BOOKS
Reviews

Gordon, David M. **Fat and mean: The corporate squeeze of working Americans and the myth of managerial "downsizing".** New York, NY, Free Press, 1996. xii + 320 pp. Figures, tables, index, bibliography. ISBN 0-684-82288-1.

Professor Gordon's deeply insightful analysis of the wage squeeze of American workers in recent decades highlights the adverse effects of low-road management in American enterprises. His realistic and persuasive study of microeconomics — here labour-management relations — together with the meso-level institutional and policy environment invalidates a number of arguments frequently emphasized in traditional macroeconomic analysis of the labour market. His truly innovative, multidimensional approach sets an excellent example of how employment issues can be studied with a focus on the need for more jobs, of higher quality.

Since Gordon's argument is based upon an empirical, statistical analysis that demonstrates the relationship between low-road management and the wage squeeze in the United States, I have no intention of challenging his conclusions, which appear to be both realistic and to the point. Most surprising and deplorable, however, is the fact that the low-road management style widely pursued by "fat bureaucratic managers" in American companies has successfully cracked down on confrontational trade unions by resorting to unfair labour practices and relying on a measure of institutional and policy support. The result has been a continuous squeeze on the wages of low-skilled and unskilled workers.

One aspect of Gordon's analysis is truly unique and has particular practical value. Traditional analysis tends to look only at labour market supply and demand. According to this, demand-side wage determinants typically include overall macroeconomic growth, technological innovation associated with the emergence of new jobs, low-cost imports from poor countries or manufacturing investment in developing countries with cheap labour. On the supply side, traditional analysis may look at the availability of young and inexperienced workers, female labour-force participation, migrant labour, the shortage of unskilled labour due to increased education, etc. In addition, a skill mismatch is often taken into account as well.

Looking beyond these traditional factors in wage determination, Professor Gordon focuses on labour-management relations and productivity gains. Using time series and international cross-section analyses, he shows how low-road management has squeezed wages in the United States. He also explains why and how American enterprises have developed this style of management in the context of the prevailing socio-political and business environment. Finally, he prescribes some remedies.

Since this book was written, the economy of the United States has continued to grow. American enterprises have become the most competitive of the global market, turning out impressively high profits year after year, with their share values breaking records on the New York Stock Exchange every month. Yet it now seems more than likely that these high corporate profits were mostly achieved by low-road management strategies which facilitated and accelerated downsizing, without any consultation or collective bargaining with workers. The result has been a combination of massive lay-offs and such global business strategies as mergers, acquisitions, alliances, and overseas sourcing to the detriment of both employment and wages in those companies. In this process of generating macroeconomic prosperity there has been little for American workers to share and benefit from. Indeed, it exposed them only to sacrifice and the wage squeeze. This kind of exploitation must be avoided by all means.

If Professor Gordon's findings are correct, they raise serious questions about the quality of leadership among chief business executives in the United States and, more generally, about corporate governance in American enterprises.

For comparison — to put Gordon's findings into broader perspective — the table shows the return on capital in the 20 top enterprises in the United States, the United Kingdom, Germany and Japan in 1997 based on *Financial Times* FT 500 Enterprises.

Top 20 enterprises in the United States, the United Kingdom, Germany and Japan: Market value and profitability (return on capital employed (ROCE))

Ranking by market capital value	United States	ROCE %	United Kingdom	ROCE %	Germany	ROCE%	Japan	ROCE %
1	General Electric	9	Shell	19	Deutsche Tel	7	NTT	3
2	Microsoft	32	BP	37	Daimler-Benz	3	Toyota	5
3	Exxon	14	Glaxo	53	Siemens	8	Bk Tokyo-M	0
4	Coca Cola	48	Loyds TSB	67	Deutsche Bk	16	Sumitomo Bk	1
5	Intel Corp	29	Unilever	23	Bayer	13	Sony	5
6	Merck	25	Smithkline	33	Veba	8	Sanwa Bk	1
7	Intel BMC	7	BT	20	Hoechst	14	Honda	10
8	Philip Morris	24	Barclays	37	Carrefour	22	Fuji Bk	2
9	Proctor & Gamble	21	Zeneca	31	BASF	13	Industrial Bk	0
10	Wal-Mart	11	Halifax	15	Volkswagen	6	Seven Eleven	14
11	Bristol Myers	38	Marks & Spencer	22	Mannesmann	7	Hitachi	2
12	Johnson & Johnson	24	BAT	27	Commerzbank	11	Takeda	8
13	Pfizer	25	NatWest	20	RWE	6	Tokyo Electric	1
14	Hewlett-Packard	16	Abbey N	34	SAP	49	Nomura	4
15	ATT	20	Grand Metro	8	Bayerische MW	10	Canon	7
16	Du Pont	22	Reuters Hldg	60	Bayerische V	14	Fujitsu	2
17	Lilly	18	Cable & W	22	Viag	9	Denso	4
18	Bell Atlantic	13	BG	3	Bayerische HW	11	Fuji Photo	6
19	Pepsico	8	Guinness	16	Thyssen	5	Mitsubishi Trust	1
20	Citicorp	10	General Electric	17	Lufthansa	5	Bridgestone	9
Long-term interest rate %: (10 to 30 years bond)		6		6		5		2
Minimum level of ROCE %: required (discounted by 40% corporate income tax)		10		10		8		3

In today's financial world, enterprises are ranked by the yardstick of capitalized market value, i.e. the unit share value on the stock exchange multiplied by the number of shares issued. The enterprises listed in the table have the highest value in their respective capital markets. In fact, the general quality of management in most of these enterprises is also highly regarded in one way or another. The percentages in the ROCE column give the rate of return over capital employed, i.e. the ratio of pre-tax profits to total own capital employed (paid-in capital plus accumulated profit). This shows how efficiently the company has deployed shareholders' capital in business operations to make a profit and provide returns to its shareholders.

Though the table covers a variety of business sectors, it clearly brings out inter-country differences in the financial performance of enterprises. The companies of the United States and the United Kingdom display extraordinarily high financial performance, far beyond the minimum level of profitability required by the market. Only a few of them are performing under the required minimum. The high performers generally follow the low-road management style though, of course, no company is 100-per cent low road or high road, and even American and British companies combine elements of both styles.

By contrast, German and Japanese enterprises fail to match the profits of their counterparts in the United States and the United Kingdom, most likely because of their high-road management style. Though Japanese companies have been troubled by bad debts in the financial sector in the 1990s, the general trend still holds. The financial performance of the top German companies is roughly half of that of their counterparts in the United States and the United Kingdom, while that of Japanese companies is about half that of German companies. It should be noted that in high-interest countries like the United States and the United Kingdom a somewhat higher level of profit is required than in low-interest countries like Japan. Though the above table is just a snapshot of 1997, the general picture has remained consistent over recent years. And this is more than likely to continue or to change only gradually in the foreseeable future.

In the face of intensified global competition most large enterprises are under pressure, not to say forced, to restructure and downsize, whether they like it or not. Even in Germany and Japan, their ability to maintain traditional forms of cooperative labour-management relations is becoming highly questionable. Today, enterprises are tempted to manage exclusively for financial performance expressed in terms of ROCE. For example, towards the end of April 1998 the *Financial Times* reported that the head of Deutsche Bank had set a ROCE target of 25 per cent for the coming year, whereupon he announced thousands of job cuts. The question is whether this announcement was preceded by adequate consultation and consensus between labour and management. Given the German business environment, there are grounds for hoping it was not a unilateral management decision, as in the case of the 1997 closure of Renault's Belgian plant without any prior consultation of the trade union. However, there is a lot of evidence that Germany's top executives are increasingly tempted by the American and British management styles, though the country's present regulatory and institutional frameworks would make it difficult for them to follow such a course.

Japanese companies face the same global competition and heavy pressure to downsize. They have already introduced a lot of employment flexibility in the form of contract labour, which is increasingly widespread in offices, factories, warehouses and stores. These workers have no job security, in contrast to trade union members who are well protected and unlikely to be fired under any circumstances. Indeed the job security of trade union members is pivotal to cooperation between unions and management. Though supervisory and managerial staff are not unionized and can therefore be made redundant through "voluntary" early retirement schemes, Japanese firms are much less inclined than are their North American or British counterparts to lay off large numbers of their core labour force in the process of downsizing. The explanation is that Japanese enterprises typically recruit only graduates fresh out of school or university and invest heavily in their training and career development for increased employability and cooperation. Employers and managers tend to treat their employees as they would their own sons and daughters. Traditionally, employers and managers are trained and educated to think and work together with employees to improve productivity and share any gains equitably. In difficult times they are expected to forgo pay increases or even take a cut in their salary, as a way of sharing the hardship. Thus, even in the midst of a crisis employees can expect reasonable job security and moderate wage increases.

However, this system can be maintained only by continuous training and education for managers and employees together with employment guarantees. In other words, enterprises restructuring and downsizing need to find alternatives to lay-offs, such as stopping recruitment, voluntary early retirement schemes, cuts in the pay of managers and employees, disposal of non-human capital assets and cost saving, inventory reduction, office space saving, etc. But this makes the restructuring process unduly slow with the result that the maintenance of good cooperation becomes very expensive in the face of increased global competition. This is the main reason why the profitability of Japanese companies has tended to be so low and will tend to stay low in the future. The strength of the Japanese system is that substantial investment can be made in human and social capital — as well as in research and development — at the expense of profit.

It is obvious that Japanese employers are not managing their enterprises for financial objectives alone but more for their own beliefs, conviction, philosophy and value judgements whereby human resources need to be developed and protected. This approach is based partly upon traditional Japanese culture (e.g. Zen Buddhism and Confucianism) and partly upon the bitter experience of the militant strikes of the 1950s and 1960s, at a time when employers favoured low-road management. Even in today's difficult economic environment, many Japanese employers still believe they should refrain from copying American or European management practices and seek a third management style of their own. Nevertheless, some companies have started to argue that they should show more respect for shareholders' values, like American and British companies do. Where they go from here and how they survive global competition will only become clear in the next century.

It is said that the first ten years of the new millennium might be the time of Cold Peace, bringing intensified geo-economic wars between the labour-management relations models of the United States, Europe and Japan (the United States model includes the United Kingdom, while the "European model" really means the German model).

It was reported last year that American workers' wages were rising because of a labour shortage. On the one hand, it is indeed obvious that flexible and quick enterprise restructuring achieved through low-road management ought to result in benefits for workers in terms of shared productivity gains and profits, even in the face of global competition and low-road management. But top managers in the United States tend to manage enterprises more like money games, by paying themselves largely in stock options and by remunerating managers with performance-linked bonuses, while sacrificing workers in the process of downsizing. And increasing income disparity may cause social unrest, a time bomb which may explode at any moment. This is not a sustainable economic and social development by any standard. On the other hand, high-road management can be more costly and less competitive in the global market, leading to more enterprise failures and bankruptcies and thereby causing unemployment and eventual hardship to employees and managers. This is of serious concern to Japanese management. In the final analysis, therefore, the model to survive the global geo-economic competition may be neither the Japanese nor the American, but the German model.

According to a recent report, the chief executive officer of Vauxhall, General Motors' offshoot in the United Kingdom, has announced that he and other top managers would be taking a cut in their annual salaries so that the union might accept wage restraint on the condition that no workers be dismissed except under the voluntary retirement scheme. Due to the appreciation of the pound sterling the company's local production costs tend to be 30 per cent higher than those of its competitors in continental Europe. This demonstrates that even an American company operating in the United Kingdom's environment can take a high-road approach to management. So future competition need not necessarily be geo-economic, it could be between different management approaches, particularly between the high and low roads.

It is my personal hope that the high-road approach will win the long-term competition in the free global market. I still believe that quality enterprise development based on high-road management may lead to both more and better jobs.

Masaru Ishida
Director, Enterprise and Cooperative Development Department

Feser, Herbert. **Umgang mit suchtgefährdeten Mitarbeitern.**
Heidelberg, Sauer Verlag, 1997.
106 pp. Tables, figures, case-studies, bibliography. ISBN 3-7938-7164-9.

Behavioural disorders and substance abuse are insidious but familiar phenomena that occur frequently and are threatening to society. The havoc caused by accidents and addiction resulting from substance abuse alone affects roughly 10 per cent of any given population. Yet the response to escalating use and abuse of substances in both developed and developing countries has largely been smothered by denial of its harmful reach into society and of the toll it wreaks on economic growth. The issue has been marginalized and its negative effects minimalized.

The world of work generally mirrors the trends occurring in society and if a problem exists in the community, it is also present in the workplace. But the same responses of denying, marginalizing and minimizing the issue are common reactions from both management and workers. Yet, hidden — even tolerated — substance abuse causes increased accident rates, absenteeism, and conflicts in the workplace, as well as decreased productivity and quality, and entails increased indirect costs, for example on health insurance and social security. The effects of substance abuse can be compounded by the presence of other behavioural disorders, such as gambling addiction or compulsive work addiction, resulting in a myriad of problems.

Of course these problems can be ignored and enterprises continue to absorb the additional costs thus caused. However,