Graduate School of Business Research Paper No. 2017
Rock Center for Corporate Governance Working Paper No. 49

Building Sustainable Organizations: The Human Factor

Jeffrey Pfeffer

March 15, 2009

STANFORD
GRADUATE SCHOOL OF BUSINESS

The Rock Center
for Corporate Governance
STANFORD UNIVERSITY

A joint initiative of Stanford Law School and the Graduate School of Business

Electronic copy available at: http://ssrn.com/abstract=1352627

BUILDING SUSTAINABLE ORGANIZATIONS:

THE HUMAN FACTOR*

by

Jeffrey Pfeffer
Graduate School of Business
Stanford University
Stanford, California 94305-5015
Pfeffer_Jeffrey@gsb.stanford.edu

March 15, 2009

*Prepared for *Foundations of Human Ecology* edited by Nuria Chinchilla and Kevin Jackson.

The comments of Huggy Rao and Senia Maymin on an earlier draft of the manuscript were extremely helpful.

Electronic copy available at: http://ssrn.com/abstract=1352627

Why are milk jugs more important than people? In 2008, Doug McMillon (Colvin, 2008), the CEO of Sam's Club, a division of Wal-Mart, expounded on innovation in milk jugs and his company's introduction of a rectangular, and therefore, stackable jug. He proudly noted how the new design extended the shelf life of milk, reduced costs by between 10 and 20 cents, and eliminated more than 10,000 delivery trips, thereby saving the company money. Meanwhile, Wal-Mart paid its employees almost 15 percent less than other large retailers and, because of the lower pay, Wal-Mart employees made greater use of public health and welfare programs (Dube, et al., 2007).

Today there is a lot of interest in building sustainable organizations. Companies are trying to burnish their brands by building their environmental bona fides. For instance, oil companies such as British Petroleum and Chevron have run advertisements touting their conservation and alternative energy initiatives. Wal-Mart, the enormous retailer that is the largest private-sector employer in the United States, has undertaken major initiatives to make its operations greener. In 2005, Lee Scott, Wal-Mart's CEO, made the first speech in the company's history broadcast to all of its associates. In that speech, which was also made available to Wal-Mart's more than 60,000 suppliers, Scott committed the company to the goals of being 100% supplied by renewable energy, creating zero waste, and selling products that sustain resources and the environment (Plambeck and Denend, 2007). Global warming and the destruction of the natural world have garnered growing attention, with Al Gore's film, *An Inconvenient Truth,* winning an Academy Award and Gore himself winning the Nobel Prize. There is also growing concern about the high rate of species extinction caused by both global warming and the intrusion of human activities into rain forests, wetlands, and other natural areas. Environmental impact reports are required for construction and development projects in the U.S. and in California, water supplies to agriculture have been put at risk by efforts to protect various species of fish. There is, in short, an enormous amount of attention focused on the effects of companies and economic activity on the physical world. And there are concomitant efforts, through both government regulation and social

Electronic copy available at: http://ssrn.com/abstract=1352627

pressure, to alter what companies and individuals do so as to diminish the adverse effects of business on the natural environment.

But companies and their management practices also have profound effects on human beings and the social environment. And the evidence suggests that, in many instances, these effects are even more pervasive and more harmful than the effects on the physical world. As a few examples, companies in the United States have cut health insurance to both their active employees and retirees, causing problems in accessing health care. Many organizations have either curtailed completely or diminished their contributions to employees' retirement, and have thereby shifted the financial risks of having enough resources to retire to their workers. Such actions have increased financial stress. And the waves of downsizing and economic insecurity created by wage givebacks and involuntary, part-time work have had profound affects on both psychological and physical well-being.

Consider the case of Wal-Mart. The company which seems very concerned about its effects on the physical environment appears much less interested in the welfare of its employees. For example, in 2005, 46 percent of Wal-Mart employees' children were either uninsured or on Medicaid, a state program to provide medical care to low-income people (Rosenbloom and Barbaro, 2009). The company offered health insurance to a relatively small proportion of its employees and it paid its associates so badly that many of its workers were eligible for various income supplement and social welfare programs provided by the states in which it operated. When these facts came to light, there was a public outcry that made it difficult for the company to obtain permission from local planning and zoning authorities to open new stores. Wal-Mart also suffered a loss of customers from its image as a "stingy" employer. A confidential 2004 McKinsey consulting report found that somewhere between two and eight percent of Wal-Mart shoppers had stopped using the chain because of the negative press (Rosenbloom and Barbaro, 2009). In response to the public outcry, Wal-Mart did change some of its policies, particularly with respect to offering health insurance to its workers.

Nonetheless, the difference in the actions and publicity between ameliorating its effects on the social as compared to the physical environment was striking. There were also substantial differences in Wal-Mart's concern with its suppliers' compliance with labor standards versus their adherence to practices that would ensure product integrity and ameliorate adverse environmental effects. In part, these differences derived from the fact that environmental performance often entailed taking waste—and therefore costs—out of the system. There were not comparable savings and, on the contrary, often cost increases—associated with limiting Wal-Mart's social pollution. Wal-Mart is not alone in this behavior. Companies seem to be interested in sustainability mostly if it can reduce their costs and with a focus primarily on physical waste and pollution; there is little focus on the social externalities created by work practices.

To make what ought to be an obvious point, organizations are comprised of people, and building a sustainable company should consider the human as well as the physical dimensions of company actions. We need to be as concerned about organizational effects on the social world as we are about organizational impacts on the physical environment. Workplace stress, curtailed access to health care, and insufficient vacation and sick days create externalities born by society in much the same way that pollution creates costs not born entirely by the company that creates such costs. But go to the Google Scholar website, for instance, and search under the terms "organizational sustainability" or "sustainable organizations," and virtually all of the entries deal with research and writing on organizations and their effects on the physical as contrasted with the social environment. The Harvard Labor and Worklife Program notes that in the general domain of both social responsibility reporting and socially responsible investing, "the study and reporting of human rights and labor issues…are far less advanced than environmental and governance ones" (Beefman, 2008: 2).

In this chapter, I first describe research that suggests that in all too many cases, organizations are having harmful effects on individuals, families, and society. I then consider what I believe to be the root cause of these harmful practices—an "economic evaluation" mind set that places profits and other

indicators of economic efficiency ahead of other, human and social considerations. It is clearly possible to build economically successful organizations that are also sustainable in terms of their effects on people, and I provide three brief case studies of such companies as well as evidence suggesting that being both profitable and socially non-toxic are compatible organizational goals. I argue that the organizational destruction of human ecology persists because there are relatively few social sanctions and little government intervention to remediate bad practices, which are, in any event, mostly under the radar in terms of public attention to their true economic and social costs. If we want companies to behave better, both the social sanctions for creating human externalities and government regulatory regimes to compel less social toxicity need to change. I conclude by offering a practical but aspirational agenda for change—the organizational equivalent of what in medicine was the 100,000 lives project.

SOCIAL POLLUTION: THE SOMETIMES HARMFUL EFFECTS OF COMPANIES ON PEOPLE

The idea that many management practices such as layoffs and restructurings, not offering medical benefits, sick leave, or even paid vacation, long work hours, bullying and verbal abuse, and leaving people with little control over their work with very limited job autonomy, can have seriously harmful effects on employees' physical and psychological well being is at once widely acknowledged but largely ignored. It is important to recognize that these working conditions are more widespread than might be understood.

Particularly in the United States but elsewhere as well, reliance on unfettered labor markets and the consequent erosion of worker connections to their firms and the reduction of employee protections provided either by unions or by the government have become widespread (e.g., Cappelli, 1999; Davis, 2009). For instance, by 2006, about 40% of U.S. employers did not offer health insurance to their employees and about half of the U.S. private sector workforce did not participate in employer-sponsored medical care plans. In 2006, only 15

percent of U.S. workers had access to employer assistance for child care, more than 40% did not have access to paid sick leave, and almost a quarter did not receive any paid vacation.[1] Even those employees receiving vacation didn't get much: "the average worker in the private sector in the United States received only about nine days of paid vacation and about six paid holidays per year" (Ray and Schmitt, 2007: 1). Without paid time off or even, in many instances, sick days, labor force participation, particularly for women, has come under pressure. For instance, labor force participation for working-age women aged 25 to 54 is now lower in the United States than it is in 14 of 20 high-income advanced industrial economies, and U.S. labor force participation for college-educated women is lower than that in *any* of the other countries (Hegewisch, and Gornick, 2008). Meanwhile, in the last decade there has been a 400 percent increase in employment litigation alleging discrimination against people with family responsibilities.

Surveys conducted both in the United States and the United Kingdom indicated that about half of the work force had experienced bullying at work, with about one-sixth of the respondents reporting an incidence of workplace bullying in the past year (e.g., Rayner, 1998; Workplace Bullying Institute, 2008). A report by the National Institute for Occupational Safety and Health (2004) noted that the number of hours worked annually by employees in the U.S. had increased steadily over previous decades so that by the early years of the 21st century work hours in the U.S. surpassed Japan and most of Western Europe. That study also reviewed numerous studies documenting the many adverse health and safety effects of overtime work, long hours, and shift work.

Long work hours have placed stress on families. The average hours worked by all family members increased by 11 percent between 1975 and 2005, and with the advent of computer monitoring of work processes and outcomes, performance pressure has increased (Rousseau, 2006). There is greater instability in the labor force—average tenure, particularly for male employees,

[1] These data come from the U.S. Department of Labor, Bureau of Labor Statistics, which has an online database by subject.

has declined significantly (Cappelli, 2006), and there is also more hiring from outside and use of temporary help, contract, and part-time labor (Barley and Kunda, 2006). These changes increase the uncertainty confronting employees who now are more likely to work in temporary arrangements and to change employers more often.

Although this discussion has focused primarily on the U.S., approaches to managing the workforce that off-load risks and costs to employees seem to be diffusing around the world as other countries seek to copy the market-like, deregulated approach to labor markets of the United States. This imitation and adoption of regimes that do not protect employees is occurring even though there is precious little evidence to suggest that there is an association between labor market "flexibility" and the putative benefits such as full employment, economic growth and increases in productivity (e.g., Howell, et al., 2006).

As already noted, the idea that organizations can have affects on employee health and well-being is acknowledged in that, when asked, most people will agree that workplaces and management practices can cause stress—that, for instance, unemployment or underemployment because of organizational downsizing can be stressful and frequently results in the loss of health insurance, and that not having health insurance and being subjected to stress will undoubtedly result in worse physical and mental health status for those affected. But the effects of management practices on social and physical well-being are also largely ignored in that there are few systematic discussions of the externalities imposed on society through increased disease, alcoholism, drug abuse, and mental health problems by organizational decisions to do layoffs, outsource work, reduce benefits, or intensify work demands.

So while companies that cause environmental damage such as Exxon with the oil spill from the tanker accident off the Alaska coast or Union Carbide with the accidental release of toxic gas in Bhopal, India, receive negative publicity and lots of media attention for their actions, companies that cause social damage through their workplace policies receive little notice, few sanctions, and in most countries, face much less regulation and oversight in their social than in their

physical impacts. In this sense, there is much more sensitivity to the costs imposed on society by companies spewing toxic waste into the air or water than there is on the costs imposed on people through management practices that affect employee social and physical well-being.

The argument that companies impose social costs through how they manage their employees and that they should do things to avoid or remediate such costs has two components. The first point is that there are numerous workplace practices that have empirically demonstrated adverse health and other social welfare effects. This fact is easily documented and indeed there are vast literatures demonstrating the connections between what goes on in workplaces and outcomes for physical and mental health and other measures of employee well-being (e.g., Price, 2006).

Employee Physical and Mental Health Risks from Employer Actions

To briefly summarize just a few studies from what is a truly vast literature, unemployment increases the risk of depression by 200 percent (Dooley, Catalano, and Wilson, 1994) and there is consistent evidence that job loss is a significant factor for reported symptoms of psychological disorder (Catalano, 1991). Layoffs increase the likelihood of someone engaging in violent behavior by a factor of 6 (Catalano, Novaco, and McConnell, 2002). Job displacement increases the death rate of those laid off by about 17% during the following 20 years, so that someone laid off at age 40 would be expected to live 1.5 fewer years than someone not laid off (Sullivan and von Wacther, 2007). And downsizing is associated with negative changes in work, less spousal support, increased smoking, and twice the rate of absence from work because of sickness (Kivimaki, Vahtera, Pentti, and Ferrie, 2000).

Employees facing stressful jobs, reflecting high work demands with low control over the job, had a more than two-fold increase in cardiac mortality risk (Kivimaki, et al., 2002). In a series of studies, Marmot (e.g., Marmot, et al., 1997) found that psychosocial factors that varied across jobs, including work group

support and control over job demands, had substantial effects on the incidence of coronary artery disease, controlling for other factors such as obesity and blood pressure. Work-family conflict increases the rate of absence from work because of sickness (Jansen, et al., 2006), while other research shows that providing pre-birth maternity leave reduces the rate of cesarean section delivery (Tucker, 2009). In short, working conditions including job security and work-family benefits matter in many and profound ways, so in an important sense, organizations affect the psychological and physical well-being of both their employees and also their employees' families, particularly spouses.

Employers' decisions to offer health insurance are also consequential for employee well-being in the U.S., where health insurance, except for the very poor or the elderly who can get health care provided by the government, depends on voluntary employer beneficence to provide insurance and access to care. For instance, uninsured adults are less likely to avail themselves of preventive services such as mammograms, cholesterol and blood pressure screening, and Pap tests than are those with insurance (e.g., Potosky, et al., 1998; Sudano and Baker, 2003). And not surprisingly, the research shows that such screening reduces mortality and morbidity (see Sudano and Baker, 2003, for a brief review). Moreover, the data show that even short periods of not having health insurance, for instance, for people in between jobs or when employers stop offering this benefit, reduce the utilization of preventative services substantially (Schoen and DesRoches, 2000; Sudano and Baker, 2003). Levy and Meltzer (2001), reviewing the literature, noted that hundreds of studies show that the uninsured have worse health outcomes than people with access to health insurance. Here again, employer decisions are crucial, in this instance, for employees' health and mortality.

But for companies to be held accountable for and be expected to remediate or avoid their "social externalities," there is a second point that is also relevant—that, with respect to many of the problematic management practices, organizations have choices and are not compelled by some overwhelming competitive pressure to manage in ways that impose these costs. While this idea

that there actually aren't necessarily trade-offs between "doing well" financially and "doing good" for the workforce is an important consideration, it is also germane to note that with respect to adverse effects such as pollution or the destruction of endangered species, governments have largely precluded using economic necessity as an excuse for companies persisting in engaging in harmful actions.

SOCIAL SUSTAINABILITY AND CORPORATE PROFITABILITY

One of the findings in the literature on environmental sustainability is that the costs of protecting the environment are frequently not onerous and in many instances, the cost savings from using resources more wisely and the reputational advantage in attracting customers from being known as a "green" organization increase organizational profitability (see, for instance, Bernstein, 2008 for a summary of some of this literature). So, instead of facing trade-offs, companies actually confront synergies (e.g., Svendsen, 1998). Such complementarity is even more the case when it comes to human sustainability and company performance.

Many of the management practices that adversely affect employees don't enhance organizational performance in any event. For instance, the research on organizational downsizing shows that it does not increase productivity. One study of more than 100,000 establishments found that those that increased productivity were as likely to have added as subtracted employees (Baily, Bartelsman, and Haltiwanger, 1994). Downsizing does not increase stock price, particularly over a two year period after the event. This is because there is little evidence that downsizing actually increases profitability (Cascio, 2002). A Society for Human Resource Survey indicated that in 68% of the companies that downsized, profits did not improve (Society for Human Resource Management, 2001). Guthrie and Datta (2008) found that downsizing was associated with decreases in subsequent firm profitability and that these effects were particularly pronounced for companies operating in industries characterized by lots of research and development. Thus, it is not surprising that Lee (1997) found that

layoff announcements were associated with a negative abnormal stock return of 1.78 percent in the U.S. and a negative .56 percent return in Japan and that Nixon, et al. (2004) reported that downsizing had a negative effect on market returns and that the effects grow more negative the larger the downsizing that occurs. Downsizing often disrupts networks of pre-existing relationships, which makes innovation and other activities such as bringing products to market that rely on collaboration across units more difficult. In firms that downsized, morale and trust declined (Cascio, 2002: 31). The evidence suggests that downsizing, in short, has few positive and many negative effects, including increasing fear and distrust in the workplace (e.g., Cascio, 1993; Cascio, 2002). Moreover, downsizing is often as much a response to what others are doing—imitation—as it is to actual financial stringency (Budros,1997). Surveys by the American Management Association (e.g., Greenberg, 1991) reported that downsizing goes on in good times as well as bad.

Long work hours produce burnout and often lead to mistakes. SAS Institute, a data mining and statistical analysis company that is the largest privately owned software company in the world, has been justly proud of its 35-40 hour work-week. Reasonable work hours have enabled the company to attract people who do not want to sacrifice their families for their jobs, and SAS has been able to recruit a disproportionate number of women into its professional and managerial ranks. Sustainable working hours also helps to reduce turnover, which is well below industry norms and which saves the company recruiting and training costs. And there is a third positive effect of the shorter worker hours: because people do not do software programming when they are tired, they make fewer errors so the resulting software works better and the company needs to hire fewer "checkers" to find and correct mistakes (Pfeffer, 1998b).

Cutting benefits, a frequent response to even the slightest whiff of economic difficulties, often leads to turnover, and this is particularly the case for medical benefits which employees in the U.S. deem to be very important. More importantly, when people are distracted by concerns over medical care costs or finding day care for their children, they can not focus on doing their jobs. One

reason why SAS has been able to have people succeed in accomplishing outstanding work even though they spend fewer hours on the job was that the generous benefits, including on-site daycare and on-site medical facilities as well as support for elder care and adoptions, meant that employees could concentrate on doing their jobs rather than being distracted by non-work issues.

The evidence on the connection between building humane work places and corporate performance is voluminous (e.g., Appelbaum, Bailey, Berg, and Kalleberg, 2000; Becker and Kuselid, 1998; Pfau and Kay, 2002). To take just a few examples, a meta-analysis of 92 studies (Combs, Liu, Hall, and Ketchen, 2006) found that there was an overall statistically significant correlation of .2 between high-performance work practices and organizational performance, with a stronger relationship for systems of practices and among manufacturers. A study of panel data from 109 Italian manufacturing firms (Colombo, Delmastro, and Rabbiosi (2007) found that adopting high-performance work arrangements led to better performance. In a study that explores why these effects might hold, Whitener (2001), studying almost 1700 employees from 180 credit unions, found that high commitment human resource management practices increase trust in management and organizational commitment.

Much of the literature emphasizes the importance of employment security as a key component of a high performance work system (e.g., Pfeffer, 1998a). That is because other elements of good work places, such as investment in training, information sharing, delegation of decision making and decentralization of authority, and building a climate of trust and mutual respect are much more readily accomplished with a stable and secure work force. It is unlikely that in employer-employee relationships characterized by market-like, transactional bonds, firms will be as willing to share sensitive information, invest in people, or delegate authority to them, and it is also the case that mutual trust takes time to develop and requires the mutual commitment of employment security.

The Great Place to Work Institute has been conducting annual surveys and producing the list of the 100 Best Companies to Work for in America since 1998. The organization has affiliated consulting firms or universities which conduct

similar surveys and produce similar lists in 33 other countries around the world. Companies on the best places to work list in the U.S. outperform comparative indices in returns to shareholders. For instance, between 1998 and 2008, a portfolio that bought equal dollar amounts of all of the publicly-traded companies on the best places to work list each year would have earned an annual return of 6.80 percent, compared to just 1.04% over the same period for the Standard and Poors 500 and 1.25% for the Russell 3000. Even purchasing stock in companies on the list in 1998 and held for the ensuing 10 years would have achieved a return of 4.15%, which is also much higher than the comparable indices.

Companies on the list of the best places to work do things that ameliorate the stresses that reduce life span and cause physical and mental illness. For instance, on the 2009 list over 80% of the companies paid at least three-quarters of the cost of health insurance with fifteen covering all of the cost. Every company on the list offered dental and mental health benefits. Every company on the most recent list offered some form of retirement savings vehicle, with 84% offering some form of company matching funds to help people save for their retirement. More than half of the companies on the list provided paid or unpaid sabbaticals, almost 90 percent offered flexible schedules, and more than 80 percent provided employees the option of telecommuting. And employees on the list invested in their people, offering significant amounts of training to both full-time and part-time employees.

These data show that providing generous benefits produce superior financial results, and do so over significant periods of time. The mechanisms that produce such results include the cost savings from reduced turnover, the ability to attract superior talent, and the higher levels of employee engagement and commitment that follow naturally from being employed at a great place to work.

Three Case Examples

From 1972 to 2002, when *Money* magazine celebrated its thirtieth anniversary, Southwest Airlines ranked first in total shareholder return, even

though it operated in a presumably cyclical industry that has witnessed waves of bankruptcies and consolidation. Southwest, which is fully unionized, has never had a layoff or furlough. The airline offers profit sharing to its employees who thereby share in the company's success. It's CEO has typically been relatively underpaid, compared to other airline executives and particularly compared with its outstanding financial performance, so employees don't feel like they are somehow second class citizens. And with a stock ticker symbol of LUV, the company is the "love" airline, particularly loving its people. The company has a number of married couples who have met while working at Southwest, and there is no nepotism policy that forces one of them to leave. Southwest has a relaxed culture which emphasizes fun and individuals being themselves. An the company acknowledges not just birthdays and anniversaries with personalized cards but also has a fund that helps employees through difficult times (O'Reilly and Pfeffer, 2000: Ch. 2).

DaVita, a company with more than 35,000 employees that operates kidney dialysis centers in the United States, shares many elements in common with Southwest Airlines. DaVita believes in empowering its employees. For instance, the company's new name (it was formerly Total Renal Care) was selected at a meeting of facility managers and executives in Phoenix, Arizona, in the spring of 2000, and its values were voted on by the attendees at the same meeting. Like Southwest, DaVita invests extensively in training, not just for managers but front-line employees as well. DaVita University, the in-house training operation, spends more than $10 million per year on leadership, quality management, and other training. Many patient care technicians attend two-day DaVita academies to learn about the company culture and develop their skills. For some, this would have been the first time they were on an airplane or stayed in a hotel. The company invests in these people because doing so reduces its turnover substantially, thereby saving on costs and improving patient care, and also signaling to the front-line people delivering care that they are important. DaVita, like Southwest, has a DaVita Village Network (DVN), where employees voluntarily contribute money that the company matches to provide financial

assistance to teammates facing financial stress from accidents or illness (Pfeffer, 2006).

Nor are such workplace examples confined to the United States. In 2007, the Kimberly-Clark Andean region, operating in the relatively poor countries of Peru, Venezuela, Ecuador, Bolivia, and Columbia, had about 50 percent of the growth in net operating income for the entire corporation. The turnaround was accomplished by investing in people, sharing information widely, and delegating decision making authority to front line people. The company also has invested in local sustainability and charity activities. And it has built a very egalitarian culture—no guarded offices, informal dress, and people call each other by their first names. Kimberly-Clark in the Andean region also takes care of its people when they have health or family difficulties. Like DaVita and Southwest, it is a community, not just a company, where people like, respect, and trust each other.

There are undoubtedly many other examples of companies that have built healthy work places. But what these cases illustrate is that it is not only possible to be humane and profitable, but in fact, building a workplace free of social pollution is a good road to success.

WHY "BAD" ORGANIZATIONAL BEHAVIOR PERSISTS

If ending the social pollution created by toxic work practices makes economic sense not only for society but also for the firms themselves, one might expect to see more widespread adoption and diffusion of high-commitment work arrangements and management practices that do not produce toxic workplaces. Companies are, after all, supposed to be interested in maximizing their profits and are presumed to rapidly adopt ideas that can make them more successful. However, there is ample evidence that in spite of knowing what to do to make their workplaces more effective, relatively few companies actually do it (Pfeffer, 2007). To change this unfortunate situation, it is important to understand some of the reasons for this paradoxical and counterproductive behavior.

An Economic Evaluation Mind-Set

Language and theory matter, because they focus attention on some aspects of social reality and away from others, lead to the creation of particular institutional arrangements that can then become self-fulfilling, and shape social norms and expectations for behavior (Ferraro, Pfeffer, and Sutton, 2005) in ways that also can be self-reinforcing. As Ferraro, et al., documented, there is evidence that economic language and assumptions are increasingly dominant. An economistic frame naturally leads to the evaluation of social arrangements in terms of their economic, as contrasted with other, consequences.

So, for instance, Samuel, Dirsmith, and McElroy (2005) have traced the change in language associated with the practice of medicine from an emphasis on care to cost, as well as documenting the consequences of such a shift for professional power and the role of markets. McCloskey (1995: 215) has also noted how market metaphors shape social perceptions: “When economists look at, say, childcare, they think of market. ‘Childcare’—which to other people looks like a piece of social control or a set of buildings or a problem for new parents—looks to economists like a certificate on the New York stock exchange.”

It is not just that economic language and theory privileges efficiency concerns over those of human welfare and well-being, although there is certainly that effect. As Vohs and her colleagues have documented, merely activating the construct of “money” can cause people to behave in less cooperative and communal ways as it encourages a market-pricing, cost-benefit approach to decisions. For instance, Vohs, Mead, and Goode (2008), in a series of experimental studies, found that people primed to think about money sat further away from strangers, gave less help, donated less money, and also asked for less help than those primed with a control stimulus. Vohs, Mead, and Goode (2006) reported that “money” primes caused individuals to behave more individualistically and to socially distance themselves from others. Pfeffer and DeVoe (2008) reported that economic language had many of the identical effects as “money” in affecting interpersonal behavior.

The prominence of economic language and assumptions and the belief in markets as a preferred decision logic leads to an emphasis on individual over social needs, to an emphasis on competition over cooperation, and therefore, to a comparative neglect of the social consequences compared to the economic consequences of the decisions made by economic actors such as organizational leaders. It is instructive and informative to read the numerous announcements of organizational layoffs and wage and benefits cuts made by companies. Very few, if any, of these accounts speak to the negative effects of these actions on the individuals or on the communities involved. Rather, the announcements invariably talk about the business necessity and the effects on organizational profitability and competitiveness. Social and individual costs of economic decisions are, therefore, very much in the background of most organizational decisions that affect employees.

Little Government Oversight and Regulation

The market logic also affects regulatory regimes, leaving organizations largely free to do what they want with and to their employees, particularly in the United States. The idea that unfettered markets work best and that, therefore, governmental intervention in or regulation of markets, including labor markets, is harmful reigns largely unchallenged, even though there is precious little evidence to support it. A corollary idea also holds prominent sway—namely, that profit-maximizing enterprises can be counted on to do the right thing, and therefore, whatever companies are doing must be efficiency and effectiveness-maximizing moves. Such an idea is also very problematic (e.g., Pfeffer, 1998a).

But these ideas have been implemented in public policy and government operations, at least in the United States, in ways that have limited the amount of oversight and regulation of the workplace. Between 1980 and 2006, the number of employees in U.S. federal agencies overseeing the workplace decreased by some 34 percent. In 2006, there were almost 60 percent fewer people overseeing workplace issues than were involved in environmental regulation, a

finding consistent with the earlier argument that the physical environment seems to take precedence over social issues (Dudley and Warren, 2005).

To provide more detail for these overall numbers, consider what has happened to both budgets and staffing in some federal agencies involved in regulating workplace conditions. The constant dollar budget of the Employment Standards Administration which oversees wage and hours issues increased just 13.5 percent during the 26 years between 1980 and 2006, even as the U.S. economy and employment grew dramatically during this same time. The budget of the Occupational Safety and Health Administration grew just 20% over that same period, while the constant dollar budget for the Mine Safety and Health Administration actually decreased by about 5 percent. During this same 26 year period, the budget for the National Labor Relations Board, the agency that oversees union representation elections, grew just 10 percent while the budget of the Equal Employment Opportunity Commission, the agency charged with overseeing antidiscrimination laws, rose just 21 percent.

In terms of staffing levels, the picture of the decline in regulatory oversight is even more dramatic. Between 1980 and 2006, the number of employees working for the Employee Standards Administration decreased 32 percent, there were 40 percent fewer employees working for the Mine Safety and Health Administration, and staff at the Occupational Safety and Health Administration decreased by one-fourth (see Dudley and Warren, 2005). It is generally conceded by both legal scholars and other researchers that workplace regulation in the United States is largely unable to enforce the laws already on the books let alone try to mitigate the physical and mental health effects of workplace management practices.

With little Federal, or for that matter, vigorous state oversight, companies are left mostly on their own to do what they want with respect to the treatment of the workforce. With an economic logic and an emphasis on shareholders as the most, or perhaps the only, important stakeholder, employee well-being invariably received little emphasis in most workplaces.

Limited Visibility for the Consequences

When birds die from an oil spill, it makes the news and people can literally see the consequences. When polar bears are stranded on ice floes, when glaciers melt, when forests burn, when droughts and hurricanes occur, the effects are not only visible but vivid. Gore's film on global warming used these images to make real abstract concepts such as the rise of sea levels and effects on natural habitats. Such images can, and do, mobilize public opinion and action.

By contrast, the effects of social pollution are largely hidden from view and, in many instances, unfold over long periods of time. High blood pressure, regardless of its source or cause, is frequently undiagnosed and undertreated. One European study found that 56% of the people with high blood pressure did not know that they had the condition (Patient Health International, 2008). There is no reason to believe that such results would not also apply to blood pressure anomalies resulting from workplace stress or the substance abuse that sometimes accompanies such stress. Many physicians believe elevated cholesterol is also inadequately monitored and treated (e.g., Danias, et al., 1998), and that would also be the case from increased cholesterol resulting from workplace stress.

The physical and psychological consequences of downsizing that result in lost years of life expectancy unfold gradually over time. Although workplace violence, another outcome from workplace stress and downsizing, is often dramatic and therefore does draw media attention, such vivid behavior is the exception rather than the rule. A Society for Human Resource Management study reported that more than half of the companies in the U.S. had experienced some form of workplace violence, but verbal threats, not workplace shootings, were the most common form of such violence (National Institute for the Prevention of Workplace Violence, 2009). Nonetheless, it is the case that in the United States, "in an average week, one employee is killed and 25 are seriously injured…in violent assaults by current or former co-workers" (Hyde, 2004).

Each of the diseases and pathologies that can be in part produced by what goes on in the workplace—high blood pressure, elevated cholesterol, cardiovascular disease, sleep disorders, alcoholism, workplace violence, and more—obviously have multiple causes. Although the evidence from epidemiological studies concerning the effects of workplace conditions on these outcomes is clear and there are many replications of such research results, in any given instance there are multiple possible causes for an individual's death or morbidity and, moreover, each of these maladies produces its effects gradually rather than in a dramatic fashion. Thus, there are relatively few media mentions of workplace conditions as creating harmful health outcomes. Even descriptions of graphic incidents of workplace violence seldom consider the causes of such behavior beyond attributions to individual mental health issues, and typically do not consider workplace conditions as a possible source.

The very invisibility of the epidemiological consequences of harmful workplaces means that the adverse social consequences of management practices can unfold out of sight. And it is truly the case that in the instance of the social effects of organizational management practices, it is out of sight, out of mind.

Few Social Sanctions

The penalties, at least in the U.S. and much of Western Europe, for almost any kind of corporate or executive misbehavior are relatively mild and there is little evidence of social ostracism by peers or friends. Even documented financial misbehavior has few long-lasting consequences.

For instance, in 1987 five U.S. Senators intervened with the Federal Home Loan Bank Board on behalf of Charles Keating, chairman of Lincoln Savings and Loan. Two years later, Lincoln collapsed costing the U.S. government $3 billion. The Senate Ethics Committee determined that three senators had improperly interfered with federal regulatory authorities and the other two senators had exercised poor judgment. One of those exercising poor judgment was Senator John McCain, who ran as the Republican nominee for president in 2008.

Michael Milkin, who pled guilty to six counts of securities and reporting violations and served almost two years in jail, has a net work of around $2.1 billion, is active in numerous charities and business activities, and was the keynote speaker at Drexel University's school of medicine in 2008. Martha Stewart, who also did jail time, in this for perjury about insider trading activities, has virtually completely rehabilitated her career and once again is on television, is running her fashion and design company, and her name on products, including those sold by Wal-Mart, helps rather than hurts their sales prospects.

People who do layoffs are often lauded, including Al Dunlap of Scott Paper, nicknamed "Chainsaw" for his propensity to axe employees and also scream at his senior staff (Byrne, 1999). *Fortune* used to run a list of the toughest bosses, and although appearance on the list was empirically negatively correlated with tenure in the CEO role, the list itself provides evidence that being "tough" and hard-nosed, even at the expense of co-workers, is somehow a desirable leadership trait.

These are just a few of many possible examples that make the point that there are few legal or social sanctions for documented corporate misbehavior. By logical implication, the sanctions for engaging in management practices that are not illegal but are merely harmful to employee welfare are essentially nonexistent. I know of no corporate leader who has gotten in trouble or lost his or her job for denying employees vacations or sick days or for overworking the staff.

WHAT MIGHT BE: TAKING SOCIAL SUSTAINABILITY SERIOUSLY

With little regulatory intervention, a mind set that puts economic efficiency ahead of anything else including employee well-being, little visibility for the harmful effects of various management practices and even fewer social sanctions for leaders who guide cultures that harm the workforce, the current prospects for change might seem dim. But there is a latent potential for mobilizing social support, public opinion, and organizational action to change the current state of affairs.

For many years, studies including reports from the Institute of Medicine documented the unnecessary deaths of hospital patients from things such as preventable infections and errors in administering prescribed medicines. In December, 2004, Donald Berwick, the CEO of the Institute for Health Care Improvement, a small organization with about 75 staff, a budget of less than $10 million, and no formal legal or regulatory authority over health care organizations, launched the 100,000 lives project. Berwick stated, “Here is what I think we should do. I think we should save 100,000 lives. And I think we should that by June 14, 2006—18 months from today. Some is not a number; soon is not a time . Here’s the number: 100,000. Here the time: June 14, 2006—9 a.m.” (Hoyt and Rao, 2008). The goal was to fix some relatively mundane but important aspects of patient care, such as hand washing and elevating patients’ heads so they did not get pneumonia, to reduce the number of preventable patient deaths. The results were dramatic—thousands of hospitals voluntarily signed up to participate and the estimates are that more than 122,000 lives were saved as hospital procedures for ensuring quality care became transformed.

We need a similar effort with respect to preventable deaths caused by the harmful management practices so prevalent in contemporary organizations. First, we need to understand how many people are being harmed, and the extent of that harm, by the downsizing and economic insecurity, long work hours, and stress so prevalent in many places of employment. We need to produce a documentable number of the costs in lives and illness of management practices. That data can help focus public attention on the fact that, in some instances, organizations and their cultures are literally killing people and also contributing to their mental and physical distress.

Then, we need the organizational equivalent of the 100,000 lives project—an effort to get companies to change what they are doing. Particularly because many of the harmful practices provide little or no demonstrable economic benefit to companies in return for the harm they do to employees, there is really no justification for permitting companies to continue to operate with policies that are inconsistent with social sustainability.

These efforts will require both research and also public action. But there is no reason why building sustainable companies should focus only on the physical and not on the social environment. It is not just the natural world that has been harmed by the practices of many companies. People are facing illness and premature death as a direct consequence of some organizational behavior. It is long past the time when these adverse consequence should remain hidden from public view, discussion, and reform.

REFERENCES

Appelbaum, E., T. Bailey, P. Berg, and A. Kalleberg (2000). *Manufacturing Advantage: Why High-Performance Work Systems Pay Off*. Cornell: ILR Press.

Baily, M. N., E. J. Bartelsman, and J. Haltiwanger (1994). Downsizing and productivity growth: Myth or reality? National Bureau of Economic Research Working Paper No. 4741, May, 1994.

Barley, S. R., and G. Kunda (2006). Itinerant professionals: Technical contractors in a knowledge economy. In E. E. Lawler, III and J. O'Toole (eds.), *America at Work: Choices and Challenges,* 173-191. New York: Palgrave Macmillan.

Becker, B. E., and M. A. Huselid (1998). High performance systems and firm performance: A synthesis of research and managerial implications. *Research in Personnel and Human Resources Management, Vol. 16*, 53-101.

Beefman, L. (2008). Memo: Incorporating Labor and Human Rights and Capital Risks Into Investment Decisions: Conference and Resarch/Action Agenda. Harvard Law School, Labor and Worklife Program, August 12.

Bernstein, A. (2008). Incorporating Labor and Human Rights Risk into Investment Decisions. Occasional Paper Series No. 2. Pensions and Capital Stewardship Project, Labor and Worklife Program, Harvard Law School.

Budros, A. (1997). The new capitalism and organizational rationality: The adoption of downsizing programs, 1979-1994. *Social Forces, 76*, 229-250.

Byrne, J. A. (1999). *Chainsaw: The Notorious Career of Al Dunlap in the Era of Profit-At-Any Price.* New York: HarperBusiness.

Combs, J., Y. Liu, A. Hall, and D. Ketchen (2006). How much do high-performance work practices matter? A meta-analysis of their effects on organizational performance. *Personnel Psychology, 59*, 501-528.

Danias, P. G., S. O'Mahony, M. J. Radford, L. Korman, and D. I. Silverman (1998). Serum cholesterol levels are underevaluated and undertreated—Cholesterol and recurrent events trial investigators. *The American Journal of Cardiology, 81*, 1353-1356.

Davis, G. F. (2009). *Managed by the Markets: How Finance Re-shaped*

America. Oxford, U.K.: Oxford University Press.

Cappelli, P. (1999). *The New Deal at Work*. Boston: Harvard Business School Press.

Cappelli, P. (2006). Changing career paths and their implications. In E. E. Lawler, III and J. O'Toole (eds.), *America at Work: Choices and Challenges,* 211-224. New York: Palgrave Macmillan.

Cascio, W. F. (1993). Downsizing: What do we know? What have we learned? *Academy of Management Executive, 7*, 95-104.

Cascio, W. F. (2002). *Responsible Restructuring*, San Francisco: Berrett-Koehler.

Catalano, R. (1991). The health effects of economic insecurity. *American Journal of Public Health, 81*, 1148-1152,

Catalano, R., R. W. Novaco, and W. McConnell (2002). Layoffs and violence revisited. *Aggressive Behavior, 28*, 233-247.

Colombo, M. G., M. Delmastro, and L. Rabbiosi (2007). "High performance" work practices, decentralization, and profitability: Evidence from panel data. *Industrial and Corporate Change, 16*, 1037-1067.

Dooley, D., R. Catalano, and G. Wilson (1994). Depression and unemployment: Panel findings from the epidemiologic catchment area study. *American Journal of Community Psychology, 22*, 745-765.

Dube, A., D. Graham-Squire, K. Jacobs, and S. Luce (2007). Living Wage Policies and Wal-Mart: How a Higher Wage Standard Would Impact Wal-Mart Workers and Shoppers. Berkeley, CA: U. C. Berkeley Center for Labor Research and Education, December, 2007.

Dudley, S., and M. Warren (2005). Upward Trend in Regulation Continues: An Analysis of the U.S. Budget for Fiscal Years 2005 and 2006. Regulators' Budget Report 27. Arlington, VA: Mercatus Center, George Washington University.

Ferraro, F., J. Pfeffer, and R. I. Sutton (2005). Economics language and assumptions: How theories can become self-fulfilling. *Academy of Management Review, 30*, 8-24.

Greenberg, E. R. (1991). Downsizing: AMA survey results. *Compensation and Benefits Review*, *23*, 33-38.

Guthrie, J. P., and D. K. Datta (2008). Dumb and dumber: The impact of downsizing on firm performance as moderated by industry conditions. *Organization Science*, *19*, 108-123.

Hegewisch, A., and J. C. Gornick (2008). Statutory routes to workplace flexibility in cross-national perspective. Unpublished report. Washington, D. C.: Institute for Women's Policy Research.

Howell, D. R., D. Baker, A. Glyn, and H. Schmitt (2006). Are protective labor market institutions really at the root of unemployment? A critical perspective on the statistical evidence. Unpublished ms.

Hoyt, D., and H. Rao (2008). Institute for Health Care Improvement: The Campaign to Save 100,000 Lives. Stanford, CA: Graduate School of Business, Case Number L-13, January 21, 2008.

Hyde, J. (2004). Office threat shows violence is still a risk. Salt Lake City, Utah, *Deseret Morning News*, August 10, 2004.

Jansen, N. W. H., U. Kant, L. G. P M. van Amelsvoort, T. S. Kristensen, G. M. H. Swaen, and F. J. N. Nijhuis (2006). Work-family conflict as a risk factor for sickness absence. *Occupational and Environmental Medicine, 63*, 488-494.

Kivimaki, M., P. Leino-Arjas, R. Luukkonen, H. Riihimaki, J. Vahtera, and J. Kirjonen (2002). Work stress and risk of cardiovascular mortality: Prospective cohort study of industrial employees. *British Medical Journal, 325*,

Kivimaki, M., J. Vahtera, J. Pentti, and J. E. Ferris (2000), Factors underlying the effect of organizational downsizing on health of employees: Longitudinal cohort study. *British Medical Journal, 320*, 971-975.

Lee, P. M. (1997). A comparative analysis of layoff announcements and stock price reactions in the United States and Japan. *Strategic Management Journal*, *18*, 879-894.

Levy, H., and David Meltzer (2001). What do we really know about whether health insurance affects health? Economic Research Initiative on the Uninsured Working Paper 6. Ann Arbor, MI: University of Michigan.

Marmot, M. G., H. Bosma, H. Hemingway, E. Brunner, and S. Stansfield (1997). Contribution of job control and other risk factors to social variations in coronary heart disease incidence. *The Lancet, 350*, 235-239.

McCloskey, D. (1995).

National Center for the Prevention of Workplace Violence (2009). Facts & Figures/Statistics. http://www.workplaceviolence911.com.

National Institute for Occupational Safety and Health (2004). *Overtime and Extended Work Shifts: Recent Findings on Illnesses, Injuries, and Health Behaviors*. http://www.cdc.gov/niosh/docs/2004-143/.

Nixon, R. D., M. A. Hitt, H. Lee, and E., Jeong (2004). Market reactions to announcements of corporate downsizing actions and implementation strategies. *Strategic Management Journal*, *25*, 1121-1129.

O'Reilly, C. A., III. and J. Pfeffer (2000). *Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People*. Boston: Harvard Business School Press.

Pfeffer, J., and S. E. DeVoe (2008). Economic evaluation: The effect of money and economics on attitudes about volunteering. *Journal of Economic Psychology,* in press.

Plambeck, E. L., and L. Denend (2007). Wal-Mart's Sustainability Strategy. Stanford, CA: Graduate School of Business, Case No. OIT71.

Pfau, B. N., and I. T. Kay (2002). *The Human Capital Edge*. New York: McGraw-Hill.

Pfeffer, J. (1998a). *The Human Equation: Building Profits by Putting People First*. Boston: Harvard Business School Press.

Pfeffer, J. (1998b). SAS Institute (A): A Different Approach to Incentives and People Management Practices in the Software Industry. Stanford, CA: Graduate School of Business, Case # HR6-A

Pfeffer, J. (2006). Kent Thiry and DaVita: Leadership Challenges in Building and Growing a Great Company. Stanford, CA: Stanford University Graduate School of Business, Case #OB-54, May 22, 2006.

Pfeffer, J. (2007). Human resources from an organizational behavior perspective: Some paradoxes explained. *Journal of Economic Perspectives, 21*, 115-134.

Potosky, A. L., N. Breen, B. I. Graubard, and P. E. Parsons (1998). The association between health care coverage and the use of cancer screening tests: Results from the 1992 National Health Interview Survey. *Medical Care, 36*, 257-270.

Price, R. H. (2006). The transformation of work in America: New Health vulnerabilities for American workers. In E. E. Lawler III and J. O'Toole (eds.), *America at Work: Choices and Challenges*, 23-35. New York: Palgrave Macmillan.

Ray, R., and J. Schmitt (2007). No-vacation nation. Working Paper. Washington, D.C.: Center for Economic and Policy Research.

Raynor, C. (1998). The incidence of workplace bullying. *Journal of Community and Applied Social Psychology*, *7*, 199-208.

Rosenbloom, S. and M. Barbaro (2009). Green-light specials, now at Wal-Mart. *The New York Times*, January 25, 2009.

Rousseau, D. M. (2006). The shifting risk for the American worker in the contemporary employment contract. In E. E. Lawler, III and J. O'Toole, (eds.), *America at Work: Choices and Challenges,* 153-171. New York: Palgrave Macmillan.

Samuel, S., M. W. Dirsmith, and B. McElroy (2005). Monetized medicine: From the physical to the fiscal. *Accounting Organizations and Society*, *30*, 249-278.

Schoen, C., and C. DesRoches (2000). Uninsured and unstably insured: The importance of continuous insurance coverage. *Health Services Research, 35*, 187-206.

Society for Human Resource Management (2001). *Layoffs and Job Security Survey*. Alexandria, VA: SHRM.

Sudano, J. J., and D. W. Baker (2003). Intermittent lack of health insurance coverage and use of preventive services. *American Journal of Public Health, 93*, 130-137.

Sullivan, D., and T. von Wachter (2007). Mortality, mass layoffs, and career outcomes: An analysis using administrative data. Cambridge, MA; National Bureau of Economic Research Working Paper No. 13626.

Svendsen, A. (1998). *The Stakeholder Strategy: Profiting from Collaborative Business Relationships*. San Francisco: Berrett-Koehler.

Tucker, Jill (2009). Pre-birth maternity leave aids babies, moms. *San Francisco Chronicle*, January 8, 2009.

Vohs, K. D., N. L. Mead, and M. R. Goode (2006). The psychological consequences of money. *Science*, *314*, 1154-1156.

Vohs, K. D., N. L. Mead, and M. R. Goode (2008). Merely activating the concept of money changes personal and interpersonal behavior. *Current Directions in Psychological Science,* 17, 208-212.

Whitener, E. M. (2001). Do "high commitment" human resource practices affect employee commitment? A cross-level analysis using hierarchical linear modeling. *Journal of Management, 27*, 513-535.

Workplace Bullying Institute (2008). *The Workplace Bullying Institute 2007 U.S. Workplace Bullying Survey*. http://www.bullyinginstitute.org/zogby2007.