Restructuring also puts workers who remain at risk, study says

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When companies restructure, even managers who escape layoffs can wind up on shakier ground, a new study by a University of Illinois labor expert found.

Corporate streamlining shifts the balance of workplace power toward firms, which use the added muscle to impose company-friendly wage and employment standards, said John Dencker, a professor of labor and employment relations.

"For the majority of managers, their careers and compensation become a lot more risky," he said. "They just don't have the guarantees they had in the past."

The study found that companies take advantage of clout gained over managers amid restructuring, which typically occurs during industrywide slowdowns that limit workers' career options because job opportunities elsewhere dry up.

Instead of traditional pay raises and promotions, firms shift to performance-based bonuses that slow payroll growth by keeping base salaries in check, according to findings published in *Administrative Science Quarterly*.

For managers, bonuses can amount to a takeaway, Dencker said. Managers risk losing money - and potentially their jobs - if they fall short of incentive-based goals. Bonuses also can hurt managers in the

long haul, especially if they fail to maintain high levels of performance, providing one-time payments rather than base salary increases that compound over time with subsequent raises.

The shift toward bonuses matches the swing in workplace bargaining power, according to the study, which analyzed personnel data from a Fortune 500 manufacturing firm that restructured three times from 1987 to 1993.

Bonuses are used in lieu of other rewards, such as salary increases and promotions, the most during restructuring, when workers' fears of job losses are high, and when companies are implementing new evaluation systems to govern the payouts and thus monitoring performance closely, the study found.

"Restructuring and monitoring both create fears of termination that give the company a big stick," Dencker said. "And they use it to get the rewards systems that are best for them."

Overall, the switch to bonuses had a negative effect on managers' wages, slowing the rate of salary growth, the study found. Dencker said the impact was less severe for "fast trackers" - managers identified as rising stars - and for women, a demographic that firms have sought to boost in management.

"Those groups had more bargaining power, so their tradeoff was less than other managers," he said.

Once implemented, bonuses remained as part of the salary adjustment mix, though use of performance-based standards ebbed and some traditional pay increases were restored as streamlining passed and monitoring eased.

"It's tough for companies to use the threat of termination long-term," Dencker said. "It affects morale and ultimately creates the risk that there will be no loyalty on the employees' side, either. The best producers could leave if they think they aren't being treated well."

He says the study provides empirical support for long-held theory that workplace operations are influenced by shifts in power between companies and employees, including market forces that expand or limit workers' job opportunities and mobility.

The findings also signal a shift in workplace power that will likely linger until a battered U.S. economy rebounds from the deepest downturn since the Great Depression, Dencker said. Double-digit unemployment has made job opportunities scarce, he said, handing companies extra clout.

"Until or unless the unemployment rate goes down, it's going to limit employees' ability to get the kind of deals they want elsewhere," he said. "That enables companies to use the reward systems that are good for them, but in effect transfer the risk in the employment contract to workers."

Provided by University of Illinois at Urbana-Champaign

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