



December 5, 2005

Rewriting the Social Contract

A New Game at the Office: Many Young Workers Accept Fewer Guarantees

By [STEVE LOHR](#)

When Vincent Papke joined [I.B.M.](#) in 1963, the implicit bargain was simple - his labor and loyalty for security. Getting rich was not an expectation, but a steady job and regular raises were. The company, he recalled, was a kind of extended family. There were company basketball and softball teams, company activities for the kids, and company social gatherings like Christmas parties.

"They trained you," he said. "You worked hard, you played hard and you advanced."

So it was for Mr. Papke over the next three decades, as he rose from an accountant to a series of management and marketing jobs. "You would never leave - you had a cradle-to-grave mentality," said Mr. Papke, 63, who took a buyout package and did leave I.B.M. in the early 1990's, when the company was struggling and cutting its payroll.

Steven Cohn, 29, came to I.B.M. earlier this year with a very different mentality. He worked previously at an investment bank and an Internet advertising company, and then got an M.B.A., before signing up with I.B.M. as a software salesman.

Mr. Cohn has a checklist of things he looks for in an employer. He should be excited, he said, by the vision and strategy of the company, its management and by the opportunities he will have to make contributions, add to his skills and further his long-range career goals. Compensation, he said, should be based on merit and his market value.

The two men can be seen as bookends that illuminate how much the corporate social contract has been transformed for managerial and skilled professional workers in America. Clearly, the old loyalty-for-security bargain that underscored Mr. Papke's career is fading in corporate America. But what is the new social contract? What are the reasonable expectations of the rights and responsibilities of companies and workers these days?

There is no simple answer, according to human resources experts. But they agree that certain elements of the new company-employee deal are evident. For companies, the emphasis is no longer on "happy" workers who have a lasting commitment to a company. Instead, the new mantra is to have employees who are "productive" and "engaged," human resources experts say. Pay and bonuses are based on performance measures instead of seniority.

"It's an, 'If you give, you'll get' model," said David Ulrich, a professor at the University of Michigan business school. "That's kind of the productive contract."

For Mr. Cohn's generation, Professor Ulrich said, corporate loyalty is seen as a market transaction - a bond that will last as long as it clearly benefits both the employee and the company. "It's very much at-will employment," he said.

This transformation is a byproduct of rapid technological change, the globalization of business and faster-moving markets in industry after industry. The result of these changes is that it is far more difficult for corporations to provide an institutional buffer to protect either themselves or their employees from market disruptions.

I.B.M., one of the nation's largest employers of managerial and skilled professional workers, like scientists and engineers, has undergone a sweeping transition. After being battered in the late 1980's and early 1990's when it failed to adapt to the challenge of innovative, fleet-footed rivals, the company recovered first by cutting costs, and then becoming less a manufacturing company and more a supplier of sophisticated technology services. Today, the company employs about 330,000 people worldwide (40 percent of them in the United States), up from 220,000 worldwide in 1994, though below its peak of more than 405,000 in 1985.

I.B.M., like many other companies, has rewritten the implied social contract with its employees. Cutbacks and controversy have been part of the process. I.B.M. placed a cap on medical benefits for retirees, and eliminated the traditional pension plan for new hires. And a federal judge ruled in 2003 that changes I.B.M. made in its pension plan amounted to discrimination against older workers.

In the modern workplace, most managers and skilled professionals accept, even embrace, the market-oriented productive model, human resources experts say. Yet, according to Mr. Ulrich, these workers also want to be inspired by the vision of the company, its reputation, and be confident they can have an impact on the work of the company - a litany that echoes the checklist of the young I.B.M. software salesman, Mr. Cohn.

"Work is about more than productivity," Professor Ulrich said. "For all our emphasis on individualistic, market competition, people still want to find meaning in their work and in the institutions that employ them."

A career at one company will be a rarity, given how quickly markets shift these days. "The best a company can honestly do is give workers a glimpse of where the company is headed and how they might fit into it," said Peter Cappelli, the director of the Center for Human Resources at the University of Pennsylvania's Wharton School.

I.B.M. has tried to do that systematically, especially recently. The company identifies about a dozen "hot" skills, or skills are most likely to be in demand over the next three years. The list is updated yearly. The hot skills list for this year includes expertise in the life sciences, wireless networks, digital media databases and Linux programming.

I.B.M. spends \$750 million a year on employee education, and \$400 million of that is earmarked for training its workers in the skills that the company is

betting it will need soon.

"Corporations in general have done a lousy job of understanding what are the emerging skill sets that will be needed," said J. Randall MacDonald, who joined I.B.M. as a senior vice president for human resources five years ago.

Identifying the new skills valued in the marketplace, Mr. MacDonald said, will become an increasingly important competence for corporations. Employees, he added, must gain trust in a company's calls on emerging skills. And employees must take on the responsibility - on their own and assisted by company education programs - to equip themselves with new skills.

"It's very much a trust-responsibility equation," Mr. MacDonald said. "It's something that can drive a sense of trust back into the workplace."

Compensation, of course, is a prime motivator in the workplace. And the pay system at I.B.M. has been overhauled to try to foster a more entrepreneurial culture. Under Louis V. Gerstner Jr., the outsider who took over as chief executive in 1993, I.B.M. executives were not only granted stock options but also required to buy I.B.M. shares on their own. About 75,000 employees now hold stock options or grants.

With the accounting-rule change this year to treat options as an expense, I.B.M. sharply reduced its share grants. But Mr. MacDonald said that bonuses, ranging up to 30 percent of annual salary, would ensure that the most productive employees were rewarded. "There are wide swings in variable pay," he said. "What we're really trying to drive here is a performance-based company."

To achieve that goal, I.B.M. employees have had to adopt a more flexible, self-reliant style of work. Lynn Yarbrough, a former intensive care nurse, was hired by I.B.M. in 1988. At the time, she worked out of the Atlanta office and used her nursing and health care expertise to help design software and sell hardware tailored for use in hospitals. She routinely went to her Atlanta office, worked with the same people and talked to her boss most days.

Now, I.B.M. has pulled out of making hardware and software products for individual industries. Ms. Yarbrough, 51, is now a consultant in the I.B.M. services unit that advises health care providers on how to use technology to improve care and reduce costs. Over the years, she has taken courses from a few days to a few weeks on topics like project management and genomics.

Ms. Yarbrough has a home office in Panama City Beach, Fla., but she is mostly on the road accompanied by her laptop, cellphone and suitcase. She typically works on assignments that last from a few weeks to several months as a member of teams of I.B.M. consultants and technologists, ranging in size from a handful of people to more than a hundred.

Ms. Yarbrough says she enjoys her job at I.B.M., yet her real enthusiasm and commitment seem to be reserved for her field of expertise more than a single company. "There is this wave of technology that is washing over health care and it will totally change how medical care is provided and consumed," Ms. Yarbrough said. "I feel I'm working on the leading edge of both technology and health care."

Big companies and startups alike wooed Jia Chen when she left Yale University in 2000 with a Ph.D. in physics and a portfolio of published research on nanotechnology. She chose I.B.M., she recalled, with the notion "let's start with a couple of years and see how it goes."

Things have gone well so far, said Ms. Chen, a 33-year-old researcher at Watson Labs, where she has been for the last two years. Before that, she worked at I.B.M.'s advanced microchip plant in East Fishkill, N.Y., which was invaluable firsthand experience for someone trying to develop molecular-scale circuitry to eventually replace silicon semiconductors.

In the old days, the I.B.M. bureaucracy was infamous for slowing the progress of innovative ideas into the marketplace. "Swimming through peanut butter" was the description of frustrated technologists at I.B.M. These days, Ms. Chen appears to have no such qualms. Small companies, she said, may be quicker at times. But I.B.M., she said, has "a lot of experience in how to transform a scientific idea into a technology."

Whether Ms. Chen stays or leaves someday, I.B.M. has afforded the young scientist opportunities that will help her wherever she works. Beyond her research programs, Ms. Chen has taken courses on communications and leadership skills. She speaks at about 10 scientific conferences a year. M.I.T.'s Technology Review magazine selected Ms. Chen this year as one of the 35 top technology innovators under the age of 35.

Those are steps to success, said Robert B. Reich, a professor of economic and social policy at Brandeis University. "The most important community for an individual will not necessarily be a company, but a looser community of people with similar skills and social connections," said Mr. Reich, a former Secretary of Labor in the Clinton administration. "Continually building up those skills and connections is what a career is today."