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Abstract: The new economy has grown out of the information age.The invention of the microprocessor and access and utilization of information technology has changed the economic picture in the U.S. and beyond.The advent of technology information, along with the recession of the early 1990s has drastically changed the face of corporate America. How and where people work in the new economy is different than ever before. The economy has affected not only where and how people work, but also how much.

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Strategic and Policy Issues (SPI) Paper

The New Economy

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Team 3: The New Economy

Good Summary of Downsizing Literature.

Your paper presented a good summary of today's work force. It was interesting to see how ineffective reengineering has been in the long run for certain companies. As a recently laid off employee, I took particular interest in this topic.

Well-Written and Interesting report.

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1.0 Introduction

Chip capacity and the computing power made available by the added capacity, has doubled every eighteen months, and will continue to grow at that pace .[1] Greeting cards that play "Happy Birthday" contain more computing power than existed in the world in 1950. Since the introduction of the microprocessor the world has been revolving around information. The access to this information is the driving force behind the change in the economy or The New Economy.

In the past four years, companies have been investing more money into computers and communication technology equipment than capital equipment to build their products.[1] The costs of these technologies have continued to decrease and the power of the technology has increased. Companies are finding more strength in using these technologies and more applications for them.

Information gives a company facts about the customer, the market, and processes in their industry. Information, if used correctly, can provide a definite advantage over one's competitors. The customer also has access to the same information and this gives them an advantage in choosing products and services, creating informed consumers.

The main key in this new economy is information technology. This instantaneous flow of information has an effect on almost everyone.

The knowledge of the power of computers and communication technology is not confined to the technological world. Technologies link together almost every industry and every profession. This has prompted cooperation among people of all backgrounds to work together and develops tools that enable them to accomplish their different goals.

George Lucus needed to create special effects for movies to make them more realistic and keep them somewhat affordable. He formed Industrial Lights & Magic that used 3-D graphics on SGI (Silicon Graphics Incorporated) workstations. Using the same software as Lucus, Ford Motor Company designers designed parts for a prototype vehicle. This is a case of two totally different companies seeing the advantage of using the same software.[1]

This type of interaction between industries will continue to advance software. Information technology is a powerful tool. If companies can use this tool effectively they will be willing to invest more effort to make interaction work. Technology has given industries a common language with which to communicate and work on problems across industry lines.

Businesses will have to change substantially survive in today's new economy. Organizations are trying to restructure themselves to flatten their reporting structure. The hierarchical structures no longer work. Project teams now make up the newly modified organization. With project teams traditional management lines are crossed. The purpose of a team is to form a group of multifunctional people from different areas of the organization. A project team framework would not work in a hierarchy structure because of the need to cross departmental barriers. EDS, Intel, and Microsoft have used the project team concept as the foundation of their structure.[3]

Businesses are trying to get into the swing of the new economy in many different ways. Organizations might be forming their companies for the new economy or just reacting to the quick changes. The trends vary from downsizing to changes in management.

Outsourcing is a strategy some companies are finding attractive in order to work in the new economy. Outsourcing is taking a non-critical part of your manufacturing or business process and purchasing it from a different company.

Johnson Controls, a controls manufacturing company, analyzed the overall process of their company. When they restructured they looked at their business in terms of what they do best. The tasks they determined they didn't perform well were outsourced. This freed up their resources from managing their computer networks, phone systems and boiler rooms. These changes have enabled their employees to do more for their customers by emphasizing customer service.[2]

2.0 Downsizing

In a quest for efficiency and survival companies have been charging billions of dollars off their earnings to layoff hundreds of thousands of workers. This current trend can be called "Reengineering" in America's corporate world. Today's corporations are no longer a secure or stable place. It is an uncertain, turbulent environment where managers often find their compassion and humanity in conflict with the pressures of competition and ambition. These reengineering efforts have sparked a complex debate about profits and loyalty, and about the benefits and unforeseen consequences of layoffs.

Even though the latest recession is over, we are still seeing an increased, continuous effort in downsizing throughout Americas' corporations. The most likely organizations to downsize are firms that are struggling to get through hard times, such as companies carrying heavy debt and government agencies facing continuous budget cuts. Over 26% of corporate cash flow currently goes to meet debt payments, compared with 9% at the start of the 1974 recession, and 18% going into the 1982 slump [8]. Debt can be a cruel master, forcing firms to take drastic steps to ensure sufficient cash flow to service it. Companies that don't take on debt, including foreign competitors, can gain significant market share. Loss of market share, along with a resulting loss of profitability, stimulates more downsizing.

Marriott Corporation eliminated 2,500 corporate jobs and closed its hotel construction and development unit. Yet any achieved savings pale against the cost of servicing more than $ 1 billion in debt taken on for an overly aggressive hotel construction program.

Downsizing firms expect to increase value for their share holders. Executives believe that future costs are more predictable than future revenues. Cutting costs by cutting people is a safe bet to increase earnings, and, by extension, the price of the company's stock. Judging by the 1000 companies that the American Management Association follows, it appears that downsizing is a popular strategy. From 1989 to 1991 those companies eliminated 212,598 jobs, saving $ 8 billion per year. [9]

An IBM analyst estimated that if 8000 employees accepted one of IBM's early retirement offers, the company would realize an extra 40 cents-per-share in earnings the following year, plus a 50 cents-per-share increase in the years following.

In terms of organizational benefits, proponents of downsizing cite six expected out comes: [11]

- Lower Overhead
- Less Bureaucracy
- Faster Decision making
- Smoother Communications
- Greater Entrepreneuership
- Increase in Productivity

Labor costs constitute roughly thirty to eighty percent of general and administrative costs for most companies. In capital intensive industries, such as oil refining or commercial airlines, the cost is about 30 - 40%. Among savings institutions, that figure is about 50%. In highly labor intensive operations, such as the postal service, the figure may exceed 80%. [12] Therefore, cutting costs by cutting people appears to be a natural strategy, especially for companies struggling to stay alive in a globally competitive market.

Reducing middle-level managers certainly reduces overhead and trims the number of layers in the organizational hierarchy. In theory this should lead to less bureaucracy and faster decision making, and provide for the organizational structure of the new economy. For example, at Sears there are only four levels of management from the top to the bottom of the corporation. With fewer levels of management to "filter" information, communications should be smoother and more accurate. In theory we will also see a greater entrepreneurship and increase in productivity.

A 1991 survey of 1,005 firms by the Wyatt Company suggested that most restructuring efforts fall short of the objectives originally established.

- Only 46% of the companies said their personnel cuts reduced expenses adequately over time. Four times out of five, managers ended up replacing some of the very people they had dismissed;
- Fewer than one in three said profits increased as much as expected; and
- only 21% reported satisfactory improvements in shareholders return on investments. [13]

Several surveys have identified the following effects of downsizing:

- Loss of Morale Among Employees
- Anticipated Cost Savings Not Materialized
- Less Productivity
- Loss of Employee Loyalty

Next to the death of a relative or friend, there is nothing more traumatic than losing a job. Corporate cutbacks threaten the security and self-esteem of survivors and victims alike. Lay-offs disrupt careers and families. They cause turmoil and shatter the morale inside organizations, and confirm the public's view that profits are more important than people. Indeed, study after study appears to prove that the downside of downsizing often outweighs any savings the cutbacks produce. Management underestimates the costs to slash workers and the impact personnel reductions have on the morale of survivors. [10]

Newly lean companies replace staff functions with expensive consultants, and companies find that it is expensive to train managers to handle tasks formerly performed by staff specialists. The net result is that some laid off employees may be hired back permanently and others will return on a part time basis as consultants. These same employees providing the same functions as before, as consultants, may have an hourly fee of four times their previous salary.

More than half of the 1,468 restructured companies surveyed by the Society for Human Resource Management reported that employee productivity either stayed the same or deteriorated after the layoffs. Moreover a four year study of thirty organizations in the automobile industry revealed that very few of the organizations implemented downsizing in a way that improved their effectiveness. Most deteriorated relative to their " pre-downsizing" levels of quality, productivity, effectiveness, and human relations indicators. [14,15] What the statistics of efficiency don't measure, of course is the cost in emotional trauma to laid off workers and their families, to the executives who often carry out the orders or to the less secure survivors in a dramatically changed organization. [10]

Critics believe that downsizing has become a **fad**, a bone to throw Wall Street when investors begin baying for cost cuts. Others maintain that large scale staff reductions, even at profitable companies such as Procter & Gamble Company and Xerox

Corporation, are necessary to maintain competitiveness in a fast paced global market place.

Noel M. Tichy a management professor at the University of Michigan says: " yet there still remains this naive view that as the economy continues to take off, these jobs will come back. That's nonsense." Tichy and others believe that recent gains in productivity, which rose at 4% rate in the last half of 1993, are largely the result of employee cutbacks and yet their opponents argue that this raise is only seen in a short term.

3.0 Contingency Work Force

The new economy has been shaped as much by technological advances, as it has been by the restructuring of corporate America. Global competition and technological advancements have forced industries to look at their competitive strength, and their inefficiencies and costs. Downsizing continues, especially in larger corporations, even as most economic indicators signal an end to the recent recession. Almost four and a half million jobs have been eliminated by Fortune 500 companies since 1979, or one out of every four that they once provided. [17] The days of working for the same employer for 30 years are gone. " The Nineties is not a good time to work in a large organization" according to Paul Saffo of a Menlo Park think tank.[1]

Downsizing is supposed to deliver a more efficient company, by utilizing personnel more effectively. A reduced labor force obviously means that a company will reduce its operating costs and stay competitive. Or does it? Corporate downsizing has left many companies with a central core of full time permanent employees that, at times, needs to be supplemented with temporary, or contingent workers. On the surface, hiring employees without having to worry about health care, retirement benefits, and even labor laws may seem an obvious way to reduce labor costs. However cost savings may not always be realized, or worth some of the issues the use of contingent workers raise.

The Bureau of Labor Statistics, the Federal agency that follows demographic in the workplace, does not officially recognize the term "contingent worker". This is a recently developed phrase that covers a whole range of working arrangements such as consultants, independent contractors, temporary, leased, flex-time and part-time workers. [19] The contingent workforce can include part-time, permanent employees, or the self employed, not just those who are represented by temporary agencies.

Good or bad, the contingent workforce is a major consideration in this country's labor force. Approximately one quarter of the US work force is working part time, or is self employed, and part time positions will provide about 25 percent of all new jobs. [23] Some predictions envision that by the year 2000 up to 50 percent of working Americans will be working on a contingent basis. [17] These employees may wish to work part-time, especially working mothers. Flextime and job sharing are some ways corporations are incorporating the part time employee. Employees who have access to health care coverage through a spouse may choose to work on a temporary or part time basis, since in the US health care coverage is still tied to one's place of employment.

Historically, temporary workers were hired to fill in for sick or vacationing employees, and were usually performing office or administrative support tasks. Today's temporary worker may be a secretary, a chemist or president of a corporation. There are now agencies that specialize in technical and professional fields.

Contingent workers allow a company to respond to changes in their organizations without going to the expense and time to hire full time employees. Most temporary workers are hired through a temporary help agency. The employer pays the agency an hourly rate, which is usually higher than an hourly rate for a permanent employee performing the same work, but less than an comprehensive benefits package would cost. The temporary agency may provide the employee with health benefits, or at least the option to purchase at a reduced cost. If the lower overall cost of the labor was the only consideration, it would seem that temporary workers are a great benefit to the bottom line. However, there are other corporate and cultural issues that must be taken into consideration when using temporary help.

The types and importance of work assignments must be considered. A temporary worker will not be familiar with the organization's culture, goals or mission. If the temporary worker is placed in a position to make decisions affecting core functions, the results may not be desirable. A temporary worker probably feels no commitment to the organization, or to other co-workers. Low productivity is a concern with temporary workers, which may be a training issue. However, the time and money invested in training a contingent worker may not be cost effective.

The presence of temporary workers may upset permanent employees, especially if the temporary is replacing a displaced coworker. The permanent employees may resent someone who can come in from the outside and easily perform the same job that they have performed for twenty years. There may be some envy on the part of permanent employees who view the temporary worker as having more freedom or choice than they do. On the other hand, the presence of temporary workers may provide some comfort to the full time employees. When business slows down, the temporary workers will be the first to go.

Some companies use temporary workers as a way to evaluate potential new permanent employees, to determine if their skills and personalities will fit the organization. This process incurs less risk than hiring an employee who does not fit. Significant time has not been spent in recruiting or training, and no long term commitments have been made.

The use of contingent workers opposes current management practices. The new economy praises the benefits of reducing layers of management and empowering employees.

Motivating permanent employees by providing a stake in the company is a practice of the new economy, and is not going to be applicable for temporary workers.

People seek part time temporary work for several reasons. As mentioned previously, the effect of downsizing has been severe. It is possible that not all of those employees laid off will be able to find a permanent full time job again. Many professionals who have been let go use temporary work to fill the void while they look for full time work. Some employees will find permanent jobs through temporary work. Temporary work gives people with little or no work history a chance to gain varied experience in a tough labor market.

Whether an employee chooses temporary or part-time work, or is using temporary work to fill in the gaps between jobs, there are issues that affect their quality of life. The lack of health care and retirement benefits remains critical, even though some temporary agencies and organizations with part-time workers are beginning to make these available. Temporary assignments can leave a worker without any sense of belonging or security, and can affect the overall stability of their lives.

The use of temporary employees in the chemical industry is representative of the use of temporary workers in the new economy. As of 1993, downsizing has decreased the number of jobs by 16,000 to 1.06 million. [24] Dow Chemical uses a small number of temporary workers at all levels in R & D and engineering work. DuPont uses temporary workers in it's Division of Corporate New Business Development, which looks at emerging technologies. At DuPont, an R & D team can consist of both temporary employees and DuPont researchers. Here, temporary workers are a way to keep costs down while quickly coming up to speed on skills the core group lacks [24]. At times, up to a third of the team may consist of temporary employees who hold degrees ranging from bachelors to Phd in areas such as chemistry, engineering and computer applications.

Not all companies who have survived downsizing turn to contingent workers. AT&T Universal Card Services in Jacksonville, Florida has created an in house pool of staff who have an interest in working in different departments, as needed. A data base is used to forecast labor requirements, document each employee's internal assignments, and list skills employees attain through working in different areas of the company. AT&T believes that they could not provide a superior level of service with contingent workers. [19] The quality of service a company provides is critical in the new economy.

4.0 Job Creation In The New Economy

There is currently controversy over the issue of job creation. Do small or large companies create the most *net* jobs in the economy? However, there is absolutely no doubt that the jobs which are being created, net or otherwise, are significantly changing. Traditional jobs are being lost at a staggering pace. General Electric has 100,000 less employees than they did just ten years ago.[5] IBM has reduced it's work force by 80,000 in the last three years. Every major corporation has announced restructuring, flattening of organizations, re-engineering, or other measures which have significantly reduced jobs from the large, once stable, traditional employers.

The percentage of GDP generated from manufacturing has remained constant at 20% for the last ten years, and is likely to remain so for the next decade· The remaining 80% of the economy is in the service industry. Today's customer is more informed than ever. A company has to recognize not only does the quality of the product matter, the service behind the product is also very important. This idea has inspired the growth in the service sector of the economy. The economy is shifting from manufacturing to service. 80% of U.S. jobs are now in the service sector.[1]

A service worker should be viewed as a person who is empathetic, flexible, inventive, and able to work with minimal supervision.[2] A company will have to take care to select individuals with these characteristics. Customers base their opinion on the service they receive. Customer interface has to be more than the sales person's responsibility. Every individual associated with a product has an obligation to the customer. Engineers designing a product with customers input can better develop a product the customer really wants, creating a more successful product.

Progressive Corporation, for example, is an insurance company concentrating on high-risk drivers and consequently charges high premiums. With regulations being passed limiting the premiums a company can charge an individual, Progressive had to change their strategies in the market. They looked at what the customer wanted and worked to give it to them. The management started up a special program for their agents, training them to respond to the customers needs.

Insurance companies are known to take a long time in processing claims and to be very difficult to work with. Progressive knew if they improved in these areas they could survive and also be very competitive in the market. Progressive started an Immediate Response Program. Their policy now is to contact 80% of accident victims less than nine hours after learning about the accident. Adjusters inspect 70% of the vehicles within one day and have resolved collision damage claims within a week.[2] Progressive's approach to service and the customer has restored profitability and created quite a reputation in the industry.

Microsoft, which is just fifteen years old, with annual revenues of $30 billion versus 75 year old IBM at $36 billion, is indicative of the changes happening in the new economy. The new economy companies are low on physical capital but intense in intellectual capital. They have the flexibility to reposition themselves rapidly, and can enter markets, extract premiums from the market, and exit the market segment quickly. Intellectually capital intense companies can easily outpace traditional companies burdened with inflexible structures and large physical capital investments.

The work force is dramatically changing to match the needs of the intellectual capital intense firms. In 1950, the percentage of workers classified as "blue collar", those who work with their hands, was approximately 45% while those workers defined as "white collar", those who worked with their intellect, were at 35% of the work force. By 1991, blue collar workers had slipped to 25%, and white collar workers made up 55% of the work force. Projected percentages by the year 2000 show blue collar workers comprising 22% of the work force, while white collar workers will make up 60%.[6]

It is estimated that all net jobs through the year 2005 will come from the service sector.[2] Companies such as Johnson Control are branching out from traditional manufacturing of heating controls into building energy management. Johnson Control's Facilities Management Services has been growing at triple digit growth rates since it's creation in 1989.[2] It is increasingly hard to tell where one business ends and the other starts. Home Depot, a large retail chain store has recently announced plans to launch a two hour home repair instruction program on QVC, and then take orders for the products shown at the end of the show. Bill Gates is quoted as saying " In another ten years, most decisions... will be on a much more informed basis because of electronic communication. If I want to pick a bank, I can not only compare their offerings, but see what their customers have to say about them."[1]

Business locations are also changing. The third largest banking center in the US is Charlotte, NC, directly behind New York and San Francisco. The second highest concentration of computer software companies is in Provo, Utah. Orlando has the third largest concentration of TV and film production, behind Los Angles and New York.[7] There is a mass migration of employers and employees to the south and Rocky Mountain states because of the low cost of doing business, a better quality of life, and the availability of highly motivated and well trained employees. In 1993, 540,000 people moved to the southeast and west from elsewhere in the U. S. The southern states added 788,550 new jobs in 1993, approximately one in every three jobs created in the US during that time period.[7] Edge cities, relatively small cities located near large metropolitan areas, are experiencing large growth in jobs, as are college towns such as Ann Arbor, Michigan and Boulder, Colorado .

5.0 Conclusion

The new economy has grown out of the information age. The invention of the microprocessor and access and utilization of information technology has changed the economic picture in the U.S., and beyond. Information provides power, used both by the consumer and manufacturer or service provider. An informed consumer is both a challenge and an asset for today's companies.

The advent of technology information, along with the recession of the early 1990s has drastically changed the face of corporate America. Downsizing is now a common term used to reflect significant reductions in a company's labor force. The phenomenon of downsizing has led to the restructuring of organizations. The organization of the new economy has fewer people, less layers and more team oriented work environments. The objectives of downsizing, increased profits and improved productivity, have not always been accomplished. The surviving organization is often understaffed, underskilled and demoralized.

How and where people work in the new economy is different than ever before. The business sector with the most growth potential is the service sector. The U.S. is moving from a manufacturing based economy to a service and information based economy. New types of jobs demand different skills, changing the composition of the workforce. The percentage of white collar jobs has increased from 35 percent in 1950 to 55 percent in 1991. The demand for intellectual skills is expected to increase, while lower skilled jobs diminish. Not only has the new economy changed the way people work, but may cause cultural change, broadening the gap between the upper classes and the working poor. The geographic picture of corporate America is also changing. The southern and western parts of the country are experiencing growth, taking jobs away from historical power centers such as New York.

The new economy has affected not only where and how people work, but also how much. The use of temporary workers is growing annually. The labor reductions caused by downsizing results in a skilled labor pool seeking employment in an extremely tight market. Sometimes, a part time job is taken as a survival measure on the part of the employee. A reorganized company may need temporary workers to supplement their core staff. Alternatively, some people prefer part-time work, and the new economy is providing more opportunity for alternate work situations.

The information technologies, so important in shaping the new economy, have also changed how and where people work. Communication technologies allow any community to be part of the new economy. Contingent workers or temporary workers can also include part time workers, flex time employees and telecommuters. All of these new working arrangements are enhanced by new information technology.

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