

Carrie R. Leana
Katz Graduate School of Business
University of Pittsburgh
Pittsburgh, PA 15260
412-648-1674
Leana@katz.pitt.edu

Biographical Sketch

Carrie Leana, Ph.D., is Professor of Business Administration and of Public and International Affairs at the University of Pittsburgh. She also holds a research appointment at The Learning Research and Development Center. Leana has published over fifty articles in leading academic journals on such topics as authority structures at work, employment relations, and the process and effects of organizational restructuring. Her book, *Coping with Job Loss: How Individuals, Organizations, and Communities Respond to Layoffs*, was a finalist for the Academy of Management's Best Book Award in 1993. Two of her current projects focus on social capital in organizations and on how underemployment is defined and experienced. Her book, *Relational Wealth: A New Model of Competitive Advantage*, will be published by Oxford University Press in 2000.

Leana was on the faculty of Management at the University of Florida for three years before joining the Katz School at the University of Pittsburgh in 1988. She has been coordinator of the organizational behavior and human resources faculty at the Katz School and currently serves on the board of the Institute for Industrial Competitiveness. She teaches courses at the undergraduate and graduate levels, and is extensively involved in executive training. She is academic director of The Katz School's MBAs Essentials Program, and past director of the Executive MBA Program.

Leana's research has been supported by such institutions as the Alfred P. Sloan Foundation, the Heinz Foundation, the Commonwealth Fund, and the Center for International Business. She has been retained as an organizational development consultant by numerous public- and private-sector organizations ranging from the Houston Police Department to AT&T. In addition to her academic publishing, she has written essays and features for popular press outlets such as the *Philadelphia Inquirer*, the *Chicago Tribune Magazine*, and the *Los Angeles Times*. She currently serves on the editorial boards of the *Academy of Management Review* and the *Journal of Organizational Behavior*.

Summary of Remarks Before the U.S. Trade Deficit Review Commission Pittsburgh Field Hearing, October 29, 1999

Professor Carrie R Leana
University of Pittsburgh
Katz Graduate School of Business
Pittsburgh, PA 15260
412-648-1674
leana@katz.pitt.edu

Thank you for the opportunity to address the U.S. Trade Deficit Review Commission at this very important field hearing. Pittsburgh is a particularly appropriate location for this hearing as the issue of trade is one that holds a great deal of importance and interest to the local workforce and businesses.

This panel is to address the issue of ‘trade’s impact on the economy.’ We have several economists on the panel who will make remarks on issues such as macro trends in trade and employment levels, wages, and the like. My own area of expertise is in studying the effects of plant closings and job loss – much of it attributable to foreign competition in traditional manufacturing industries -on those persons and communities which directly experience these circumstances. I have published many scholarly articles on this topic, as well as a book, and several popular press articles. I have provided the committee with a sample of this work.

The general conclusion of this work is that when policies made at a national level result in plant closings and job loss, considerable costs are incurred. Those costs are disproportionately borne at the local level by the individuals who lose their jobs and the communities in which they reside.

I would like to talk about those costs in my time today. I would also like to talk about the hidden costs to businesses of such downsizing and job loss. The economic losses that foreign trade sometimes produces for individual firms in the United States has received a good deal of attention. I will not repeat that here. Instead, I would like to talk about the depletion of social capital within these firms as a result of downsizing that can also erode their capacity for long-term competitiveness.

Costs of Lost Jobs for Individual and Their Families

- Review of Immediate Effects: Perceptual and Emotional Reactions and Accompanying Problems
- Review of Longer-Term Consequences:
 - Financial Hardship; Effect on Family Relationships; Social Isolation; Underemployment and Low Quality Reemployment; “Free Agent” Career Orientation

Costs of Lost Jobs for Communities

- Review of Immediate Effects: Lost Revenue Base; Increased Pressure on Social Service Agencies
- Review of Long-Term Consequences: Lost Social Capital

“Hidden” Costs for Corporations

My recent work has concentrated on a phenomenon that my colleagues and I have labeled “relational wealth.” We **define** relational wealth as the resources that **are** created in large part through a firm’s internal relations among and with employees. You can think of relational wealth as something of a hidden resource within a firm that depends a good deal on stability and trust **between** employees and their employer.

Relational wealth creates value because it is unique. In order to compete over the long term, our corporations have to have some competitive advantage that is not easily duplicated elsewhere. In developed countries with a high standard of living such as ours, that competitive advantage cannot come **from** being the lowest-cost producer. Instead, it can come **from** making a product or using a process that cannot be easily imitated.

A highly skilled workforce that also works well interdependently can provide the basis for this competitive advantage. Thus, there can be a good deal of efficiency and creativity in firms in which employees know one another, know what they can depend on one another for, and know who knows what in the organization.

Such relational wealth is undermined by job loss, downsizing, outsourcing, and all the transactional employment arrangements that U.S. **firms** have used to become more flexible in the face of increased foreign competition. While this flexibility has benefits, it also has costs in the form of depleted trust, inefficient work relationships, and decrements to intellectual capital within the firm

Lessons From the Past

The current rise of global competition and the changes that it has brought in the structure of the U.S. economy is not the first economic transition we have experienced, and it won’t be the last. It is instructive to see how we have handled such large economic transitions in the **past**.

The movement from an agricultural society to an industrial one in the United States earlier this century was one that was, over the long term, and on balance, good for our society. That doesn’t mean, however, that it was good for every member of society. And most of us would answer no if asked whether, in retrospect, that transition should have been carried out in the unfettered manner that it was. We passed child labor laws, for example, and regulations concerning environmental pollution to ward against the excesses that occurred in that transition.

Over the past two decades, we have been experiencing an economic transition that is of the magnitude of this earlier one. An important question to ask ourselves is whether we should make this transition without regard to whom is adversely **affected**, how many are affected, and for what duration.

Investors and firms can reduce their risks in volatile times by pursuing a portfolio approach to managing their **capital** -- that is, they place a little money here and a little there so that they are not vulnerable to sudden changes in particular markets or industries. Unfortunately, this portfolio approach doesn't work for individuals. Firms and investors can hedge their bets by investing in other companies or capital markets, but an engineer in New Jersey cannot trade a 15% stake in himself for a comparable claim on an architect in Los Angeles. In the long run we may indeed all be better off due to volatility and change in the global economy, but as **the** famous British economist John Keynes said, in the long run we **shall** all be dead.

Our experiences with previous economic transitions warns us to think carefully about how to balance the costs of transition against its benefits and, equally important, how those costs are experienced and by whom. I believe that with regard to the current economic changes wrought by a global economy and free world trade, the individual and local communities have borne too much of that cost thus far. Some of our corporations are incurring the obvious costs that the economists here can describe. I also believe that these corporations are incurring costs in the form of depletion of their social capital. I hope this field hearing helps us to address these issues with the seriousness and foresight that they deserve.

Selected References

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