What's Happening to Management? Was Downsizing Real? Are Changing Management Practices Steps toward a New SSA?

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The waves of corporate downsizing since the 1980s have been seen as "hollowing out the firm," as if leveling the ground for new institution-building. Yet David Gordon showed that the supervisory/non-supervisory ratio continued to rise with early downsizing – has that trend continued? Are the ongoing corporate downsizing and centralization of capital in the recent, post-crisis period clearing the way for the next SSA for management? What form will that take? The paper explores this question, examining the literature on changes in supervisory ratios across several social-science disciplines.

The Social Structure of Accumulation refers to the set of institutions which constitute class relations and in so doing shape the forms and objects of class conflict (Kotz et al. 1994, Naples 1996). While previous work on labor has tended to focus on relations between management and the working class (Fairris, and Albelda and Tilly in Kotz et al., 1994; Naples, 1986), this paper is a preliminary exploration of the extent to which the labor process among managers has not only been subject to an SSA, but has faced a paradigm crisis brought on by the same forces that led to union decertification and the loss or degradation of many primary subordinate jobs.[1]

Edwards (1979) identified as *bureaucratic control* the prevailing management system for primary subordinate workers in the US after World War II. Bruce Kaufman (2008) studied the birth of these systems in managerial personnel relations before the war, experiments that were then operationalized on a more widespread basis in the 1940s and 1950s. Under bureaucratic control, the administrations of large enterprises were constructed to function like machines operated from the top, with a division of labor by department, and a hierarchy of responsibility and control delineated in job descriptions. Regular employee assessments linked to pay-grade improvements provided both stick and carrot in the attempt to ingrain the enterprise's expectations into management employee consciousness and performance.

The postwar expansion of graduate management education trained incoming recruits in the institutional practices of bureaucratic systems. Internal labor markets permitted companies to capitalize on having successfully attuned junior management to their corporate culture. And as David Gordon first observed in 1981, management hierarchies grew. The ratio of nonproduction to production workers expanded from 13.7 percent in 1948 to 22.4 percent in 1979 (Bowles, Gordon, Weisskopf 1990:103).

But the postwar long-wave boom ended. In the uncertain period which has ensued since the first postwar depression (1981-82), bureaucracies quickly showed themselves to be rigid and too slow responding to a rapidly changing competitive environment, new communications technologies, and changes associated with outsourcing labor services as well as commodities, among other global changes (e.g., the opening of previously socialist countries to more capitalist investment and market processes). The ongoing unraveling of this and other aspects of the postwar SSA combined with profitability problems undermined cozy oligopolistic arrangements in many US industries. Without hegemonic systems to manage competition among companies, crucial mistakes and therefore wider dispersion of profitability were more likely. Competition became more cutthroat, and the ongoing environment more uncertain.

The breakdown of the postwar SSA for management opened up the question as to how best to govern companies. The leveraged buyout movement of the 1980s claimed to discover hidden profitability in trimming bloated bureaucracies and downsizing management. Whether this was the basis of a new model of streamlined management or simply dismantled old systems without providing a new vision would take time to show. Apparently old-line management systems were being rethought in an environment of stockholder pressures for greater dividend allocations and quick returns manifested in stock prices; typically management compensation became tied to these, rather than such previous criteria as the number of subordinates or sales growth (Crotty in Epstein 2005; Lazonick and O'Sullivan, 2000; Stockhammer, 2013; Van Arnum and Naples, 2013).

In more recent research, David Gordon (1996) suggested that the much-trumpeted downsizing misrepresented changes into the 1990s. The prevalence of supervisory personnel continued to climb into the mid-1990s: Gordon (1996: 53) provides evidence of an increase in private-sector managers (a subset of supervisory workers) from 12.6% to 13.6% of nonfarm employment from1989 to 1995:2. He observed that a 1994 American Management Association survey found that across-the-board cuts in overhead employees proved counterproductive in terms of management's productivity, most clearly in its impact on morale[2] (p. 59). Gordon then went further, drawing on his empirical analysis across several advanced capitalist countries, and suggested that it is the conflict-ridden character of US labor relations that creates the bias toward more extensive supervision (237).

Extending the period under analysis confirms Gordon's view that "downsizing" misrepresents the overall trend in what he calls the bureaucratic burden. In the 16 years from 1984 to 2000, management employment grew 52%; in the 12 years from 2000 to 2012, the number of managers grew 17% (US BLS). If we examine the ratio of managers, professionals and related occupations to total employment, the ratio rises from 29% to 38% from 1984 to 2012, or about .3 % points per year (US BLS) (see figure 1).

(figure 1 goes about here)

Total employment of nonfarm nonsupervisory personnel expanded less dramatically, rising 43% from 1984 to 2000, and stagnated since, only rising 4% in the next 12 years (see figure 2)., despite the fact that nonsupervisory employment fell from 2007 to 2010, and has not yet returned to pre-crisis levels. Much of the increase is driven by higher employment levels for professionals, whose share of total employment increased 50 percent over the period. Their share rose through 1999, stagnated through 2006, then jumped and stayed high through 2013. This last most likely reflects the impact of the financial crisis on nonsupervisory employment, not just in the downturn, but as companies take advantage of relatively slack labor markets and rehire workers slowly, positioning themselves to extract more intense effort from those still on the job.

The narrower category of managers, business and financial employees also rises but much more slowly (.12% points/year). It would be preferable to have an even narrower category, given the increasing financialization over the period, so as to pull out the growing employment of financiers by industry to engage in aggressive management of their cash and CCA fund and discern employment trends among remaining managers.

(figure 2 goes about here)

The upshot of these findings is to call into question the prospect of any SSA crisis in management processes. The data seem to belie any structural shift in supervisory ratios such as indicated by claims of downsizing. Is my research question moot? The next section explores findings of more detailed analyses of trends in management ratios, controlling for such elements as industry and firm size. To anticipate, changing trends in management intensity are real, but require analysis at a lower level of abstraction than the aggregate.

Reactions to Gordon, and Debates on Downsizing

William Baumol, Alan Blinder and Edward Wolff (2003) examined claims of downsizing by US firms in the period. They pointed out (2003:260) that downsizing of middle management the late 1980s – 1990s may have been temporary or contingent by its own logic. To the extent it reflected a severe profit squeeze, whether gross or profits net of interest payments on accumulated debt, it is not surprising that some recovery of profitability would permit rehiring.

Alternatively, Baumol et al. observed, if lower and middle managers were let go because their skills no longer conformed to those necessary, downsizing would be expected to be coupled with the hiring of new skilled managers. For example, as the marketing environment shifting towards the Internet, email and data mining, new skilled managers would still be brought in to access these new communication channels. Accounting expanded to incorporate information systems and the capacity to handle massive datasets on Excel and complex integrated proprietary data-management systems. Human-resource management required proficiency in maneuvering on the internet for searches and managing web-pages for employee-benefit administration. Management analytics required proficiency in SAS and comfort with such real-time business-application software as SAP. Information technology required its own managerial division, to manage skilled IT personnel not typically adept in people skills. And across the board, facility with remote accessing, being able to work from home or satellite offices and download and upload data, communicate 24/7, and in general adopt internet and telecommunications technologies as business tools proved challenging for many managers who had been pulled to their field in part because they were not math/science types.

Baumol et al.(2003) also suggest that if corporate owners learned that ongoing downsizing of management did not produce the anticipated overall cost savings, since the enterprise did not work as well, they could change their minds. This was particularly true if their anticipated hires of technologically savvy young turks ran up against labor shortages in light of the widespread increasing demand for such workers and the slow and steady production of new graduates. They found evidence that downsizing in manufacturing did not engender productivity gains (2003:261), which would provide the basis for any such rethinking of reductions in force.

Baumol et al. found that it was the large manufacturing firms which implemented the greatest cuts in employment (263), which is consistent with more recent findings by Hollister and Wyper (2013, see below). Since these are also most likely to have sufficiently tall corporate ladders to incorporate internal labor markets, such downsizing presents the possibility that these ladders were shortened or slimmed. But for both retail and manufacturing, it was the declining sectors which were downsizing, growing industries tended to expand employment. While not surprising, this macro argument does not require that any management restructuring be going on.

In a recent issue of the *American Sociological Review*, Adam Goldstein (2012) provided evidence supporting David Gordon's (1996) claim that the much-touted corporate downsizing of the 1980s-1990s is a myth. Goldstein explores three basic categories of explanation for sustained managerial expansion/downsizing. First, the assault on managerialism (272) by the shareholder revolution required managers to demonstrate adding value if their jobs were to persist. Prior to the 1980s, management pay was a function of the number of employees supervised, directly or indirectly. Goldstein suggests that this tended to bias managers towards hiring more employees as a vehicle for increasing their own pay. Others have argued (Orhangazi, 2008; Van Arnum and Naples, 2013) that the shift in management compensation strategies to heavy emphasis on bonuses tied to profitability helped redirect managers' eyes from long-term performance to short-term gains. The merger movement that spans the period Goldstein also interprets as a vehicle of reducing excess management, as merged companies eliminated duplication.

Goldstein's second basic explanation for managerial persistence, "decoupling," denies that there was any reality behind the claims of broad-based downsizing that regularly made the business news. He cites several analysts' discovery that announcements of cost-cutting plans, stock buybacks, or mass layoffs tended to increase stock price, but often described plans not fulfilled. To the extent that managers' earnings were linked to stock prices, it was lucrative to make such announcements. This duplicity theory treats the separation of ownership from management as if giving managers real relative autonomy from any accountability for such lies.

Goldstein speaks of the new "shareholder value ideology" as if it were free-floating, a matter of ideas and management culture only. Van Arnum and I (2013) argued that the ascendance of the financial sector in the aftermath of the 1979 US currency crisis put pressure on managerial capitalism to cut costs in a variety of ways, including wage costs. In light of stockholders' avid attention to dividends, managers' capacity to duck out of commitments to downsizing are only viable in an otherwise profitable environment. In the late 1980s and early 1990s, the beginning of the period Goldstein studies, it is hard to argue that profits were booming. On the contrary, the private business sector seemed just as embroiled in leveraged-buyout gambling as the financial sector. Its debt overhang persisted well into the '90s, arguably contributing to an extremely slow recovery out of the '90-91 recession, which fueled the dot.com bubble and growing market for mortgage-backed securities (MBSs). When the best game in town is not real business investment, but financial speculation on companies like Amazon that had not operated in the black for years, or on appreciation of family homes,[3] it is a clue that expected profits are not robust. This serves as a challenge to the claim that managers would not be held accountable by stockholders in the period.

Finally, Goldstein adopts David Gordon's "fat and mean" suggestion that when bureaucratic-control systems, which had dominated management of nonsupervisory workers, transitioned to the "stick" of layoff fears in lieu of the "carrot" of such positive incentives as promotion prospects or pay increases, supervisory systems had to expand to provide more supervision of workers who no longer internalized a corporate ethos. Alternatively we might add, but consistent with Gordon's overall thesis, it takes work for managers to cut labor costs and keep them low.

Other contributors to expanding supervisory hierarchies included administration of supply chains and labor outsourcing as global exposure increased, and of *ad hoc* project teams. Goldstein suggests that while replacing what used to be internal functions of the firm with external market-sourced service employees or consultants was meant to reduce costs, it created new managerial roles. Will Milberg (2010) observes that internationally, terms of trade have favored the advanced countries, like the US. Cost-cutting has come at the expense of suppliers, which perhaps motivates the profitability of expanding first-world management to effect such negotiations and supply-price pressures. Gordon's (1996) view interprets managers as fundamentally labor-extractors, supervisors monitoring employee effort and/or performance. Goldstein reminds us that managers' job is to control the company's environment, even when it is external, viz., supply chains.

Not mentioned by Goldstein is the possibility that mergers and acquisitions, by expanding the base of the corporate pyramid, also required additional managers at the top. Gordon (1996:237) acknowledged that "one might have thought … that another source of relatively large managerial bureaucracies in the United States would have been the vast global empires controlled by multinational corporations based in the United States – requiring huge headquarters staffing at home." Gordon's tests for this hypothesis in his cross-country regressions included the size of a country's economy or its trade exposure; accumulated direct foreign investment would have more accurately captured the claim, but is not readily available.

Another interpretation of rising supervisory ratios and the question of downsizing differentiates the history of small and large firms over the last 30 years. First, historically, large companies tended to pay employees a higher wage than other firms; Walter Oi (1989) estimated a wage gap of about 35% between otherwise comparable workers employed at large firms and elsewhere. This differential had long interested a variety of labor economists, and birthed theories of labor queues (Thurow, 1975) and efficiency wages (Bowles, 1985). Hollister (2007) found some evidence that the premium offered by large firms eroded from 1988-1998, then rose slowly through 2003, which could potentially indicate the elimination of above-average management jobs. Still, the overall decline of 1/3 that she identified seemed most to affect those with the least education, suggesting large-firm management has not yet experienced such a decline.

In more recent work, Hollister and Wyper (2013) exploit an unconventional dataset for panel analysis of managerial employment, companies' Equal Employment Opportunity Commission reports (the EEO-1). Designed to capture employee diversity, these specify firm employment by occupation, including management;[4] they exclude companies with fewer than 100 employees and public employees, hence covering about half of total employment (p. 12). For analysis, the authors divide companies logarithmically into groups: 100-199 employees, 200-1999, 2000-9999, and 10,000 or more employees. The entire dataset spanned 126,652 firms (p. 16).

Hollister & Wyper (2013) discern a pattern distinguishing large firms from small: the smaller the firm, the more likely the trend in managerial intensity is positive, the larger, the more likely that trend is negative. They modeled movements over time with dummies for each year, thus imposing no particular shape to the time trend. The smallest companies saw a relatively steady upward trend in management intensity,[5] and the second smallest had an upward trend before 1983, but stagnated after. For large concerns, managers' proportion of total company employment peaked in the early to mid-1980s, and fell to the mid-1990s, with a mild increase since.

This paints a very different picture of downsizing than descriptions based on aggregate data do. During the recessions of 1982-83 and 1990-91, it would not be surprising if management intensity had increased, given cyclical increase in unemployment. The story Hollister and Wyper tell is that the practice of retaining management as overhead labor during recessions may have created a backlash against managers as mass unemployment pushed intensity higher. The 1990s recession exhibited no similar run-up in the management ratio for large firms, reinforcing Goldstein's (2003) report from the AMA survey of disproportionate layoffs of managers in that period.

Seen through the lens of Gordon's (1996) interpretation of cross-national variation in managerial intensity, it is possible that smaller firms take a more conflictive approach to labor relations than large concerns, which have been educated by a long history of labor relations in the pitfalls of heavy-handed sticks. This requires that the smaller firms also tend to be younger, which the EEO-1 dataset should permit Hollister and Wyper to track.

Particularly interesting for the question with which we began of a shifting SSA is Hollister's and Wyper's explorations of the role that changes in industry and firm[6] composition play in helping explain these differences in trend by firm size. For small firms, the growth in managerial intensity is not primarily a product of such shifts, but of internal firm dynamics; Hollister and Wyper suggest their growth orientation may motivate taking on more rain-makers in upper echelons. Their conclusion is true *a forteriori* for large firms: from 1994 to the present, the raw trend in managerial intensity lay below predictions from firm and industry fixed-effects. That is, some process internal to these large firms tended to pull management intensity lower than it would otherwise have been in this period. Had there not been these firm and industry fixed-effects, management intensity would have been below 1978 levels even in 2004.

Two very different managerial systems may underpin these changes at large firms: teamwork and the network form. Self-management is one of the principles of teamwork, as team members hold each other accountable for the final product. To the extent the firm has been hollowed out, subcontracted out and outsourced, managers are still needed to direct this network of external sources of supply (Hollister and Wyper, 2013:22).

The Merits and Contradictions of Teams

In the 1980s and 1990s, as downsizing became much discussed, the Japanese model was much-vaunted. It emphasized partnerships, such as interlocking directorships for particular industrial and financial giants, and group work. Teamwork became a new management workstyle which helped shorten the time necessary to complete projects by engaging all phases in the project simultaneously – the marketers and engineers, the accountants and financiers, human resources and database managers. But how were such teams managed?

Many authors have vaunted the merits of decentralization of authority – letting teams set their own goals and aspirations, follow through, and achieve more than those in top-down hierarchies typically do. Autonomous teams tend to promote creativity (Adams and Bianey, 2004) and flexibility, so can respond more rapidly to a changing business environment. Team members take on a more entrepreneurial cast, thinking ahead, taking charge of the situation, scanning for opportunities, and holding each other accountable (Bindl and Parker 2010; Kirkman and Rosen 1997; Kanter 1993). Decentralizing authority to the team level permits participatory decisions which benefit team performance (Carson et al., 2007; Pearce and Sims, 2002).

The reported successes with workplace teams have typically focused on isolated teams that were relatively autarchic, able to draw on existing resources or create their own information. Many companies have also experimented with coordinated teams, as with Nissan’s engineers developing a high-efficiency engine while their design people adjusted the trunk size to accommodate a larger battery, each in consultation with each other (Lanaj et al., 2012). A pair of teams working on a single task may coordinate effectively with each other, sharing information in a timely manner and working through conflicts. But problems can emerge in large multi-team systems in coordinating component teams and working through conflicts. In the search for empowerment of creative spirit in pursuit of the corporation's goals, to what extent do autonomous teams undermine each other? What is the alternative to such coordination failure?

Lanaj et al. (2013) identify several possibly dysfunctional consequences of team autonomy for the company. High-aspiration teams may take on high levels of risk in pursuit of their goals. If more than one interdependent team in an enterprise takes on high-yield, low-probability strategies, Costello (2009) observed, they may not realize that the probability of success is not the sum of such probabilities, but their product, a much lower number. This helps explain excessive optimism at the planning stage, and increased risk-taking under disappointed expectations.

A second problem is with complete decentralization, the company breaks down into a series of cowboy teams, each functioning relatively autonomously but not necessarily in the interest of the whole. There can be inter-team competition, or accountability shedding and finger-pointing, neither of which prioritizes the company's bottom line.

The classroom-based research by Lanaj et al. (2012), in an Air Force training course, contrasted the effects of decentralized authority (start with the team establishing strategy, then have representatives from each team coordinate through a leadership committee) with centralized authority (have the leadership committee set strategy, then have representatives bring this to each team). They found some evidence that centralized authority was more successful in preventing mistakes, defined as bad choices in the face of uncertain outcomes in the classroom simulation. But the cost of mistakes here were low-stakes, a slightly performance report coming out of the simulation, not the kinds of profitability problems which put an entire enterprise at risk.

Conclusion

These experiences with teams are reminiscent of the literature on worker self-management in terms of anticipated productivity and performance benefits. The fascinating thing is that these are questions that come up in participatory democracies. A group of gifted musicians will nevertheless need a conductor to coordinate their playing. Committees of the whole (having all team members in multi-team units make strategic decisions) are notoriously unwieldy processes. Are these managerial experiments with teams a preface to rethinking the organization of work in the US in a less bureaucratic vein?

One of the shortfalls of bureaucratic control's motivation systems for workers, carrots and sticks, was precisely that it taught people to act like donkeys, not to take initiative, but to obey. The management literature, at least, has come to recognize that when such employees face expectations they consider unfair, they balk, and do not commit to unrealistic goals (Hollenbeck and Klein, 1987). It also behooves economists to realize that workers care not only about dollars and cents, but also about the quality of their worklife, their lived experience on the job. Specifically, workers care about justice. This means treating employees as humans having agency, not just as donkeys responding to incentives. It also requires reconceptualizing productivity. Worker morale only affects productivity if labor productivity is not seen only as a matter of efficiency, but as reflecting work intensity and performance, and if workers have some agency over the level of sustained effort and/or quality of their services rendered on the job.

This review of the literature on management intensity has taken us in a different direction from David Gordon's interpretation of proclaimed downsizing as masking continued increases in supervisory ratios. Baumol et al. (2003), Hollister (2004) but especially Hollister and Wyper (2013) provide evidence that downsizing of management did take place in large firms, and supervisory ratios did decline into the 1990s.

The next task is to get a better handle on what is happening with managerial systems under such relative decline in management staffs. It is my sense that teamwork has the potential for shaping management structures in the future, and perhaps serving as a model for production-worker labor processes as well. But this new paradigm is not yet well developed. The business community expects business schools to graduate students trained in team processes (AACSB n.d.), yet how teams best articulate in a larger organization remains the subject of debate. It is an interesting moment for economists schooled in the labor process, and workplace democracy, to weigh in.

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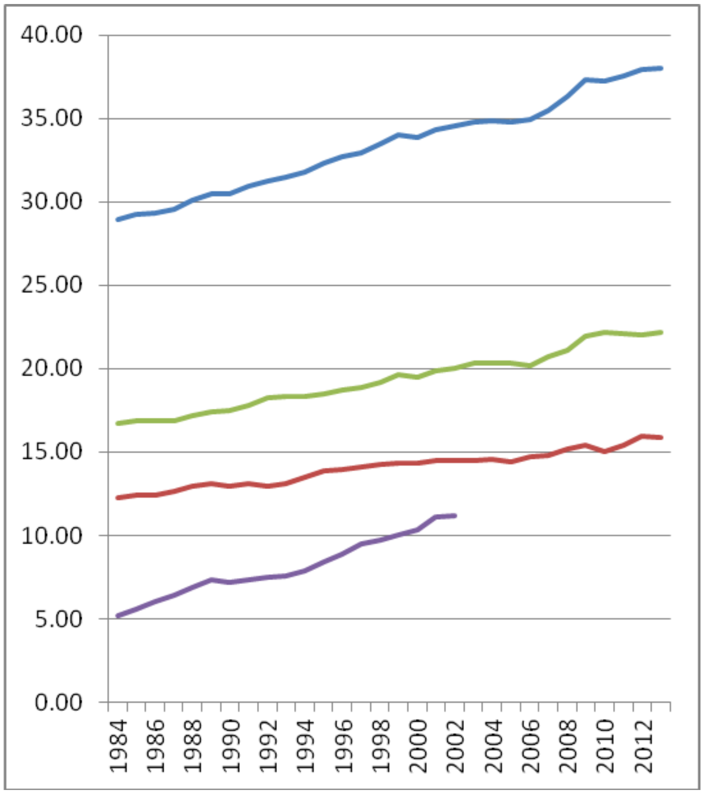
Figure 1

Management, Professions, and Related Occupations, as Percent of All Employment

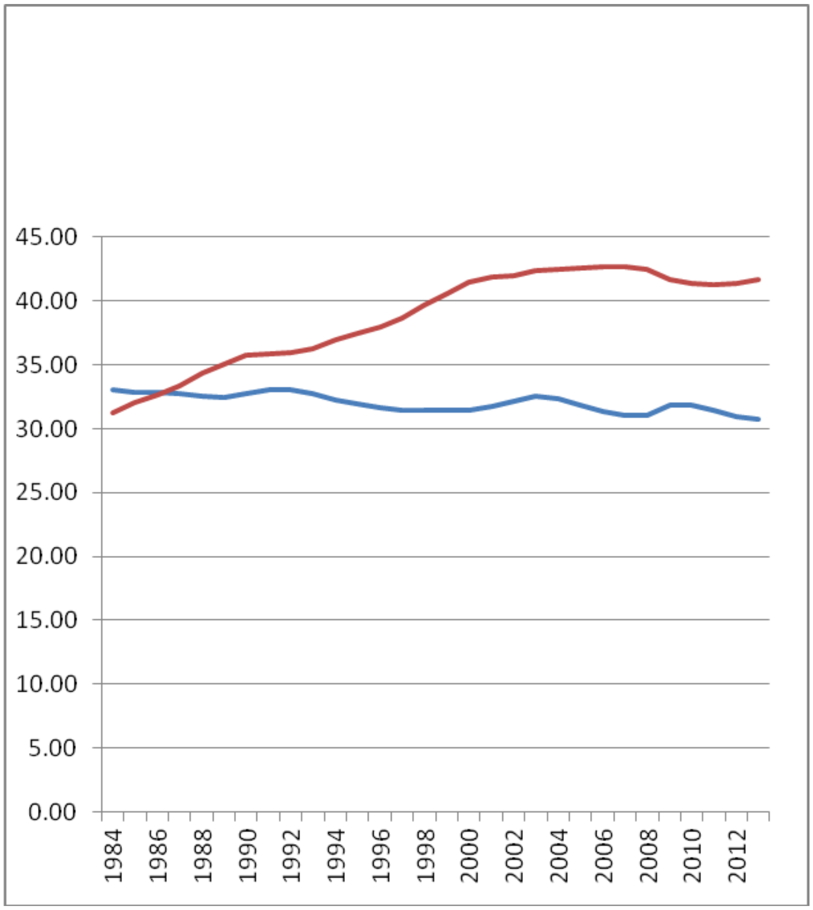


Key:

Blue line:	Management Occupations as a percent of total employment (BLS CPS)
Green line:	Professional and Related Occupations as a percent of total employment (BLS CPS)
Red line:	Managers, Business and Financial Operations employment as a percent of total employment (BLS CPS)
Violet line:	Managers as % of all private nonfarm employees (total management excluding public administrators and funeral directors, Census Bureau, from Goldstein 2012)

Figure 2

Supervisors as a Percent of Nonfarm Employees



Key:

Red line: Number of Supervisory Personnel, Nonfarm, Millions (BLS CPS)
Blue line: Supervisory Personnel as % Nonfarm Employment (BLS CPS)

Endnotes

[1] See Gordon, Edwards and Reich (1982) for the forces behind the emergence of primary subordinate jobs.
[2] Note that morale has no place in neoclassical theories of labor productivity, which depend on labor-service contractual agreements and capital intensity. The management literature is, however, institutionalist, and by its nature recognizes that the intensity and quality of work performance is not the sole product of a contract and a simple productivity algorithm (hire more employees, capital-labor ratio falls, productivity suffers), but has everything to do with the social organization of work.
[3] This is more the reason since family home and commercial real-estate values in the New Jersey New York, Connecticut region had fallen substantially after the 1987 stock-market crash and during the ensuing regional depression, which lasted 4 years (Seneca and Hughes, 1994).
[4] Managers are "'officials, executives, middle management, plant managers, department managers, and superintendents, salaried supervisors who are members of management, purchasing agents and buyers, railroad conductors and yard masters, ship captains, mates and other officers, farm operators and managers, and kindred workers'" (Equal Employment Opportunity Commission, quoted in Hollister and Wyper, 2013:12).
[5] They infer that the excluded smallest businesses most likely follow the pattern in the smallest companies they did have data for, an increasing proportion of managers.
[6] If some concerns had the habit of hiring more managers, then increases in their employment levels within a firm-size group would register in higher average managerial intensity.