Corporate Governance and Worker Welfare

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This paper represents an attempt to disentangle a series of issues related to corporate governance and worker welfare. It focuses on the United States. The focus is dictated by my own background and knowledge. I believe that much of what I have to say is of at least some relevance to other countries, especially those at comparable levels of economic development. But I am not really in a position to work out the relationship between developments in the United States and those abroad.

The basic issue is that, since the late 19th century, American workers have sought to secure their welfare by achieving a voice in the management of the enterprises for which they work. In the 1930’s, the rise of industrial unionism and the emergence of Federal protection for the rights to organize and bargain collectively reinforced these efforts and made worker voice in management a goal of public policy. The collapse of trade union organization in the 1980’s has combined with certain changes in the way in which the law is applied to undermine the gains of the earlier period. This occasions the reevaluation that is the theme of this paper.

The paper argues essentially for de-linking the issues of worker welfare from corporate governance. But two caveats are in order so that this argument is not misunderstood. First, I will not argue that the two should necessarily be disassociated. I am not arguing against worker voice in management. I will not argue that worker welfare cannot or should not be pursued by giving workers a voice in the governance of the enterprises in which they work. And certainly not that where workers now have such a voice, it should be withdrawn. The argument is simply that voice will not effectively secure workers welfare in and of itself, and that it is indeed likely to be less effective in doing so in the so-called new economy.

Second, I do not mean to argue either that there are no problems of corporate governance which need to be addressed, nor that a worker voice in the governance structure is an inadequate or ineffective means of addressing them. The recent accounting scandals in the United States suggest that there are indeed very serious
governance problems. And contemporary developments in economic theory do not suggest a great deal of optimism about the capacity of new institutions to arise spontaneously in a market economy to create optimum (or near optimum) governance. My purpose here is thus not to suggest that the market is a more effective governance mechanism but rather to underscore the assumptions implicit in earlier attempts to link worker welfare to enterprise governance. The paper also points out that the alternative to worker participation in the governance of the enterprise through collective bargaining that is emerging in the United States is not, in fact, the competitive market but more extensive government regulations.

Assumptions of the Old System

As I have just suggested, the institutions linking worker welfare and corporate governance grew out of a series of institutional reforms beginning in the late 19th century and culminating in the 1930’s. These reforms were guided by a series of assumptions about the evolution of industrial economies. The major assumptions were fourfold: First, it was thought possible and desirable to make a very sharp distinction between the economic and social realms of activity. This is a point originally made by Max Weber but implicit in the design of economic institutions dating back to the eighteenth century. Second, each of these realms was thought to be organized around a dominant institutional structure, the family in the social realm and the large corporate enterprise in the economic realm. Third, both of these key institutions were believed to be stable, well defined, and enduring over time. Fourth, the family was represented in the economy by a male head and breadwinner, whose income was its principle support. Given this construction, conflicts between the economic and the social realms could be resolved by adjustments in adult, male breadwinners’ wages and in the other terms and conditions of their employment. Once these men came to be represented by trade unions, conflicts between the two realms could be managed through collective bargaining between unions and corporate enterprises.

This construction was of course a kind of ideal type. There were a variety of other institutions in each realm of activity as well as family enterprises in which the two realms
were not sharply distinguished. In many families, in addition to the male head, women and children also worked. But these complications were thought to be exceptional, vestiges of an earlier era that were destined to disappear as the modern industrial economy matured, and with rising incomes, women withdrew into the household and children to school.

The secondary sector and the informal economy which we tended now to view either as a symptom of the incomplete nature of the efforts to impose a structure on the labor market or a perverse reaction to the efforts were hence a recognized and anticipated aspect of the process through which the economy and society were being gradually separated from each other.

The Demise of the Old System

It is basically this construction which came undone in the United States of the 1980’s. The most notable marker of its demise was the collapse of the trade union movement in the 1980’s, particularly in the private sector. But the family had already lost the properties of stability, durability, and defined boundaries beginning much earlier in the postwar period. Particularly damaging to these properties were the rise in the divorce rate, the increase in female labor force participation, particularly the increase in the participation rates of women with small children, and the increasing continuity of women’s labor force participation. The stable and well-defined character of the family unit was further undermined by social security, which supported the aged, many of the disabled, and single mothers outside the male-headed family unit. The result was that the wages of male breadwinners were no longer so central to social welfare, and negotiations with the unions that represented these workers would have been less and less able to mediate the relationship between the social and the economic realms even if the unions themselves had survived.

In the 1980’s, the corporation also lost the properties of stability, durability and sharply defined boundaries, under the pressures of new technologies, global competition,
deregulation, and innovations in management practice. Companies which had seemed
permanent fixtures of the industrial landscape were threatened with bankruptcy and many
of those that survived lost their original definition and identity through mergers and
acquisitions (and hostile takeovers). At the same time, new management approaches
emerged which deliberately compromised and confused the borders of the enterprises
through strategic alliances, inter-enterprise managerial teams, co-location and just-in-time
contracting relationships. The demise of corporate stability and the increasing confusion
about its borders was particularly threatening to the attempt to secure employment
stability and long term financial security by attaching worker rights to the enterprise.

These changes in the properties of the family and the corporation are characteristic to
a greater or lesser degree of most advanced industrial societies.

The Traces of A New System

In the United States, these developments have been accompanied by a shift in the
locus of political and social mobilization, which is probably less marked elsewhere. The
political pressures which had generated and sustained the workers’ role in corporate
governance grew out of mobilization around economic identities: broadly speaking
identities associated loosely with economic class and more closely with craft, profession,
industry and enterprise. American unions were rooted on the shop floor; trade unions
organizations were built up from the shop floor, and workers role in governance was
strongest and most pronounced there. In the course of the 1970’s and 1980’s,
mobilization came to center around social identities associated with race, sex, ethnicity,
sexual orientation, and disability. It was as if the social realm had begun to invade the
economic realm and worker rights were pursued as members of these groups. These
efforts gave rise to a whole new body of labor law which secured substantive rights either
through legislation or through the courts. The developments began with laws covering
employment discrimination against black workers and then spread to cover women, other
ethnic minorities, the physically handicapped and disabled, and in some areas, gays and
lesbians. While formally focused on discrimination, the laws came to cover every aspect
of the employment relationship from wage rates and benefits to promotion and
disciplinary standards. In the 1990’s, these groups have also spearheaded efforts to create substantive legal rights in the workplace through legislation mandating such items as family leave, advance notice in lay-offs, and domestic partner benefits. Management responded to these developments with the creation of human resource departments, which effectively generalized the new rights to groups throughout the labor force.

The new rights were occasionally in direct conflict with collective bargaining. But their real importance was that they provided a framework for the social regulation of the workplace that had developed behind the façade of collective bargaining and was already in place as the labor movement collapsed and the scaffold of collective bargaining was removed. Thus, while the architects of the aggressive manager policies which were directly responsible for the unions demise thought of themselves as making way for unilateral managerial control (and, in the more principled visions of the new system, regulation by the market), the demise of collective bargaining revealed instead an elaborate set of legal constraints already in place.

The Limits of Collective Bargaining

One is thus led to compare the properties of the collective bargaining system to the expanded legal constraints upon employer action which is replacing it. The collective bargaining system that grew out of the New Deal legislation was, from a governance point of view, particularly interesting because it created a kind of “customary law of the shop floor”. That customary law had at least a potential impact on every aspect of shop floor operations. It had, however, one great advantage for the operation of the economy: Its substance was particular to each shop and hence, in principle, could be tailored to the peculiarities of the business (and of the workforce as well). In this sense, it was both extremely decentralized and also quite flexible: It had the essential properties that Hayek extols in his characterization of the social institutions in which a decentralized market economy is embedded (although of course, Hayek himself might not have viewed the system which emerged as a market economy). The new legal system in the United States is a lot less flexible. The appearance that it is more flexible derives from the fact that, unlike collective bargaining agreements, the new rules of the workplace do not cover
wages and do not cover benefits directly. But they may come to do so in the future. Indeed, one could interpret the living wage campaigns which have proliferated in major U.S. cities and have been driven by the same kinds of social movements which have pushed legislation more broadly as a move in this direction.

But the collective bargaining regime had certain limitations as well, limitations which tend often to be forgotten by those who bemoan its demise. Three seem particularly important. First, it worked best for the male breadwinners which were the primary workers in the conceptual framework out of which the system grew. It worked much less well for women, African-Americans, the physically disabled, and ethnic minorities, particularly new immigrant groups. Its failures in this regard were responsible for the new substantive law which grew up to replace it (although it should be said that these limitations could have been remedied easily within the collective bargaining framework itself).

Second, the worker participation and influence in corporate governance was very strong on the shop floor, but it was also limited to the shop floor. Under the U.S. collective bargaining regime which grew out of the 1930’s, workers had no access to and no role in strategic business decisions concerning the direction of the enterprise. Nor were they able to participate in the fundamental decisions about the choice of technology. They were formally excluded from this aspect of management by the laws which protected the rights to collective bargaining, but they actually had very little knowledge or understanding of what was at stake and probably could not have effectively participated in these decisions even had the law encouraged them to do so. Thus, when it came to the decisions that affected the very existence of the shops in which they worked, the governance arrangements gave workers no voice. There were industries in which unions did play a key role in strategy (garment, construction, long shoring, trucking) but this role was a product of the small and unstable character of most of the companies in the industry, particularly relative to the size and stability of the union itself. The role of workers and their unions was not, in other words, in corporate governance. The union in effect provided the governance structure for the industry as a whole.
Third, there is an inherent limit to the effort to tie worker welfare to particular shops, enterprises, and even industries. The risks that can be hedged in this way are limited, and the workers remain vulnerable to competitive pressures and technological changes which threaten the unit to which their rights are attached. The threat is aggravated when the rights are extended to things like medical care and retirement pensions whose costs vary with the demographic composition of the workforce. It places older industries with an aged workforce that draws heavily on pensions and medical insurance in a particularly vulnerable position. The most dramatic example is the impact on basic steel in its attempt to compete against the new mini-mill technology. But the collapse of Enron has also driven home this point—although those arrangements grew up outside the framework of collective bargaining and suggest that the dangers are inherent in an unregulated market economy as well.

**Employment Stability**

Meanwhile the demise of the traditional family and the corporate enterprise as stable, enduring and well-defined institutions has a complicated effect on employment stability. And there is a certain amount of confusion and debate about the net effect on employment stability. Indeed, a measure of the kind of stability upon which the old system was predicated is not obvious. The debate has focused on the distribution of job tenure, particularly average tenure of employment. This has declined over the last decade and one-half for men, for women it has increased; overall this statistic is stable. The trends are certainly consistent with a world in which women’s labor force commitment is increasing but the commitment of business to any particular set of workers is declining. But the change is not nearly as dramatic as the qualitative evidence and the radical shift in the way in which people talk about their careers would lead one to expect. And it is certainly true that in some areas among liberal professions such as doctors and lawyers, there has been a trend away from self-employment toward employment in large, bureaucratic enterprises. The medical profession shows some interest in union organization, and, given the economic power of these highly trained professional groups,
they may indeed be able to create new enclaves of collective bargaining and internal labor markets.

**The Organization of Work**

But in the most technologically advanced industries – the so-called new economy – the older structures are being undermined by changes in the organization of work.

These changes seem to reduce the workers’ attachment to the internal labor markets of large corporate enterprises, even when these enterprises are stable and enduring. At the same time, they severely weaken clear, well defined economic identities and hence undermine this axis of social organization and political mobilization at the time that the social identities based on sex, race, and the like are becoming more salient.

The changes have been noted by many observers. My own understanding of them rests on a study of the job generation process in several divisions of a large diversified financial services company. In this company, the changes are closely associated with a shift toward what I have called a *project/team* organization of work (others use a somewhat different terminology to describe the same phenomenon). The key element is that work is organized into projects with a definite but unique output: a new product, for example, or a software system. The project however, is assigned to a team of workers. The work itself is specified in terms of the set of competencies required by the team, but those competencies do not map directly onto particular people or well defined occupational or professional classifications. The business then tries to hire a team of people which will have all the requisite competencies, but which competencies reside in which members of the team is kind of an accident of who the group finds in the labor market and the sequence in which they are hired. The competencies typically involve a combination of both technical skills and the knowledge of the specific domains in which those skills are applied.

Workers on the other hand, come into the labor market with a package of such competencies, some acquired in formal education, some on the job, usually distributed
between domain and technical areas. They progress through the labor market by expanding the repertoire of competencies that they possess through on-the-job experience. But any particular move will emphasize certain parts of their repertoire and neglect others, and thus their career can move in a variety of different directions at any moment of time. The result is that workers, too, are unique, not easily classified in conventional occupational categories: They are heterogeneous in the same way that the jobs for which they are hired are heterogeneous. Under these circumstances, job matching becomes idiosyncratic and requires a lot of detailed knowledge on both sides of the labor market. This seems to lead to an emphasis on social networks of people who have or can acquire such intimate knowledge. Both employers and workers cultivate such networks assiduously for career purposes. They tend to belong to several such networks, and the variety of these is enormous. But, among the networks which are important are those based on the social identities which have been the locus of new forms of social/political mobilization such as race, sex, ethnicity and the like. The model is “old boys’ network”, which is alleged to explain the dominance in the higher levels of American business of white, Anglo-Saxon, heterosexual men. But the groups formed around these identities tend to engage in both personal career advancement for the members as individuals and in political activities which further the welfare of the group as a whole. These activities sometimes lead to pressure within an enterprise for particular benefits (the gay and lesbian groups have pushed, for example, for domestic partner benefits). But they also lead to pressures designed to influence external politics (urging the business, for example, to cancel sales meetings in states which have outlawed the creation of such benefits).

The more general implication of these developments in work organization is, however, that both jobs and workers are becoming more idiosyncratic and less well-defined. Both sides of the labor market seem to care a great deal about the quality of the match. One of the ironies of the reduction in expected job tenure is that people seem to invest, if anything, even more time in assessing match quality than they did in the past. A marker of this change is that twenty-five per cent of placements by temporary help agencies are temp-to-perm positions. And it is not these informal networks alone but
formal institutions like temporary help services and firms that screen workers and check their backgrounds which become central to the progress of the worker’s career.

**Conclusions: Not Just Corporate Governance**

The basic conclusion is that, in assessing worker welfare and developing an institutional framework which assures equity and efficiency in the labor market, we need to look beyond the firm to the inter-firm movement. In this new endeavor, the focus on corporate governance is misplaced and distracting. Of much greater concern is the operation of the institutions, formal and informal, which mediate this movement in the external labor market.