second line of thought is that owners, or their agents, are too distant from the operations of the firm to appropriately value hard to observe investments such as those in people. As a result, investments of this sort tend to be undervalued by the stock market and hence by managers. Neither of these points fundamentally challenge the primacy of the stockholder but rather claim that their interests are being poorly served by the current system and that improvements would also make employees better off. A deeper challenge takes on the core belief that the only legitimate objective of the firm is to maximize stakeholder value.

When it comes to changing the fundamental purpose of the firm the implication of the shareholder argument is to initiate reforms that insure that representatives of interests other than stockholders sit on the board of directors and have a voice in decisions. It is not clear, however, whether this approach will lead to any significant shifts in firm behavior. We have limited experience in this country with employee representatives on boards of directors, but what experience we do have is not particularly encouraging. Several of the examples that we do have, for example Eastern and United Airlines, have gone very badly for employees.

The real limitation of the corporate governance approach, from the perspective of this particular paper, is that if employees do gain power (via, for example, the heft of union pension funds) this power is unlikely to be deployed to help managers. Managers will be

seen as the beneficiaries of overly protective policies at the expense of employees lower down in the organization. Hence reforming corporate governance, although perhaps a very desirable objective from a global perspective, is of limited relevance in this particular case.

At the end of the day, the plight of managers is unlikely to elicit a great deal of sympathy or investment in public policy. After all, as noted at the beginning of the paper, even in today's environment managers remain a privileged group. This does not mean, however, that they do not face significant challenges inside of firms and in today's labor market. However, much as in the many fictional works that they have inspired, managers are most likely going to have to face and solve these challenges on their own or in cooperation with small groups of colleagues in similar circumstances.

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<sup>1</sup> These data are from the November 2003 Bureau of Labor Statistics Occupational Employment Survey. See <http://www.bls.gov/oes>. The Current Population Survey, which is a survey of individuals, reports a substantially higher number of managers, 14,535,000 in 2004. See Employment and Earnings, January, 2005 (U.S. Bureau of Labor Statistics), p. 210.

<sup>2</sup> The source for the dislocation figures is U.S. Bureau of Labor Statistics, “Worker Displacement, 2001-2003,” news release dated July 30, 2004. The source for total employment by occupation is the Bureau of Labor Statistics, National Employment and Wage Estimates, found at [www.bls.gov](http://www.bls.gov)

<sup>3</sup> Economic Policy Institute,  
[http://www.epinet.org/content.cfm/webfeatures\\_snapshots\\_archive\\_2002\\_0724\\_snap07242002](http://www.epinet.org/content.cfm/webfeatures_snapshots_archive_2002_0724_snap07242002)