Imagine the large meeting hall of a global electronics manufacturing company, a no-nonsense room in the style of serious engineers — well-upholstered seats, concrete walls, crisp speakers. Imagine the corporation’s top 250 managers assembled — executive vice presidents of sectors and regions, general managers of business units. Imagine, as the retiring chief executive of the company, making the speech that follows.

By Bernard Avishai

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Tomorrow is my last day as C.E.O. The first was more than 23 years ago. I suppose you’re expecting some words of gratitude — you richly deserve them — but indulge me.

I want to talk to you about something that has been weighing on my mind more and more in recent years, but I could never find the words or opportunity to raise. It is about what business owes society, what has fashionably and not improperly been called business’ “social compact.” Nothing could be more important than clarity about this, given the disturbing changes we’ve been living through. Everyone, from Business Week to former Labor Secretary Robert Reich, says we need a new one. But it seems to me there has been growing confusion about business’ obligations under this compact because we have forgotten some first principles.

A friend of mine once quipped that America is the only country in the world where people tell you, “You’re history,” and they’re insulting you. Whether I like it or not, I’m too old now not to know some history. Retirement brings one to consider the work of our lives, and, in any case, takes away the excessive fear of appearing tactless. So I want to start by examining what in the conditions of work has changed, and what has not. I’ll build on that to argue what, if anything, needs to be changed in the compact between business and society.

The most direct way to get into this is to think about what has happened to the circumstances of “labor.” I’ll just touch on some points, which have been extensively debated in the press and in the recent election campaign.

Labor is a fast diminishing part of value. When I first joined this business, in 1954, the cost structure of our manufactured products included about 55 percent direct labor. Today, the number is less than 11 percent. There is a revolution underneath that deceptively simple number; you would not still be senior managers of this company if you didn’t appreciate it.

Blue-collar jobs have been made redundant by robotics, flexible machine tools and automated inventory management systems, others by outsourcing to low-wage countries. White-collar jobs have been made redundant by scheduling, order entry, word-processing and dozens of other kinds of software — and more recently by growth of our fledgling corporate intranet. Middle management is disappearing.

Some have called this a revolution of re-engineering. It is really a revolution in computer-integrated production, and we are only at the start of it. While the market capitalization of the Fortune 500 has grown three- or four-fold since the early 1980’s, their work forces have shrunk by 25 percent.

Lost jobs? Good riddance. Remember Michael Dukakis’s earnest promise of “good jobs at good wages.” His campaign now seems quaint. The new entrepreneurial economy — technology companies with 500 employees or less — is responsible for virtually all of the job growth since 1988, and no Federal industrial policy could have precipitated so much dynamism. Investors, not the Government, have been picking winners and losers, and on the whole have not done a bad job of it. Businesses, not Department of Commerce officials, have made the necessary investments in crucial technologies.

What Mr. Dukakis neglected to add, moreover, was that the “good” jobs he wanted to assure through a Government industrial policy were mainly boring, soul-destroying and intellectually demeaning — production-line assemblers, data processors, the kinds of jobs that were the hallmark of old manufacturing. Frederick Winslow Taylor once wrote that the best businesses were the ones in which workers “left their heads at home.” He was right, which explains why socialism had always seemed so magical for working people who could not bring off the feat.

Anyway, much of this dehumanizing work is impossible in the businesses of the new economy. Manufacturing and service businesses like ours want fewer workers, but we want all of our people to be literate, numerate, imaginative and civil enough to engage in team-based problem-solving. We want a scientific mind for production, and an empathic heart for customers and fellow workers. We know that manufacturing matters, but that developing a piece of scheduling software for a plant in Taiwan is manufacturing. All in all, this new style of work is significantly more satisfying than what it has replaced. If socialism is dead, it is because the industrial capitalism it rose up against died first.

The game into which workers are
recruited has changed. The new technologies have changed the rules of management: the old division of labor has been replaced by more integrative approaches, interfunctional teamwork, knowledge sharing. A business’ most important asset is its “intellectual capital”—the competencies of employees that allow them to be innovative in a thousand ways. Employees must be learners for their whole lives, not just specialists. They must also understand the business’ strategy.

A company used to be like a football team, in which only senior managers, like quarterbacks, saw the whole field, and most everybody else performed a single, drudge task. Your plays (that is, your product lines) were mostly set for the long season; the few times you got close to the goal you had better score. Bigness mattered.

Now a company has to be more like a basketball team — or really an alliance of basketball teams — lean, versatile, disciplined in spontaneity. Marketing, design and production people take on problems together; senior managers must lead like a point guard. Real-time communication is key, and it must be horizontal, not just vertical. Networks are replacing hierarchy. The corporate office I run looks more like a holding company, a teaching center and a bank than it does a command center.

By the way, a football team can have too many Dan Marinos. A basketball team can never have too many Michael Jordans, and has no room at all for a 300-pound, barely educated tackle.

Labor’s real crisis is not unemployment but unemployability. Of course, the only thing worse than a boring job is no job, which is why some people — opponents of Nafta or the critics of outsourcing, for example — view the loss of old industrial jobs with alarm. Their concerns are reasonable. Their solutions are not. Don’t be fooled by apparent fluctuations — last year’s “downsizing” or this year’s drop in unemployment. For the first time in the history of industrial labor markets, the problem for unskilled people is not cyclical unemployment but chronic unemployability. The bottom rungs of the ladder are disappearing; protection and macro-economic “stimulation” can do nothing to change the trend.

When I was a teen-ager, we would hear often about friends who dropped out of high school to start a family and “go to work.” The very idea today would be ridiculous. For people with reasonably sophisticated skills, the job market will always recover: Lazard Frères has found that during the recovery of 1994-96, 1.5 million jobs were created for every million jobs lost, and most of the new ones are in smaller businesses. But people without skills will be heartbroken. The Blue-collar jobs have been made redundant by robotics.

days of U.A.W. people making $18 an hour with nothing but a couple of years of high school are gone. Unskilled labor is no longer being compensated, and can never be compensated, with a dignified wage. Advocates for protection and stimulation can, to be sure, create a demand for some low-end jobs in the short run.
But nobody can raise a family on what these jobs pay. And the problem will only get worse. Any job that is still simple and repetitive enough to employ a semi- or non-skilled person is going to be even more pressured by new software or by contractor-suppliers in China and Brazil.

The result will be growing and tragic inequalities. Even the Harvard Business Review has worried about the development of an “apartheid economy” in advanced industrial countries, and for good reason. Income inequalities between people who can engage in team-based problem-solving and people who cannot are growing. According to H.B.R., between the early 1970’s and the mid-90’s, real income in the top deciles grew about 5 percent (personally, I think this is seriously underestimated), while it declined about 15 percent in the bottom deciles. College graduates earned about 43 percent more than high school graduates 20 years ago. They are earning 82 percent more today. The gap, in both cases, is widening. We are becoming two societies.

Labor unions will not make a difference. It was precisely because direct labor used to be so simple, mechanical and yet critical to value creation that labor unions made sense. Unions were a way for whole categories of workers to get some needed leverage in wage negotiation, and, let’s face it, a psychological lift from solidarity — and one could speak of “categories” of workers because tasks were so elementary, and skills so pathetically interchangeable. Unions were also a way for companies to negotiate a predictable supply of labor for a set period, though it took that requires so little individual creativity that an employee would rather join a union than negotiate an individual career path, will become a prime target for the computer-integrative technologies as the years go by.

The U.A.W.’s recent fight with General Motors over outsourcing is like Canute trying to hold back the sea. No wonder less than 15 percent of workers are in unions today, whereas 35 percent of workers were in unions in the 1960’s.

These changes in the circumstances of labor have, clearly, been both very much for the better and very much for the worse. They have meant that virtually all employees in our companies will have the chance for more agreeable work than factory “hands” ever had. As barriers to entry drop in virtually every industry, equality of opportunity is more assured than ever before.

But equality of result seems less assured. The number of people any individual company needs per dollar of sales is declining rapidly. People who create value, and are seen to create it, will do very well. People who cannot prove themselves will be in trouble. An “up or out” dynamic is taking over the management of knowledge businesses, that is, all business, just as it dominates all knowledge institutions.

Our best companies cannot grow fully into global opportunities because they cannot hire the people they need.
These changes have presented democracy with more exciting opportunity and more terrible danger than ordinary citizens ever had to face before. On the positive side, one can see a true Jeffersonian republic taking shape at last, in which cyberspace presents a forever-opening frontier, and nobody has to become a machine put to work for somebody else. The outlines of this new republic are already visible in Silicon Valley, in Tech Square in Cambridge, Mass., in Austin, Tex. — or in Haifa, Israel.

Imagine an end to degrading work, imagine how the basic skills of business reinforce — as never before — the basic skills of democratic citizenship, skills like the capacity to navigate and analyze streams of information, the wit to make a succinct presentation, the acuity to read critically, write persuasively, organize material and communicate one’s views about it.

And yet, who are we kidding? People who haven’t the equivalent of something like early-college-level skills cannot hope to even get through the doors of companies like Motorola, General Motors, Fidelity or any of the start-ups of the new economy. Statistics are not definitive in this realm, but I think we can safely assume from basic literacy figures that at least 25 percent of the current American work force is not sufficiently educated to be qualified for jobs that would pay enough to sustain the middle-class life of, say, Archie Bunker. If you think about who votes, or reads the newspaper, we might be talking about 40 percent.

All of this means that 10 or 20 or 30 million people — people with children, people hobbled by dullness and self-doubt, people who played by rules that simply evaporated from the time they were 15 to the time they were 35 — are hard pressed to see a future. Or make sense of the past. After all, the school system we conceived, the union movements we adjusted to, the “leading” economic indicators we tracked, the Government programs we put in place — none of these things assumed that virtually every member of society would need the equivalent of college-level skill just to get a decent job.

Something dramatic will have to be done, and market forces alone cannot be trusted here. Markets are fair by definition, but markets are not life. People cannot be expected to think that they deserve their fate simply because they were born into changing competitive rules. This is the only life they will live.

I am not quite old enough to have fought against the fascism of the 1930’s, but I am not so young as to forget that resentment, ignorance and desperation breed violent kinds of politics. The riots of South Central Los Angeles, the militia movements and the increase in terrorism, the coarsening of mass entertainment — all of these things should be taken as cautionary signs. We cannot assume that a third of our citizens will live in the Third World, and that we will live in the First.

What is business’ responsibility in this crisis? Is this business’ problem? Well, in some obvious sense it is. Social dislocation certainly makes problems for us, which I’ll get back to in a little while. But that is not what most people mean when they try to enlist business in solutions. They mean that the crisis is caused by the actions of business, and that it is up to business to make things better.

They see that we lay off workers, or refuse to hire the undereducated. They see our growing profits, our rising salaries for entrepreneurial executives, our foreign operations, the resources at our command. They jump to the conclusion that corporate greed is the source of their problem. They imagine what a force for social good individual companies could be if only they acted “responsibly.”

This kind of argument confuses cause with effect. But it is especially strong in cities where very powerful global corporations have a long history of trying to be “good corporate citizens” — Ford in Detroit, Motorola in Chicago, Coca-Cola in Atlanta, Levi Strauss in San Francisco. Ironically, the more enlightened companies are, the more they contribute to public confusion.

Our best companies aspire to be learning organizations, investing as much as 2 to 3 percent of their payroll in training and retraining employees. They invest more than many universities in leading technologies. They aim to attract talent with excellent wellness and child-care benefits. They sponsor programs that encourage employees to speak their minds. They institute profit-sharing and stock-purchase plans. Motorola is rolling out, worldwide, a program called “Individual Dignity and Entitlement,” in which
every employee is encouraged to have regular conversations with his or her boss about whether the job is meaningful — meaningful not only to the company, but also to the individual employee. Robert Haas, the chief executive of Levi Strauss, is proud to say his company is run by “values,” like “permission to disagree,” which can be an awful lot like the values of citizens: truth, learning, devolution of power.

Compounding this whole misconception about the role of companies is a certain nostalgia for the great American corporations of the 50’s and 60’s, corporations that supposedly made commitments never to fire middle-management people, corporations that seemed patriotic because they brought the American way all over the world, corporations in which a person could spend a whole life — the place where pensions were vested, mortgages were secured, social connections were made.

Never mind that “America’s” most profitable companies today are growing twice as fast in Asia, with Asian managers, as they are in the United States. Never mind that American companies were virtually monopolies in a postwar world, and now have competitors from everywhere — Spain, Singapore, Indonesia. Never mind that products change every 18 months, and companies can’t possibly guarantee lifetime employment even to their most prized technologists (whose expertise will be outdated anyway in five years), let alone to hourly employees. Never mind that people who were in companies all of their lives used to complain about feeling lost in a “lonely crowd.”

Still, it’s no wonder that people standing on the outside of our best corporations would get the idea that we are social institutions devised to further social good. From a certain naïve angle, companies look like introverted welfare mini-states, which need only to be forced to share their wealth with the rest of us. But companies were not designed to be engines of social good. Rather, it was the competition among companies that was designed to be an engine of social good. True, competition advances industry, focuses technology, cheapens goods, refines needs. But it also puts laggards out of business. The mandate of any business is to survive, and this is becoming harder and harder as the market boundaries between companies and countries blur.

I hope I will not be considered mean-spirited for saying these things. Now and then, companies can spare some funds for public purposes — public broadcasting, local schools. But we will never get anywhere if we fail to acknowledge that we, the managers of businesses, have done what we have done, cut what we have cut, re-engineered where we could, simply to remain alive. Even C.E.O.’s who emphasize “values” are really speaking of what it takes to make the company more competitive; when they speak of in-house freedom of speech they really mean something like what Mr. Gorbachev meant by glasnost. Greed, too, is beside the point. Human beings are not perfect. But survival is what most managers mean by self-interest.

Citizens, to be sure, may need to take action to solve their social problems, and are bound to use some (or, at times, much) of the wealth created by corporations to achieve democratic ends. This country won the fight against fascism this way, after all. But companies contribute to democratic solutions by remaining capable of creating the wealth shareholders and governments appropriate, not by taking on the responsibilities of governments. Nobody would want their pension funds invested in companies that act like social agencies.

What, then, can be done about chronically unemployable people? What can businesses do? My answer would not be a new social compact, but a determination to remember the old one more precisely and live up to it more intelligently.

The old compact had always assumed that companies would self-interestedly support certain government actions to enforce the rules of the competitive game. Government would police property rights, establish the courts to punish criminals and settle judicial disputes, build roads and bridges, defend borders. Read “The Wealth of Nations.” The mutual obligations of companies and governments were specified from the start, and haven’t really changed. Though Adam Smith opposed anything like labor unions, one could find a rationale for most New Deal regulations, even collective bargaining, in what Smith had to say about government’s obligation to protect competition from the dangers of private monopolies.

But in one crucial respect, the old
compact clearly needs an amendment, the part that has to do with education. The old compact assumed that government would educate children to be qualified for work, and that businesses would go along willingly. But to be qualified for a factory job, all that was necessary was bare literacy.

I confess that it was a little embarrassing for someone like me, who picked up “The Wealth of Nations” in business school after having been supported by the G.I. Bill, to read how Smith had assumed from the start that most youths would barely be taught “to read, write, and account,” knowing that little had really changed in 200 years. Smith knew this was a shame but he also knew that education would be wasted on most. One passage he wrote has haunted me: “The man whose whole life is spent in performing a few simple operations has no occasion to exercise his invention, or exert his understanding … He naturally becomes … as stupid and ignorant as it is possible for a human creature to become.”

In the new economy, however, this cannot go on. Businesses have an inexhaustible need for highly cultivated people. Our best companies cannot grow fully into global opportunities because they cannot hire the people they need. But none of this means businesses can themselves become responsible for education. Our companies invest more and more in training, but we cannot make our employees trainable. Businesses are more like specialized graduate schools than elementary schools; we need people to present themselves for work ready to learn and practice our marketing, design and production strategies, ready to learn our high technologies and quality systems. We cannot teach the basics.

At the same time, there are a number of things we can do to fulfill our old obligation to educate children — to make them capable of work, to make them qualified for being recruited into our companies.

Stop complaining about higher taxation targeted to education. The first thing is simply to stop equating increased taxation with anti-business attitudes. The first and most fundamental investments in the intellectual capital of businesses will now be made by governments. Just look at China’s economic takeoff since 1985. The Communist regime of the last 30 years is hardly worthy of emulation, but it did one thing right. It educated millions of young Chinese to read and write well and do advanced mathematics. The results for domestic and global companies doing business in China are astonishingly good. Look also at Israel, or Singapore.

Businesses are more like specialized graduate schools than elementary schools; we need people to present themselves for work ready to learn.

Governments currently spend upward of a quarter of a trillion dollars nationwide on schools of all kinds. To mentor the young people who are in danger of falling through the cracks, they will need to fund hundreds more preschool centers, hundreds of small boarding schools, hundreds of wellness facilities, thousands of Outward Bound-like programs. They will need to fund hundreds of experimental charter schools (even if this means defying teachers’ unions). They will need to fund a new educational on-line network, chockablock with educational software. They will need to subsidize university tuition. They will need to create rural Boys’ Towns and Girls’ Towns for many lost adolescents from the inner city. Finally, when you look at, for example, the Israeli model, they will need to organize, say, 12 months of universal mandatory national service after high school graduation. Israel’s Defense Forces have proven to be a kind of finishing school for recruits to the new economy.

Become a demanding customer. Many businesses have become active helping local school boards to understand the kind of curriculum they should institute to prepare children for...
work. Motorola, to name one, spends as much as $5 million a year in co-op-
erative programs with K-12 systems and community colleges. Schools are often surprised to learn that what busi-
nesses really want are not one-dimen-
sional technocrats, but graduates with a rounded understanding of classic texts, students who know how to argue and listen, students who know foreign languages.

But, in any case, businesses cannot sit on the sidelines and let curric-
ular decisions be made by people who have stereotyped images of what compa-
ies need. I know one large insur-
ance company that sponsors a school-
to-work program, in which about 20 local high school students come to its headquarters a few times a week to take some classes and do odd jobs. The people who run the program assure me that it is the teachers who ac-
company the students who are the real beneficiaries of this exposure.

Beyond this, the agenda for re-
form is ambitious: performance mea-
sures, a new curriculum, devotion of authority onto school principals and local administrators, elimination of school board bureaucracy and the provision of a whole new set of incen-
tives and accountability measures that provide real rewards for school staff whose students make real progress. In all of these initiatives, business should be a kind of activist partner, providing funds for the work of educational foundations, working with community colleges on curricu-
um, offering a new language of expla-
nation for city school boards and even innovating with institutions of higher education of their own. Schools, feel-
ing the ambient pressure of business, would by this logic undergo a “quali-
ty” change something like the one oth-
er suppliers to big business have ex-
perienced over the past 10 years. Companies would not present school boards with “design specifications” but “performance specifications,” tar-
gets of competence all students must meet. The school board would take the initiative on qualifying the schools.

Get into the education business. If a company is a learning organization, it is also a teaching organization. There is no reason why virtually any substantial company shouldn’t be thinking about the business of teach-
ing, of ways to offer services to chil-
dren and teen-agers and profit from the enormous education market that is taking shape before our eyes.

Granted, not every company could contemplate setting up a school in the context of the growing charter school movement, or even a voca-
tional training center. However, all ma-
jor companies will have to develop teaching materials — theoretical arti-
cles, multimedia software, instruc-
tional films, on-line simulations and so forth — that reflect their peculiar competitive experiences and advan-
tages. There is no reason why compa-
nies cannot market these products to school boards and universities, to new entrepreneurial teaching enter-
prises and to families.

The point is to make competition in teaching as robust as possible. We should be thinking about ways of in-
structing that are as creative as ways of selling. Our soft-drink and sneaker manufacturers have marketing groups that are at least as sophisticated about teen-age culture as our best sociology departments, yet they put all their energy into titillating, not mentoring, though the profits from the latter could be very good. What a waste.

Teen-agers from tragic homes are still curious — often desperately so. If they can learn the zone defense, and enjoy Carmen Sandiego, why can they not learn “geography”? Why should-
’t the Coca-Cola Company, say, find a way to teach it on-line without trying to sell Coke? School principals should feel the heat. Is it possible that what most conventional educators mean by the evaporation of their stu-
dents’ self-discipline is that, given the experience of television, students no longer have the capacity to be bored to death?

Shame on us. It is time as well to acknowledge that commercial tele-
sion is mostly a disgrace, and that companies are mostly responsible for this and have to do something about it. Children will see as many as 100,000 commercials before they come of age. The programs developed to get them to see the commercials are often just ways of selling, too.

When Newt Gingrich accused public television of not taking suffi-
cient advantage of ways to license “Barney,” how many of us thought, “Take advantage of whom?” We’ve im-
pied to children that having stuff, now, is the point. We throw cheap thrills at them to get their attention. We turn them into couch potatoes who never quite test their own powers. We treat
them like consumers of value, and are then amazed when they show up for work without the capacity to be producers of value.

Make no mistake. I am not for censoring the media. But I am for C.E.O.’s speaking out publicly as critics of their own and each other’s commercials, marketing campaigns and sponsorships when these demean public discourse or undermine parents. Freedom of speech means that individuals cannot be silenced by a conformist majority. But it also means that a majority are free to try to make individuals feel ashamed of tactless, salacious or just plain dumb things. I am tired of hearing how parents have the responsibility to “turn off the set.” Parents should not have to hover over the electronic gateways to their homes 24 hours a day to keep out junk, any more than over the physical gateways. Public standards matter, and they have fallen dramatically just when they need to be higher than ever.

Go to the library and read a Time magazine from the late 1940’s and compare it — the sophistication of its language, the moral tact, the implicit assumptions about its readers’ knowledge of world affairs — to the new Time. Companies now have as great a stake in raising the bar as universities have. Are we at all vigilant?

Make work in education. There is one final point. No matter how quickly we turn to the task of mentoring our young people, there will be millions of people of our own generation who will never really be employable in the new economy. Their basic skills are not up to the environment of a knowledge economy. The revolution in standards for basic skills has come when they are too old to really be made over.

We have a choice with such people. We can insist that their bleak prospects are their own fault, and cast them into a scramble for survival, which they will half win, like the people of the Third World do. Or we can endeavor to employ them on public works projects that add to the environment of mentoring and cultivation we are trying to create for their children. Again, I am not talking here of a “stimulus” package. I am speaking of “make work” in the classical sense, employing people in building new parks, new schools, new transport, new fiber networks.

The downside of such spending is obvious. But the upside is too: not only a more attractive place to live and a reduced rate of crime, but improved chances for families to stay together. The Harvard sociologist William Julius Wilson has observed that men with jobs are nine times more likely to stay in their families than men who are unemployed. Do we want to continue to absorb the consequences of abandoned families as a “cost of doing business,” the increased security and the rest of it?

There you have it. Not a new social compact, but a way of living better under the terms of the old one. I wish I could say that I expect other business leaders to adopt these attitudes before things get much worse. But I can tell you that many more will adopt them as things get worse. In any case, I have tried your patience long enough. If I have got something wrong, I expect you’ll tell me.