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CHALLENGES IN HUMAN RESOURCES UTILIZATION AND THE
IMPACT ON OTHER STAKEHOLDERS FROM GLOBALIZATION,
TECHNOLOGICAL ADVANCES, RESTRUCTURING, AND
DOWNSIZING: A VIEW FROM THE STATES

*James Bennett**

WHAT I WOULD LIKE TO DO is ask you to think of what I am going to say as coming from approximately 10,000 feet, high enough up that I will observe landscape, terrain and general features. Also high enough up that I can look back at where we have been. I am torturing the metaphor a little bit here, but I will look back in time and make comments that go back perhaps fifteen years or so. I will also try to look ahead at what is coming over the next horizon. So consider me making comments from 10,000 feet which have about a thirty-year perspective, and put the topic in that context.

I really would like to make three major points, elaborating on some more than others. The first one is that, looking backwards, it has now been about fifteen years since most organizations, or employers, not just companies, fell under major pressure to improve their performance. This emphasis or this pressure to improve their performance resulted from a number of basic factors. You are familiar with most of these factors and I will not talk long about them, but they are essentially a phenomenon which has occurred since the second energy crisis. I would point to the middle to late '70s when we really started to feel that pressure. Furthermore, these factors are going to be around for a long, long time. They are not going to subside.

In the aggregate, the second point I would like to make is that the response of companies and employers to these forces has led to a fundamental shift in the management paradigm. The way in which organizations have been thought about, structured, and led is in the midst of a shift dating from about the same period of time. It is the largest shift in paradigm that any of us has ever seen because the management paradigm and management approach under which most organizations have operated has not changed much from the early 1900s. We are in a fundamental shift of paradigm that has been occurring for about fifteen years. It is going to take another fifteen years for it to work out.

I would like to comment about downsizing and some of the other things that come under the same banner, such as restructuring, not so

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much in terms of a response to short-term profit pressures, but rather part of this fundamental shift in paradigm. I will spend a few minutes on that.

Finally, regarding the point of your conference, human resource management and utilization; I think it is this shift in paradigm that is changing the landscape so thoroughly in terms of how organizations and employers relate to their employees or to outsiders with whom they do business. This results in pressure being put back on education and training systems, whether that is public education or governmental training programs, or the whole fabric of those who equip these individuals who will be skilled employees.

These are the three major themes I would like to touch on. The first of them, by far, being the most brief.

My memory may be a little faulty, but I am sure I began to see this pressure to perform around the time of the second energy shock, which resulted in the difficulties for the North American and world economy that we saw most severely in 1982. It is trite now to say that the business environment is always in flux and change, but it has only been a decade, I think, since that cliché has really been accepted. Moreover, there are two or three megatrends with which I am sure that you are familiar, but on which I would like to comment briefly. I believe that we are going to see more of the same megatrends in the foreseeable future and well into the 21st Century. The first has to do with governments being chronically in debt due to the combination of slower growth and the growth of entitlements. There is no doubt that there will be continuing shifts in the flow of funds in and across industries and sectors in the economy. Some will have more, but most will have less. There will also be shifts in government policy and fund flows. These shifts are a very major part of what we are seeing in twelve percent of the gross national product in this country's health care sector. We will see governments continuing to experiment with policy changes. For example, governments will experiment with the deregulation of industries such as airlines, trucking, telecommunications, energy, and so forth. This will certainly occur in the United States, and I suspect to some degree in Canada. Fundamental pressures for improved performance will be coming from that source.

The speed of technological change will be the second megatrend, in addition to these changes in government policy. Again, you are quite familiar with the shortening of product life cycles in old line industries such as the automotive industry, or in more contemporary ones such as electronics, where the pressure to get new products defined and technologically proved out into the marketplace is just faster and more intense than it has ever been before. Today, we are beginning to see what interactive multimedia, the confluence of video, audio, the computer, is going to do to retailing, financial services, and the media industries

themselves. So because of the speed of technological change, we are going to see the same pressures continue.

And finally, regarding globalization, which is something with which you are quite familiar, it is not just a matter of the international flow of goods and services. It is also a matter of how much money will be sloshing around the world. Some of the estimates that I have seen and have some confidence in say that the internationally mobile capital stock is likely to triple from about thirty trillion to about ninety trillion in the space of about ten years because of changes in demographics and savings standards. Then there is the amount of money moving around the world; investors looking for companies to back; opportunities to invest in. It is going to be absolutely mind-boggling. Moreover, there will be pressure put on organizations to adapt and transform.

Consistent with this movement is the phenomenal rise of alliances that you have seen. There are about 13,000 new cross border alliances a year that are being put in place. For example, in China alone over the last five years, the number of alliances made outside of China has gone from about 10,000 to about 80,000. The theme of all this is a very, very chronic and intense pressure for organizations to do better and to perform in a way they never had before.

What, then, about the second point regarding the shift in the management paradigm? In coping with these changes, most employers and certainly most companies, are founded upon what might be called the principles of scientific management. These are peppered or leavened with ideas borrowed from military organizations that go back as far as the turn of this century. The assumption has been that work should be divided up into relatively small numbers of repetitive tasks that can be more and more refined. By nature, the assumption goes, people need to be watched and looked after, otherwise they will not work as hard as you would want them to work.

The information needed to make decisions is so complex that decisions must be made at the top of an organization rather than anywhere else. To make it all work, there is a military style of organization put in place. Words like *line* and *staff*, very much the jargon in company organizations for many years, come from the military, as do concepts of command and control, large organizations with many layers in them, and so forth.

That is the whole paradigm on which contemporary organizations are built. Whether it is the government or companies, it comes from early in the century. The problem is that in the performance-pressured environment we see now and will see in the future, it does not work very well. It is far too slow to react to the conditions to which I was referring. It costs too much to support all those people and layers. People at the top cannot gather enough information to be able to make intelligent decisions, at least not in any reasonable amount of time.

Employees do not like that. They are de-energized, demotivated, and do not give a lot nor seek to perform more in that kind of management paradigm.

So where are we moving? We are moving to something that is new. And we are only seeing the shape of it, the rough shape of it now. You might call it engaging in power organization. We know a few things about it. We know that there are going to be far fewer levels between senior people and those at the bottom. Middle management is forever an endangered species, and middle management in the way we knew it in the old paradigm will never be back. We know that it will have different roles and requirements. Top management is not about making decisions and telling people what to do, but setting performance aspirations and objectives, putting a culture in place, creating the right kind of climate for performance, and finding ways to engage and empower their organization.

Central staff, the ones who used to do all the checking and reviewing will be gone. Not totally, but by and large the central staff will not be as important anymore. They will not be needed and will become an endangered species along with middle management.

Lower down and on the front line will be all kinds of new expectations. Employees will be expected to be more versatile in skills, be able to work in teams, have faster turnaround times, have much more intensity and pressure to perform, and have much more discretion to take actions and get things done. They will have a very different set of expectations.

For anybody who is interested in manufacturing and has watched the Toyota production system at work, it is a different kind of environment. It is a different way of working, and a totally different paradigm than what most organizations have been used to. About a third of the people in this new paradigm will like it and say this is terrific; about a third will not like it, but they will get along; and about a third are never going to be able to adapt.

So we have this shift in paradigm that is working its way out to fundamentally different kinds of organizations. This brings me to downsizing. There is good downsizing and there is not-so-good downsizing. The good downsizing is one that moves a company to a new way of managing. If you believe there is a fundamental shift going on; that there is a layered organization, that the staff's role and the old paradigm does not fit anymore for any company, then downsizing is probably good. As painful and as difficult as it would be in the transition, it is probably good to move in that direction. And if, in so doing, there is sustained performance improvement over time, that is probably the right thing to do. It is my view that a number of downsizings or restructurings are done to assist in the move to a fundamentally different way of managing, even though people do not know it or see it at the

time.

Not-very-good downsizing is the downsizing that is very short-term. It is more of a herd instinct. The mindset is that "my fellow CEO or my fellow not-for-profit manager downsized, so I should too, otherwise I cannot hold my head up to my board." This is done with no great rationale and for short-term profit pressures. Moreover, the nature of the enterprise is not changed, and people are just asked to do the same work, but with much fewer employees. So it is just not dealing with the fundamentals or the shift of the paradigm.

Being an optimist, my own hope is that we are, by and large, moving out of an era of the silly downsizing. I always like to use as a leading indicator what McKinsey clients, CEOs around the world, have on their minds. We work with about a thousand organizations a year, so what they are asking about usually is a pretty good indicator of what is going to happen. I bet that eighty to ninety percent of them are now saying, how can we get top-line revenue growth? How can we grow this business? That may be because they feel they now have it in shape from all the pains they have gone through. Sometimes they believe that they have already put a new paradigm in place, and they wonder how they are going to manage that business. They are happy with it, and ready to grow again with a new set of economics.

But if you were to judge just from my colleagues' votes around the world, they would say that the shift in emphasis in international business from very senior people in large companies, in governmental organizations in Europe, in hybrid organizations in between, and even in the not-for-profit sector, has started a move in the latter direction. So I think the downsizing comes not from short-term things, but comes in large part from this fundamental shift in paradigm.

The third and last point, then, is about what this might mean for human resources management and utilization. One of the things that is certain is that, given the pressures for performance that I mentioned in the new way of managing or this organizational paradigm about which I was speaking, it is pretty clear that organizations are going to be very leery about locking into positions and locking into people in any great numbers. They are going to be working very hard to get new skills, or even non-critical skills, but ones they do not understand. Or they are going to work to get noncritical skills outside. Thus, they are going to be asking suppliers, people selling goods and services, to do more so they do not have to do it. They are going to be "outsourcing," as many of you know, and asking whole new companies, in a way, to grow up to provide services for them. They are going to be looking to cement alliances for markets, products, or skills that they do not have, a subject upon which I could speak for ten or fifteen minutes.

In a more exotic form, particularly in computer-based technologies and in multimedia, they are going to be moving to webs. We see it with

Microsoft that only captures six or seven percent of the total value in the businesses that it is in, opening its technology to others without any formal alliance. These webs enable the companies to capture the value without trying to do it all inside. It is in contrast to Apple and it keeps others out.

One job for human resources is going to be to work with and find ways to shape relationships outside the employing organization. How does the organization develop a business relationship with a very different culture in place? How does the organization ensure that there is a complement of skills and objectives? How can people work together in collaborative processes and ways that benefit both organizations? This is new.

By and large, I believe that the ability to link with others outside the company and to work in that human resources milieu is going to be very much the challenge in making the most of people. Inside the company I think the principal thing we are going to see is the move to a new employee contract or a basic understanding with employees. You might call this expectations versus benefits. You might think of it as the "gives": that is, what does an employee give, and in turn, what does an employee get?

I think this contract or understanding will be, and already is, very, very different. Because on the gives, I think what we are seeing in this new paradigm is much higher expectations for people at all levels on the firing line all the way up. I think we are seeing a pressure to work harder and more intensely. We may also see increased pressure on travel and people moving around for certain positions, for example technical people flying to Japan at the drop of a hat. I also think we are going to see demands to adhere to the value and the culture of an organization, to do it the organization's way because of the pressure to perform. Thus, there will be a lot of things asked of people in an organization.

It would seem, then, that we better have a new understanding. If it cannot be job security and the promise of employment for doing your best, then the employer will have to offer something different. If we are going to have a new set of expectations, there are going to be things like providing the best training and development in the business, providing career opportunities in which you will be able to move very quickly, whether it is with us or someone else in the industry. The employer may also provide employees with the opportunity to make decisions or may pay employees in a way that is better than they may have expected. Finally, the employer may have to give the employee part of the ownership of the business for the time they are there. If it were my company, I would work very hard to make sure that my colleagues at all levels had some ownership and some stake.

So I think we are going to see a fundamental redefinition of the

gives and the gets on the part of employees and the relationship between large organizations and the people who work for them. That is going to require high art and real skill, and a long and probably painful learning process on the part of people who are charged with making this happen, which I guess is everyone who is trying to fashion this new relationship.

Finally, I think that what we are going to see is that employers are going to take a very active role, much more so than in the past, in shaping activities of those outside them who develop the skills. In this community in particular, not to use local examples, I think the pressure on the Cleveland Public School system to do better is not just a matter of the degree to which it underperforms, which is a problem for our community. But, in addition, it is about the necessity producing a reasonable level of skilled individuals for the work force of the future. There are some who would argue that it is going to be businesses and employers who really put pressure on public schools for reform. So if the public schools are going to be changed or fixed, it is going to come from there.

Secondly, there are going to be all kinds of linkages and interchanges with the postsecondary system. Here, as an example, just in the Cleveland community, we have the work of those on the business side of polymers with Case Western Reserve University, the University of Akron, and the Cuyahoga Community College in Lorain. Each promotes workforce training for skills that are particularly relevant to polymers, which is a special area of expertise for this region.

And on a broader level, we have the current initiative by the Cleveland Chamber of Commerce and the Growth Association, who are stepping back and looking at government training and government retraining programs. As I just mentioned at the universities and educational institutions, we are trying together to get better and more coherent approaches to skilled development.

Therefore, these forces are not going to change. The shift in paradigm is here and I think that what is really important is the context in which to view downsizing, and particularly the right kind of downsizing. We have not seen the shift to a new kind of organization for seventy-five or eighty years. I suppose in some ways, if you can see it from 10,000 feet, it is a lot more exciting than it is if you are a part of it from day-to-day. But it really is a very fundamentally important development that is going on and it is going to mean many challenges in the many different ways of operating, dealing with, and utilizing people in working our way through this period.

