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A review and evaluation of employment security practices and their relationship to financial and employee performance

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A REVIEW AND EVALUATION OF EMPLOYMENT SECURITY PRACTICES AND THEIR RELATIONSHIP TO FINANCIAL AND EMPLOYEE PERFORMANCE

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ABSTRACT

The purpose of this research project was to investigate the relationship between the practice of employment security and the financial and human resource performance of large U.S industrial corporations. The independent variable in this study was employment security and the dependent variables were sales per employee, net income as a percentage of sales, assets and equity, employee absenteeism, and employee length of service. Two data sources were used: financial data was collected from the *Fortune 500* listings of U.S. industrial corporations, and the human resource data from a 35-item questionnaire that was mailed to *Fortune 500* companies.

A sample of 46 U.S. industrial corporations were chosen for this study, 23 companies that practice employment security and 23 companies that do not. The statistical techniques used to test the hypotheses included *t* tests and regression analysis.

Many of the results were inconclusive and mixed. There was no significant difference in employee productivity, as measured by sales per employee, when comparing companies that practice employment security with those that do not. Employee absenteeism and employee length of service also showed no significant difference when comparing the two groups. The financial comparisons, measuring the ratio of net income to sales, assets, and equity, were mixed and inconclusive with the following exceptions. The study found no significant difference in the ratio of net income to sales or assets for each of the ten years studied, and found no significant difference in the ratio of net income to equity for nine of the ten years.

The results, though mixed, gave some support to those writers and human resource executives surveyed who expressed the opinion that employment security would not endanger the financial status of those companies that followed the practice. The results also support other writers and business executives that believe an employment security practice would have relatively little effect on sales per employee, employee absenteeism or employee length of service.

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1. Introduction

Employment security has been practiced for many years. One early example is documented as taking place in the first quarter of the nineteenth century when an English industrial pioneer, Robert Owen, instituted employment security in his conversion of a rundown cotton mill into a world-famous, and profitable, enterprise.[1] Now some 150 years later, employment security continues to attract attention, but with limited interest from business executives, since fewer than 5% of the *Fortune 500* industrial companies have adopted this practice.

Within the United States some companies have practiced employment security for many years. For example, at Fel-Pro the practice dates back over 65 years. Other companies, such as IBM, Bank of America, and R.J. Reynolds, have practiced employment security for more than 50 years. Employment security continues to be a part of the culture within those companies and is reflected in the way they manage, address human resource planning, and in management's respect and treatment of employees.[2]

Employment security has never been universally pursued as an objective of U.S. corporations. The common management practice to resolve short-term workload imbalances is to lay off employees. This practice, however, may now be changing according to Gary B. Hansen, professor of economics, Utah State University, and director of the Utah Center for Productivity and Quality of Working Life. Hansen (1986) writes:

1 Jerome M. Rosow and Robert Zager, *Employment Security in a Free Economy* (New York: Pergamon Press, 1984), 2.

2 Fred K. Foulkes and Anne Whitman, "Marketing Strategies to Maintain Full Employment," *Harvard Business Review*, July-August 1985, 32.

"U.S. employers have long viewed job security as a drag on productivity and have accepted layoffs as a necessary option for reversing economic decline. However, evidence from the recessions of the past decade suggests that the practice of laying off workers is itself costly and can seriously disrupt the enterprise's operations. In addition, many employers who experimented with alternatives to worker layoff during this period discovered that these measures could in fact help them to regain economic stability and increase productivity."[3]

One hundred years ago, labor began the struggle to achieve the eight hour work day. This demand for a shorter work day was made in an effort to relieve workers of the twelve-to-fourteen-hour a day burden, and as a means to distribute the work that was becoming scarce in the wake of mechanization and improved technologies. Periodic unemployment was the scourge of the working class during the nineteenth and twentieth centuries, just as chronic joblessness and lack of employment security is becoming the curse of current generations.[4] Layoffs in industries such as steel, auto, rubber, and electronics attest to this present day phenomenon.

Daniel Bell, professor of sociology at Harvard University, writes that if a continuum was established with:

"**economizing** at one end of the scale (in which all aspects of organizations are single-mindedly reduced to becoming means to the goals of production and profit) and **sociologizing** at the other (in which all workers are guaranteed lifetime jobs, and the satisfaction of the work force becomes the primary levy on resources), then in the last thirty years the corporation has been moving steadily, for almost all its employees, towards the sociologizing end of the scale."[5]

According to Bell, one has only to note the rising percentage of fringe benefit costs - one index of that shift - supplementary unemployment benefits, disability pay, guaranteed work week and pensions. The current status of employment security, however, would indicate that even though fringe benefit costs have been rising, management

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[3] Gary B. Hansen, "Preventing Layoffs: Developing an Effective Job Security and Economic Adjustment Program", *U.S. Department of Labor BLMR 102*, Bureau of Labor-Management Relations and Cooperative Programs, Washington, D.C., 1986, 1.

[4] Stanley Aronowitz, "The Myth of Full Employment," *The Nation*, 8 February 1986, 135.

[5] Daniel Bell, "The Corporation and Society in the 1970's," *Human Resources & Economic Welfare* (New York: Columbia University Press), 1972, 322.

commitment for adoption of those security practices has not increased. In fact, employment security practices have been abandoned by some companies who for years had incorporated this security into their standard operating practices.[6]

Advantages and disadvantages of employment security will be reviewed in this study. The advantages include employee loyalty and reduced expense, according to Fred Foulkes (1980), Director of the Human Resources Policy Institute at the School of Management at Boston University.[7] Foulkes writes that lower turnover rates contribute to lower costs, which for practicing companies are stated to be a fraction of the national figure and that employee loyalty is gained by reducing fear of job loss.

This practice, however, has been resisted by management in the United States because of the perception that disadvantages outweigh advantages. Following is a list of some of the perceived disadvantages that has been compiled from the literature:

- the practice is too expensive to maintain during workload declines, or workload skill mix changes,
- workload is difficult to predict due to rate of change and complexity of technological advances,
- the practice is not feasible because of mergers and acquisitions.

Employment security differs from income security in that the "former is concerned with continuation of employment, while the latter has to do with what happens in the absence of employment."[8] Employment security implies management commitment to enforce security of employment regardless of economic conditions, with relative responsibilities accepted by management and employees.

The focus of this research will be on employment security within U.S. industrial corporations and will not explore issues surrounding employment-at-will practices, nor examine practices such as Supplemental Unemployment Benefits (SUB), or unemployment income. These topics might be the subjects of additional studies.

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[6] Fred K. Foulkes, "Employment Security," *Personnel Policies in Large Non-Union Companies* (Englewood Cliffs, N.J.: Prentice Hall), 1980, 99.

[7] Foulkes and Whitman, 30.

[8] Rosow and Zager, "Employment Security in a Free Economy," 2.

Employment Security Defined

Although a number of definitions of employment security have been offered, the following appears to be the most useful one, and will therefore be used in this study.

> "Job (employment) security is the protection of workers against loss of employment and earnings in an enterprise for a reason unrelated to a worker's performance or behavior. Job security usually means that, during periods of economic difficulty, workers are retained in the employ of the firm or enterprise, although not necessarily in the same job or work assignment. The protection consists of actions by the employer to avert the threat of layoff or severance."[9]

Because both "employment security" and "job security" have been used in literature to refer to this practice, these two terms will be used interchangeably throughout the remainder of this study.

The employer has the responsibility to balance work and move people to jobs - or jobs to people - for continuance of employment security, while the employee has the responsibility to perform work in a satisfactory manner. Audrey Freedman, a noted author on the subject, writes that:

> "In a free economy, employment security for workers is never really assured. Management, union leaders, politicians, and social commentators realize that a certain amount of job insecurity accompanies economic vitality."[10]

Ms. Freedman contends that ethically there should be a reluctance by management to burden the individual with the entire risk of job loss, with little or no cost to the company initiating the layoffs. She writes that the most serious individual risk is loss of employment because of "the system," which could result from deficient planning and forecasting, efficiency improvements in operations, or other factors under the control of management. Although these reasons do not constitute all of the contributing factors, Ms. Freedman writes that this management-controllable unemployment is an undeserved personal catastrophe for employees laid-off. In addition to losing

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9 Hansen, 2.

10 Audrey Freedman, "The Case For a Free Labor Market," *Across The Board*, January 1985, 42.

jobs, employees lose fringe benefits such as health insurance and pension rights. *Business Week* writes that "perhaps.the single most devastating blow to a person's psyche is being laid off."[11]

Employment security does not always extend to all employees within an organization. At some companies, coverage may include regular hourly, or salaried people, and not extend to part-time workers, or sub-contract personnel who are hired to perform specific tasks. Under a third category of limited coverage, as practiced by companies such as H.P. Hood and Herman Miller, employees with less than two years of service can be furloughed, while those with more seniority are protected. These employment security practices that have been cited are accepted as part of each company's employment policy.

Many companies that practice employment security manage workload imbalances by using temporary, part-time, and contractual workers. These employees are called contingent workers, or workers who are used as buffers to protect permanent workers. The number of contingent workers in the United States includes approximately 700,000 workers supplied by temporary help agencies, according to one study by Audrey Freedman.[12] The *Wall Street Journal* estimates that when part-timers, self-employed contingent workers, contract workers and consultants are included, the number approximates 34.2 million workers, or one-third of the U.S. work force.[13]

Other employment security practices include providing security only to regular employees working at facilities in the United States, while some provide worldwide employment security. Companies such as Eli Lilly even extend employment security coverage to companies they acquire.[14]

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11 Emily T. Smith, "Stress: The Test Americans are Failing," *Business Week*, 18 April 1988, 75.

12 Audrey Freedman, "Perspectives on Employment," *The Conference Board*, Research Bulletin #114, 1986, 13.

13 Michael J McCarthy, "Managers Face Dilemma With Temps," *The Wall Street Journal*, 5 April 1988, 39.

14 Foulkes and Whitman, 32.

While the precise employee protection varies among practicing companies, the intent, management commitment, and effort required to maintain this employment bond between employee and company are similar. An employment security practice requires management focus on the establishment of goals, the execution of strategic and operational planning, and the establishment of business strategies to manage workload. As noted in one article, employment security is a "strategic response to a problem rather than a tactical response to a situation."[15]

Societal Forces Affecting Employment Security

Major changes in the recent past - the breaking of American inflation, the collapse of oil prices, the fall of the dollar - have set the stage for the future. According to *Fortune*, real Gross National Product will rise modestly at an average rate of 2.6 percent through the year 2000. Projected demographic changes have been translated from this data to indicate rising employment rates, greater personal wealth, and increased productivity.[16] Such a climate could be conducive for business to maintain and improve profitability and subscribe to human resource programs, such as employment security. *Fortune* predicted that some five million jobs would be created within the United States from 1987 to 1990 with an additional 13 million jobs to be created during the 1990's.[17]

A number of factors influence the American corporation and the decisions involved in deciding between employment security and employee lay off. Some of these include:

1. U.S. Economy,
2. Competition,
3. Technological Change, and
4. Unions.

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15 Leonard Greenhalgh, Robert B. McKersie, and Robert W. Gilkey, "Rebalancing the Workforce at IBM: A Case Study of Redeployment and Revitalization," *Organizational Dynamics*, Spring 1986, 43.

16 Michael Brody, "The 1990's", *Fortune*, 2 February 1987, 22.

17 Ibid.

U.S. Economy

In the early part of the 1980's America experienced two successive recessions. For the last 4-5 years the U.S. economy has been recovering, with productivity growth in the United States averaging 2.2 percent. In a Conference Board research bulletin, Audrey Freedman reports that productivity has typically surged during recovery periods following recessions. In post-World War II years, when recoveries lasted as long as the current one, productivity growth rates have ranged from 3.0 to 5.1 percent.[18] While productivity gains are less today than was experienced in the post-World War II years, total employment has risen at a much higher rate. Most of this employment growth has taken place in the service sector, while manufacturing has recovered only 60 percent of the jobs lost in the last recession.[19] According to the Bureau of Labor Statistics, the number of jobs in basic manufacturing has declined by two million, after peaking at 21 million in 1979.

Competition

Maintaining and increasing product demand, remaining competitive, and balancing workload presents a challenge to employment security because of economic and market fluctuations, and increased competition. An example of the challenge faced by one company in attempting to maintain employment security within this environment is Eastman Kodak, an early practitioner. Kodak discontinued its practice in the late 1970's when company sales became sluggish after long domination of its industry. Kodak fell prey to foreign competition and lost market share faster than it could redeploy its surplus employees. Their no-layoff practice was abandoned, due in large part to global competition and general management problems.[20]

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18 Freedman, "Perspectives on Employment," 7.

19 Ibid., 8.

20 Eric N. Berg, "Shrinking A Staff, The Kodak Way,", *The New York Times*, 4 September 1983, (3)1.

In the debate concerning U.S. global competitiveness and employment security, a number of executives have concluded that a high-quality work force is the most important asset of any company.[21] Yet when sales decline, employee layoffs are used as the expedient way to reduce costs. As an example, in 1984 the National Semiconductor company had job openings for 1,200 people at its Santa Clara operations. In June 1985, the company laid off 1,300 employees, including 600 in the Santa Clara valley, due in part to the impact of foreign and domestic competition on the high-technology industry.[22]

Technological Change

U.S corporations often adjust to changing technology by making decisions that result in employee layoffs. Outmoded plants have been closed, and other plants have been automated. These management decisions have proven to be a major factor in the twenty-five percent reduction of production workers in America.[23] The steel industry, for example, has declined from 600,000 workers in 1961 to fewer than 250,000 today. Automotive and other industries have experienced similar declines, even though total production has often increased, or remained stable. America has not stopped producing goods, but there will be fewer people working to produce them than at any other time since the post-Civil War era.[24] The shift in employment distribution within the United States is significant, with each one percent change equating to approximately one million people. Employment in the goods producing sector has declined by 6.3% in the 1970-1982 period, a reduction of more than six million people (see Table 1).

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[21] Robert Kuttner, "The U.S. Can't Compete Without a Top Notch Work Force," *Business Week*, 16 February 1987, 20.

[22] Richard Brandt, "Those Vanishing High-Tech Jobs," *Business Week*, 15 July 1985, 31.

[23] Aronowitz, 135-136.

[24] Ibid.

The United States has historically prized invention and felt secure in its technological leadership within the world economy. That leadership role, however, has been fading in one industry after another. The use of robots has received the most attention in the U.S., with projections of 'no worker' factories a prophecy for the future. The actual adoption rates for robots, however, have been slow. The process of integrating these robots into a fully automatic computer controlled environment is moving even more slowly.[25] In a March 1985 study (prepared by the Congressional Research Service for a subcommittee of the House Committee on Energy and Commerce), the following evaluation was made:

> "The cost to automate only 5 percent of the U.S. blue-collar labor force with robots could be greater than $45 billion . . . The United States will be making significant increases in the size of its robot investments in the remaining part of this century. But even this sizeable investment might not be large enough to automate and replace 5 percent of the U.S. blue-collar labor force."[26]

Although the rate of technological change is slower than some have projected, the potential impact to jobs is a reality. The speed at which technology is introduced affects the number of workers permanently displaced. When this displacement is cause for layoffs, workers resist subsequent technological changes in organizations because of their fear of job obsolescence and permanent job loss in that organization.

[25] Freedman, "Perspectives on Employment," 8-9.

[26] *The Computer Revolution and the U.S. Labor Force*, Committee Print No. 99-G, March 1985, Published by the Subcommittee on Oversight & Investigations, 28.

Table 1

Distribution of Employment in the U.S.

<u>1970</u>

Agriculture	4.5%
Goods Producing Industries . . .	33.1%
Services	62.3%

<u>1983</u>

Agriculture	3.5%
Goods Producing Industries . . .	26.8%
Services	69.4%

Source: U.S. Bureau of Labor Statistics, <u>The Conference Board</u>, "Perspectives on Employment," 1986.

Unions

Union negotiations and demands have proven to be the driving force for adoption of employment security within the contractually protected workforce.[27] Protection offered by these contracts encompasses the span from guaranteed jobs for a specified period of time, to the union and management agreement allowing unions to examine company financial data prior to employee layoffs. Historically, unions have experienced difficulty in obtaining employment security for their members and instead accepted income security provisions such as unemployment benefits and early pensions. This income security does not protect against the first law of American business, which as one auto executive phrased it, "you get into trouble, you layoff people."[28]

Employment security is important to unions, according to Jerome M. Rosow, Director of the Work in America Institute. He writes that employment security has now become the **top** priority of American labor unions. Rosow observes that "in seeking security at the bargaining table, unions are giving voice to the felt needs of nonunion as well as union employees, of managers and supervisors, as well as the rank and file."[29] Appendix 4 describes major collective agreements negotiated in recent years and attests to the high value that unions place on employment security.

In a free economy, employment security for workers is never assured. Management and unions realize that a certain amount of employment insecurity accompanies economic vitality. There is resistance, however, "to burdening individuals with the entire risk."[30] The establishment of Supplemental Unemployment Benefits (SUB), as negotiated between the United Automobile Workers (UAW) and the American automobile companies, was seen as a major step in the direction of this security. Although

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27 Clyde W. Summers, "Protecting All Employees Against Unjust Dismissal," *Harvard Business Review*, January 1980, 133.

28 John Hoerr, "Why Job Security is More Important Than Income Security," *Business Week*, 21 November 1983, 86.

29 Rosow and Zager, "Employment Security in a Free Economy," 1.

30 Freedman, "The Case For A Free Labor Market," 42.

this contractual agreement does not provide employment security, some financial payment is made to displaced workers.

Issues involved in the choice between SUB and Guaranteed Work were debated in the early 1950's before the auto industry opted for SUB. By mid-1974, nearly two million workers covered by 223 major contracts (those covering 1,000 or more workers) had SUB plans. In contrast, only 13 major contracts provided work guarantees of one month or more.[31]

In the pre-divestiture AT&T contract negotiations with the Communication Workers of America, the International Brotherhood of Electrical Workers, and Telecommunications International, the issue of employment security was the major sticking point.[32] The settlement did not provide employment security, but instead required AT&T and each regional phone company to provide career development and retraining for those employees whose jobs were likely to be eliminated.

A 1984 agreement between General Motors and Ford Motor Company with the United Auto Workers provided a similar approach - a modest wage settlement and a six-year, $1 billion program that would provide resources for the training and retraining of displaced workers. John Holusha of *The New York Times* writes that as of mid-1987, Ford Motor Company included no more than 624 people in its job bank at any time, and spent $14 million of the $280 million allotted in those three years.[33]

A more ambitious program that was established in the same 1984 contract called for a union-management effort at both companies to find new employment opportunities for idle auto workers. However, neither Ford nor General Motors has spent a penny of the millions of dollars pledged for these ventures.[34]

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[31] Audrey Freedman, "Reexamining Income Security: SUB versus Guaranteed Work," *The Conference Board Record*, 20.

[32] Chris Lee, "The Argument For Employment Security," *Training*, April 1985, 8.

[33] John Holusha, "Auto Job Guarantees Sought," *The New York Times*, 7 July 1987, D5.

[34] Ibid.

A study conducted by the Conference Board (1980) provided insight into the importance of employment security. Eighty employers whose workers had initiated union drives were studied to determine the reasons for the interest in unionizing. It was found that the two most frequently reported reasons dealt with salary dissatisfaction and concern for employment security. The concern for employment security was mentioned by twenty-two of the eighty companies surveyed.[35]

According to *Business Week* (1988) management is reluctant to trade-off prior contractual commitments, such as reducing union work rules in replacement for employment security, without first executing an in-depth cost analysis. In fact, a Bureau of National Affairs survey of 215 companies, whose labor agreements were due to expire in 1988, found that only twenty-five percent would consider approving employment security provisions. Thirty-five companies said that they planned to cut back employment guarantees.[36]

Employment security continues to be a practice that unions desire, and management resists. The fall 1987 contracts between the United Auto Workers (UAW) and the Ford Motor Company and the General Motors Corporation, however, emphasized the current union thrust. The Ford contract provided employment security by guaranteeing a fixed level of 104,000 jobs, unless sales slumped. A significant "new guarantee is that Ford must keep one job for every two it would otherwise have eliminated by attrition."[37] The new contract was projected to cost the Ford Motor Company $700 per employee the first year, or more than $70 million (see Table 2).

[35] Foulkes, "Employment Security," 120.

[36] Aaron Bernstein, "A Demanding Year for Labor," *Business Week*, 11 January 1988, 34.

[37] Wendy Zellner and Aaron Bernstein, "Smiling Fender to Fender," *Business Week*, 5 October 1987, 39.

Table 2

The Cost of Ford Motor Company's 1987 Contract

Hourly increases assuming 4.7% annual inflation and base compensation of $26.50 an hour.

	1st Year	2nd Year	3rd Year	Total
Wages	$0.40	$0.00	$0.00	$0.40
Lump-Sum Payments *	0.00	0.19	0.02	0.21
GEN * #	0.34	0.00	0.00	0.34
COLA	0.43	0.62	0.68	1.73
Rollup **	0.25	0.19	0.20	0.64
Pensions	0.10	0.08	0.08	0.26
Health Care	0.16	0.17	0.18	0.51
Other Benefits	0.10	0.05	0.00	0.15
Totals	$1.78	$1.30	$1.16	$4.24
Percent Change	6.7%	4.6%	3.9%	16.0%

* Based on increment from 1984 contract
\# GEN (Guaranteed Employment Numbers)
** Impact of wage and COLA hike on wage related items

Source: "Smiling Fender to Fender", Business Week, 5 October 1987, 39.

Data: United Auto Workers, Morgan Stanley & Company, Business Week Estimates.