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THE NEW DEAL WHAT COMPANIES AND EMPLOYEES OWE ONE ANOTHER

Loyalty? Job security? They're nearly dead. But employers that deliver honesty and satisfying work can expect a new form of commitment from workers.

By Brian O'Reilly REPORTER ASSOCIATE John Wyatt
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(FORTUNE Magazine) – DOES THIS sound familiar? You're expendable. We don't want to fire you, but we will if we have to. Competition is brutal, so we must redesign the way we work to do more with less. Sorry, that's just the way it is. And one more thing -- you're invaluable. Your devotion to our customers is the salvation of this company. We're depending on you to be innovative, risk-taking, and committed to our goals. Okay?

It is understandably not okay with legions of workers encountering this widespread replacement of the job compact of the previous era, the one that traded loyalty for job security. That deal is virtually dead, but top managers rarely realize how debilitating their one-sided version of the new deal is. Daniel Yankelovich, the marketing and opinion researcher, is one of many who have observed a vast drop over the past few years in workers' commitment to employers. Says he: "Companies are unaware of the dreadful impact they are having. They don't realize they are violating an unwritten but important social contract they have with workers." The bill will come due soon. Until recently the brass could regret but tolerate sullen workers. In a recession the folks had no place to go. And Pat Milligan, a partner at Towers Perrin, a human resources consulting firm, observes that there is always a period after a contract is broken when people will try to adhere to the old rules and work hard. But now, says Milligan, employees are getting restless. "The economy is picking up. Workers are saying to management: 'I have choices now. Tell me what the new relationship is so I can decide if I want to stay.' And companies that don't articulate the new deal beyond the paycheck and the pension won't get the best people." The encouraging news is that certain companies are crafting a new deal that works -- sometimes. It makes no one feel warm and fuzzy, but it seems to minimize debilitating fury and anxiety. In its most naked form it goes like this: "There will never be job security. You will be employed by us as long as you add value to the organization, and you are continuously responsible for finding ways to add value. In return, you have the right to demand interesting and important work, the freedom and resources to perform it well, pay that reflects your contribution, and the experience and training needed to be employable here or elsewhere." For some companies and some workers, that is exhilarating and liberating. It requires companies to relinquish much of the control they have held over employees and give genuine authority to work teams. Companies must work harder than ever to make themselves attractive places to work. Employees become far more responsible for their work and careers: No more parent-child relationships, say the consultants, but adult to adult. If the old arrangement sounded like binding nuptial vows, the new one suggests a series of casual, thrilling -- if often temporary -- encounters. For others the arrangement is troubling. Attractive, mobile, young technical experts and professionals may fare well, at least for a while. But down the road, will those folks be cast aside for someone younger, more attractive, more current? Or will wisdom, not technical expertise, be what keeps people employed 20 years hence? No one knows. Says Kevin Sullivan, senior vice president at Apple Computer: "Experience or knowledge? It's a dilemma." Companies that make explicit the new rules discover they can elicit a new form of commitment and hard work from employees -- but relations may be far less warm, loyal, or familial. Says a young project manager at Prudential in central New Jersey: "We're cold and calculating and looking out for ourselves. If the economy picked up, I'd consider a job elsewhere much sooner than before. I wouldn't bat an eye." Most companies are only edging toward the new deal but already find that winning commitment without the old carrot of lifetime job security can be extraordinarily difficult. Chevron vice chairman James Sullivan knows why he joined the company 33 years ago: "I chose Chevron because the work was interesting and because I'd have lifetime employment." Sullivan was lucky. Chevron reduced its work force by nearly half, to about 50,000 people, after the merger with Gulf in 1984. It cut staff by another 6,500 in the past two years. But the impact on employee loyalty has been severe. "On employee commitment, I'd give us a B-minus," Sullivan says.

THOUGH profitability is up sharply, Chevron decided that isn't enough. The company has bravely posted the results of employee morale surveys in company bulletins and in the lobby of headquarters in San Francisco, and has vowed to improve them by developing a new relationship with workers. "It's not easy," Sullivan says candidly. "Until you try to write about it or talk about it, you don't realize how inept you are." Nonetheless, candor and communication are essential, he has found. Chief Executive Kenneth Derr and other bigwigs hold periodic meetings with employees at facilities far and wide, and toil to explain how business is changing and how this affects career advancement and security. Some others are more bashful. At a big industrial company in the Midwest, top managers can't bring themselves to declare that the old loyalty-security pact is dead. They have drafted dozens and dozens of unpublished versions of a new compact with employees. They are working on yet another. Should we mourn the death of the old ties? Anyone disemployed or haunted by memories of the Great Depression will miss lifetime job security, but the security-loyalty-paternalism pact of yore wasn't all that terrific either. The old deal often became stultifying. Corporate tolerance for unproductive workers produced ludicrous, and ultimately demeaning, arrangements. Du Pont would stick surplus executives in window offices and tell them to "count boxcars," a none-too-delicate message that their careers were sidelined. The head of human resources at a publishing company recalls, aghast, how the company used to park unproductive 35-year-old executives in useless jobs and leave them there. "We made no attempt to steer them to something useful." Although constant anxiety about job loss is unfair to workers and counterproductive, ironclad job security definitely doesn't produce the agile and competitive work force today's economy demands. For decades, until January ; 1988, a big New York bank promised workers that anyone with 20 years' experience would never be laid off. Imagine what sort of worker such a policy attracted and what behavior it encouraged. Says a human resources executive at the bank: "That was okay when we were clerically intensive and needed the mindset of a grunt. But as the organization changed in the Eighties and technology became important, we found that the people who came for security wouldn't adopt new ways of doing things."

UNDOING those bank workers' sense of entitlement "is like moving the Rock of Gibraltar," he says. Once older clerical workers heard they wouldn't get tenure, they agreed to accept training and new methods of working -- reluctantly. But their resentment and sense of betrayal lingers. "These are adults, living independent lives with families and mortgages," says the executive. "But they are emotionally and intellectually blocked. Some are still furious and won't go the extra mile for themselves or for customers." Some still don't get it at all, he has found; a bank worker in his 40s who recently lost his job told his superiors that he assumed they would find him another spot. "He acted like we owe it to him to deliver a new job," says the executive. "We don't." At AT&T, after ten years of upheaval since divestiture and the elimination of more than 100,000 jobs, the new message -- that employees are responsible for their own survival -- is slowly sinking in. For an electrical engineer who has worked at Bell Labs in Holmdel, New Jersey, for more than 20 years, it requires a stressful and demoralizing adjustment. He can be notified at any time that his job is "at risk." That means that Bell Labs is cutting back people in his area or discipline, that his skills are obsolete, and that he had one of the poorer job evaluations in recent years. Even if there are no layoffs and his evaluations are good, he cannot relax. His engineering projects typically last a year or two, and when they end he must find another project to work on. If he can't find another job at the company within a few months, he must leave. Now he hustles all the time, concerned that he won't have the necessary skills to win a berth on a new project when the current one ends. It is a persistent worry but not a paralyzing fear so far. He says, "They don't expect me to see 15 years into the future. But they expect me to recognize that the box I'm working on now will be a microchip in a year, with ten times $ as much software, and to be ready.'' His concerns, in order of urgency: ''What project will I be on in six months, what will my role in the project be -- electrical engineer, software writer, tester -- and will I have a job?'' To stay current he tries to take engineering and other courses that AT&T offers, but sometimes work leaves little time. ''If I think I need to learn more about power circuits, and my boss says no, he really needs me now, it's still my responsibility. I'll take the course at night or on weekends.'' And if he chooses to master a technology that AT&T turns out not to need? ''It's my problem.'' A few miles away, at a big Prudential office, paternalism has died an even harder death. ''Five years ago we played softball and basketball on company fields, and it was enough to make us loyal because we had job security,'' says a young manager there. But the company has eliminated 5,000 jobs nationally since then, and a quarter of the manager's co-workers have been fired. ''The message we're getting now is that the company doesn't owe you anything,'' she says. ''Consultants have told us the company is not there for your emotional support, that they don't owe you raises or job security, just honesty. And that a day's pay for a day's work is honest.'' The result? ''Everyone is shocked. The drones are panicking and looking for somebody to tell them what to do. The better ones are looking for opportunity.'' She adds, ''The people who will survive have realized we have to look out for ourselves. If you see a good assignment, you have to get it yourself. You have to fight for it. Make contacts . . . If there's a good assignment opening up and I'm not done with my current project, I'll work on the new one at night or on weekends. If I don't do that, I can't complain about not getting new skills.'' She and her peers resent the upheaval Prudential is causing, but surprisingly, it's not a disaster. She is still committed to doing a good job. She is driven partly by her own professionalism and competitiveness. ''It's like I'm running a marathon and trying to beat my own time.'' Gradually, too, she has realized that she is freer to do her work than before. ''The old days could be obnoxious. You had to kiss ass and dress right to get ahead. Now none of that matters anymore. If you work hard, you'll find a place.'' Maybe not at Prudential, though. Rumors say the company will relocate her operation to another office 20 miles north. She worries about the effect of a longer commute on her family. If asked to move, she will quit and find work closer to home. Any qualms? ''I don't owe them anything.'' Can companies establish this new-age, no-tenure employment compact without poisoning relations with employees? Intel discovered that it helps if the company never had the old implied contract in place to begin with. Like innumerable Silicon Valley firms, the semiconductor maker was founded and staffed by professionals who swarmed out of other companies. Intel never hinted at lifetime job security and didn't demand lifetime loyalty. Nevertheless, a big round of layoffs in the early 1980s was traumatic, and even Intel realized it could not be cavalier about employee relations. Particularly useful, the company found, is sharing as much information as possible with employees so they can make intelligent career decisions. Intel has quarterly BUMs, or business update meetings, with all its workers, to outline Intel's recent financial health, and twice-yearly SLRPs, describing strategic long-range plans, for executives. A key part of every manager's job is to help co-workers understand if demand for their skills is shifting, and to encourage necessary training. But the message to employees is clear, says human resources VP Kirby Dyess: ''You own your own employability. You are responsible.''

NOTE the wording. Many companies tell workers they are responsible for their own careers. That's what Intel used to say. But ''career'' implied constant, upward movement through one broad discipline. Intel's organization chart has become so flat, there aren't many upper berths to aspire to. Anybody who wants to keep a job must be prepared to go anywhere. Lest anyone ignore that gospel, it is coming home to its in-house evangelists. After a SLRP last year, Dyess realized her HR operation had been growing faster than the company and would have to be cut back. In April 1993, a year before the cutbacks would start, she met with her staff to explain the cuts and to tell them they should keep an eye out for new work. Says Dyess: ''Some people are concerned. Some are excited -- it's a chance to get into a whole new line of work.'' At Reuters, which had a more conventional contract with workers for many years, managers found that switching to a new employment arrangement requires explanation, sensitivity, and time. ''Because we were doing well financially, employees' first reaction was, 'Why are you doing this to us?' '' says Celia Berk, who heads employee programs and training for the company's operations in North and South America. "But we decided that if you measure yourself just by financial results, you can't tell if you're creating an opportunity for rivals." Now the company measures itself on client satisfaction, employee effectiveness and satisfaction, operating efficiency, and contribution to shareholder value, in that order. Employee satisfaction is deliberately not at the top of the list, Berk explains. "You could argue that IBM had satisfied employees. It's obviously not enough." That new measurement system is changing much of how business gets done at Reuters, and the company is exploring ways to link it to employment security and pay. "But we recognized you can't just announce the end of job security without explaining what you'll do in its place," says Berk. "The company isn't entitled to blind loyalty." The company held workshops to explain the new approach and to teach employees how to think about their careers. Reuters developed a set of explicit brochures that show what is expected of managers (for example: "Encourages continuous improvement . . . Looks beyond the short term"), and another set for senior managers ("Promotes innovation . . . Defines and implements strategy beyond a 12-month time frame"). It revamped its training programs. "We had to rethink adult learning. Not everybody learns well in a classroom." Wire service employees, measured and rewarded in part on customer satisfaction -- customers are newspapers and financial houses -- were sent out to clients' offices to observe how they use the Reuters service. Elaborate evaluation procedures solicited comments from supervisors, peers, and subordinates. Criteria were tightly focused: One manager got nicked in a recent evaluation for "failing to use information technology in strategic ways." Supervisors were required to provide candid guidance to their charges. "If a reporter comes to us and says she wants to study Russian, we owe it to her to explain if she will never be Moscow bureau chief," says Berk. And yes, she says, they fired people. "A few. You have to. Everybody in the organization knows who the drones are. If you don't deal with them, people gauge how much in control the company is. But you can't line everybody up, tell them to salute, and fire anybody who doesn't respond right away. Some people take time to adapt." In the absence of job security, it turns out, targeted firings are far more palatable to workers than wide-swath layoffs. Companies should probably do more firing -- most employees feel it's necessary. Sirota & Alper Associates, a New York City firm that measures employee sentiment, among other things, found that failure to get rid of nonperformers damages morale. Says David Sirota: "When we talk to employees, one of the biggest complaints we get is that companies do a poor job of facing up to poor performers. It's always the most negative finding. Even in the most militant unions, they complain about it. Workers don't want absolute security." But firing people fairly means evaluating them fairly, and evaluation and measurement remain large failures of the new employment model. Even the best- intentioned companies flub it. At an AT&T division near Bedminster, New Jersey, employees were told that those with the poorest evaluations over the past two years would have to go. Dozens of workers who had migrated to the division from other AT&T operations in recent years discovered that the grading curves shaping their earlier evaluations were all different. In some operations, B's were rare and C's were common. In others, B was average and C was for comatose. But the rule held firm. Some of the worst workers were kept, some of the best lost their jobs. Says a survivor: "This year, at evaluation time, everybody is going to be hysterical." Can this new, more entrepreneurial employment arrangement really work in the long term? Hardly any companies have enough experience with it to say. The new code rests on important assumptions that may be flawed: that workers are professionals, so their current psychological dependence on employers can be redirected to commitment to their craft; that their work will increase their skills; that their skills are highly transferable between companies or industries.

Apple can woo Stanford grads with the prospect of working on the hottest new device because new hires are confident they can move effortlessly to another company down the street. Their confidence seems reasonable, since 75% of Apple employees are engineers, MBAs, or other professionals. But it may not be justified. In rapidly evolving professions like electrical engineering and biotech, work on the hottest company projects by itself may not keep you up to speed. Many techies have discovered that their skills have peaked five years after graduation and that they will be replaced by more recent graduates. "It's a real problem," says a top manager who asked not to , be identified.

And if you're not a hot, young Silicon Valley engineer, the problem may be worse. Philip Breslin, retired manager of labor relations at Bethlehem Steel, says, "Work at most companies is more prosaic and less glamorous than that. For the assistant purchasing manager at a widget factory, it's hard to make the work fascinating enough to substitute for job security." Besides, says Breslin, jobs for many workers aren't transferable even in the same industry, because each company winds up developing unique ways of handling chores. An antidote for some of those shortcomings appears to be a team-based approach to managing projects. Even if the widget maker can't make purchasing glamorous, says Breslin, "in many situations, team building is a substitute for pay raises and security. Not because it makes me employable elsewhere, but because it provides me with an identification with a group of people all trying to accomplish a set of goals." At Southwest Airlines, pilots sometimes help clean the plane, notes Charles O'Reilly, a Stanford management professor. "It signals a unity of purpose to the cleaning crew -- that their work is as important as flying the plane." The rapidly readjusting manager at Prudential says teamwork is important in other ways too. "My motivation comes from my co-workers," she says. Pay and job security are tied in part to how the team performs, and while she feels no loyalty to management, she is willing to work hard to help her teammates.

INCLUDING TEAMMATES in arriving at an individual's evaluation gives workers a better sense of job security too, says David Noer, a vice president at the Center for Creative Leadership, in Greensboro, North Carolina. Peers are often a better judge of who is contributing and who is not. "Qualitative, boss-down evaluations are wrong," he says. "AT&T would have been better off with team- based appraisals." One of the great unanswered questions of the new work arrangement is how 40ish and 50ish workers will fare if continually forced back into in-house or external labor markets to compete with younger, cheaper workers. James Medoff, a labor economist at Harvard, says older workers' generous paychecks are at some risk. For years a tacit agreement was in place in most companies, he says: "You get paid less than you're worth in the first half of your career and more than you're worth in the second half." Workers let go at 45 may find their new jobs don't pay more with age and feel cheated. Growing old may not be a catastrophe for job-hoppers, though. Don McDermott, head of a human resources consulting company in Red Bank, New Jersey, says many companies that fired older workers are finding that the youngsters put in their place can't handle the job. Kirby Dyess at Intel says she has studied data looking for evidence that older workers have a harder time shifting between jobs there than younger ones, and hasn't found any. Says Dyess: "The people who have a problem are the ones who never moved out of a job category, who never took a course, never got a degree, never took risks." That doesn't mean that Intel employees automatically get rewarded for getting old. "Salaries are variable. If I switch jobs in the company, I may find my new position doesn't pay as well as the last one. Nothing guarantees that my paycheck keeps getting bigger." Will anyone ever spend 30 years with the same company again? Yes. Even the most aggressive exponents of the new employment contract say there will be plenty of lifers. Argues Hal Burlingame, executive vice president for human resources at AT&T: "People will have very long careers here. It just won't be static." Not everyone gets a gold watch. What may evolve are two or three classes of employees, all with varying degrees of connectedness to the organization, and each getting a very different package of compensation and reward. Peter Moore, managing partner of Inferential Focus, a social trends think tank in New York City, says every company must identify "the critical intellectual strengths it needs to be successful over the long term. You lock those people in -- make them captive to the organization, fully employed, compensated, and benefited." Even they may not be retained forever, says Moore. "I have one client where 80% of its revenues comes from businesses it wasn't in three years ago. So who is core in that company?" Other tasks, advertising or data processing perhaps, get farmed out to a regular stable of individuals or organizations who are paid on a contract basis for results. And a third set of workers -- telemarketers, widget assemblers, clerks, and so on -- come in part time or as needed.

WHAT MANY companies find is that if they won't offer security, they'd better offer freedom, and lots of it. American Express surveyed workers and found what they wanted more than anything else was free time. Some customer service) agents and credit analysts there are now free to set their own hours and work dusk to dawn if they choose. Amex travel agents often work at home on computer terminals, answering calls from customers who don't have a clue. Michael Connors, a senior vice president (and full-timer), says their productivity has not diminished at all. Workers who want to improve job skills can drop in to career resource centers at several Amex facilities. Intel discovered the best way to keep valued workers is to set them free occasionally. Every seven years Intel employees get an 11-week paid sabbatical. Yes, there is a seven-year itch, says Dyess, and workers run the risk of burnout if they can't get away. Is there a place in all this for loyalty -- workers devoted to the company instead of their own resume, or companies carrying workers whose contribution has peaked? Probably. Companies in anything but the rankest commodity business will always have to ask workers to invest in skills that are virtually useless elsewhere. Says Robert Paulson, head of McKinsey's aerospace practice in Los Angeles: ''Companies are forced to make what they cannot buy. And what they make or do that others cannot is what makes them unique and gives them competitive advantage.'' A genuine commitment by companies to retrain workers with unusual skills is helpful, but not everyone can be recycled. Companies that fail to demonstrate some sort of fidelity to those workers won't find many new recruits for similar assignments. There aren't any easy answers to problems caused for employees by competition and the rapidly changing skills that companies need to survive. But all workers deserve at least an honest explanation of how that change will affect them and what their employer will or won't do to help. ''Employees don't expect the impossible,'' says Robert Levering, co-author of The 100 Best Companies to Work for in America, ''but they do demand the possible. And good, two-way communication is probably the most important thing companies can do.'' It's not just fair, it's practical too. Chevron has discovered that when it candidly explains its problems to employees, their commitment to the company and their work increases, even if the news is bad. And managers who demonstrate they care about their workers might just find they get loyalty in return.