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Luis R Gomez-Mejia
Arizona State University

Managing Without Traditional Methods

**International Innovations
in Human Resource
Management**

**Patrick C Flood
Martin J Gannon
Jaap Paauwe**



Addison-Wesley

Managing Without Traditional Methods

International Innovations in Human Resource Management

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John Storey, Loughborough University

'This is an interesting, fresh innovative book which, above all, maintains a strong thematic thread throughout. The analysis is deep-seated, well referenced to key sources, and whilst based in theory, is nicely balanced with practical cases and examples. Taken in the round, I would view this as an important book and a credit to the the Addison-Wesley collection.'

Paul Sparrow, Manchester Business School

'... The field of human resource management is in a state of transition. This book helps to signpost the way towards new thinking about the topic. It articulates the main pressures on the traditional personnel role and presents some very useful ideas about the breakdown of traditional organizational structures, managing without unions, and handing over HRM responsibility to the line. I learned much from reading this book.'

Neil Millward, Policy Studies Institute

'This is a stimulating read, combining insights from sound research and innovative thinking on the challenges to management in seeking sustainable competitive advantage. The chapter on Managing Without Unions contains a well-grounded discussion of the opportunities available to management in large, non-union firms and of the reasons why an external union presence constrains managerial prerogative. The discussion has important implications for management, unions, employees, and, more generally, the health of democratic societies that deserve to be more widely appreciated.'

Luis R. Gomez-Mejia, Arizona State University

'This is truly a path breaking, innovative book that captures the revolutionary changes being experienced by human resources management. The book is likely to have major impact on the field for years to come. This is a must read by all managers and academics dealing with human resource issues.'

William P. Anthony, The Florida State University

'This book is unique and captures the sea-change that we are witnessing in human resources management. Imagine the changes in the field – no full time workforce, no supervisors, no personnel managers, no traditional structures – these are but some of the major trends the book addresses in an innovative and highly readable way. I highly recommend the book to people who want to learn what human resources management will be like in the future, not in the past. This book captures it all.'

Herbert G. Heneman III, University of Wisconsin-Madison

'I find the book an interesting and useful compendium of innovations in HR. Its international perspectives are particularly helpful in helping us realize and appreciate the full range of innovative options available to organizations as they seek optimal ways of maximizing workforce effectiveness.'

Paul Willman, London Business School

This is an unconventional approach which represents sound academic work in a way that will appeal to a broad audience. It is both international and interdisciplinary and a valuable addition to the set of existing books for MBA and executive programmes.'

Keith Sisson, University of Warwick

'A very good review of "best practice" thinking and developments in the management of human resources. A valuable source of ideas for policy makers and practitioners who want to understand how the more effective management of human resources can contribute to competitive advantage, and of up-to-date case material for teachers and students.'

We dedicate this book with love and affection to the members of our families.

*To the memory of my beloved father, Bartholomew Flood;
and to my mother, Catherine, my wife, Patricia, and our
sons, Christopher and Patrick Ellis*

Doris, Marlies, and Reid Gannon

Marthe and Jochem Paauwe

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Preface

In 1991 when Patrick Flood and Jaap Paauwe met while on sabbatical at the London School of Economics, Western economies were undergoing *fundamental restructuring*. Country after country was experiencing the phenomenon of deindustrialization, corporate downsizing, reductions in full-time workforces, privatization and liberalization of labor markets, and the increased use of radical managerial innovations such as self-managing teams, continuous improvement initiatives, the restoration of line management prerogatives, and changing union-management relationships. Frequently, however, an organization would make a major change in one of these areas without considering fully the organization-wide implications in other areas. These two professors began to speculate that such changes – often introduced in a random, sporadic, and top-down fashion – needed to be placed into perspective so that an integrated and wholistic overview of them could help the practicing manager understand when and how to introduce specific changes without doing violence to the organization.

The initial concept for the book was formed when both Flood and Paauwe were invited to present papers at a conference on industrial relations sponsored by the London School of Economics in Cumberland Lodge, Great Windsor Park, London, that was held on 26 November, 1991. The late Professor Keith Thurley, internationally recognized for his work on the changing nature of managerial work and the concept of a distinctly European style of management, organized the conference and asked Flood and Paauwe to present papers. At this conference Jaap presented a paper, 'Personnel management without personnel managers.' This presentation triggered the concept of the book, as Patrick began to think silently about other changes involving the concept of 'managing without.' In a relatively short space of time these two professors came up with a long list of areas in which 'managing without' was featured. These included managing without: traditional planning systems, traditional structures, traditional owners, unions,

supervisors, quality boundaries, personnel managers, and a regular, full-time workforce.

While generating this list came quickly, identifying internationally recognized researchers who had written extensively on these topics was a daunting task. In particular, finding an expert on managing without a complete, full-time workforce proved difficult, even though this topic has become increasingly important throughout the world. Ken G. Smith, a professor at the University of Maryland who was a Visiting Fulbright Professor at the University of Limerick in 1991, suggested that Martin Gannon, an expert on part-time and temporary-help employment, be approached to author this chapter; he was subsequently invited by Patrick Flood to join the team as a senior co-author. Gradually the research team coalesced and eventually included professors from the University of Limerick in Ireland and Erasmus University in the Netherlands, and professors from the following American universities: Maryland, Georgetown, Syracuse, Central Arkansas, and Arizona State.

To ensure that this book was both theoretically sound and helpful to the practicing manager, the authors convened a conference focusing on the proposed book. It was held at the University of Maryland in October of 1993, and its participants included 25 vice presidents of human resource management, all of the authors, and 15 internationally prominent academics who were not involved in the writing of the book. All of the chapters in this book were presented as papers, and extensive and critical feedback was received on each of them. The authors of the papers were asked to use the following guidelines in writing the final versions of their chapters, that is, each chapter should be: theoretically sound, practical and useful, strategic in emphasis, internationally based, case-oriented, and at the cutting edge of trends in human resource management.

In developing this book, we identified two major divisions that became Part One and Part Two. No discussion of the role and contribution of strategic human resources to sustained competitive advantage would be complete without considering the value chain, that is, the primary and support activities which add value to the final good or service. Part One addresses this issue, and it highlights the five capabilities of world-class resource management that go beyond the usual distinction between low-cost leadership and differentiation of products and services as a competitive strategy. These five capabilities are the ability to produce products and services 'right the first time,' speedily, on time, cheaply, and flexibly (Slack, 1991[†]). When combined simultaneously, these factors constitute world-class competitive capability. The simultaneous combination of these factors is the essential task facing top management teams in organizations that are going to successfully compete in the global marketplace in the next decade.

[†] Slack, N. (1991). *The Manufacturing Advantage: achieving competitive manufacturing operations*. London: Mercury Books.

Part Two of the book examines whether or not strategic innovations in human resource management do in fact contribute to value enhancement in the value chain within organizations. Such non-traditional methods include, as suggested above, managing without: traditional planning systems, conventional ownership structures, unions, complex hierarchy, specialized personnel departments, quality boundaries, 'boss type' supervisors, and a complete full-time workforce.

As this discussion indicates, there is a close relationship between Parts One and Two of this book. In understanding the organizational impact of innovations in human resource management, it is important to keep both an upper and lower echelon's perspective on the organization. Often the top management team (TMT) makes one strategic innovation or move that it assumes will have a synchronized value-enhancing response at lower levels of the organization. However, frequently the reality is quite different, as Part Two of the book illustrates. In the final chapter we identify lessons that have been learned from reviewing the experiences of companies throughout the world which have experimented with strategic innovations in human resource management. In the final chapter we also present some new and revised perspectives on theory and practice, and describe what the configuration of human resource systems of the future may look like.

Throughout the book we integrate the various issues and chapters through the use of three major theories: agency theory, transaction cost economics, and the resource base theory of the firm. In the final chapter we argue that it is relatively easy for companies to copy one another's products, designs, advertising campaigns, and so forth. However, human resources represent one factor that is scarce and for which there is frequently no effective substitute. For this reason we refine the resource base theory of the firm into a human resource base theory or model of the firm.

We would like to thank the following people and organizations: Dr Noel Whelan, Dean, College of Business at the University of Limerick; Eamonn Walsh, Thomas Turner, and Michelle Cunningham, University of Limerick; William Mayer, Dean, The Maryland Business School, University of Maryland at College Park; Professor Ken G. Smith, Mercy Coogan, and Jo Anne Schram, University of Maryland at College Park; Dr Jan Verhulp, Dean of the Rotterdam School of Economics, Erasmus University; Philip Dewe, Dean and Professor, Massey University, New Zealand; Nigel Nicholson and Paul Willman, the London Business School; Neil Millward, the Policy Studies Institute, London; and John Kelly, London School of Economics. The Fulbright Commission and the University of Limerick supported Patrick Flood's four-month stay at the University of Maryland in 1993, during the writing of this book. Subsequently, the award of a European Human Capital and Mobility Institutional Fellowship to London Business School (LBS) allowed Patrick Flood to complete this book at LBS in 1995.

In addition, we are very appreciative of the conscientious efforts and patience that representatives of our publisher, Addison-Wesley, demonstrated throughout the project. Our thanks to Jane Hogg and Paula Harris, our editors, who were ably assisted by Victoria Cook. Allison Lock, Academic Sales Advisor at Addison-Wesley, also provided valuable advice at early stages of the project. We also wish to thank Martin Tytler, Production Editor at Addison-Wesley. For their help, and that of others at Addison-Wesley, we are grateful.

International collaboration across three different time zones is not an easy task. Our wives and children endured countless telephone calls at peculiar hours with admirable fortitude and good humor. As Patricia Flood pointed out – the three of us should have gone up in an HRM space shuttle!

Finally, we note that the subject of this book is extremely complex, and it is easy to make factual and interpretative errors when discussing the many issues that need to be addressed. We accept complete responsibility for any errors that this book may contain and ask that you bring them to our attention.

Patrick C. Flood, Limerick, Ireland
Martin J. Gannon, College Park, Maryland, USA
Jaap Paauwe, Rotterdam, the Netherlands
May 1995

Introduction

It is now generally accepted that we are living in the midst of a major transformation in the manner in which business is organized and conducted. The international business press is replete with accounts of corporate restructuring as organizations delayer, downsize and introduce new methods and innovative approaches to workforce management. Bookstores all over the world are full of slim 'how to do it' volumes on such diverse topics as *five-minute management*, *empowerment*, *mentoring*, and *downsizing* to name but a few. The traditional tried and trusted methods of management espoused by classic scholars such as Fayol, Urwick and Brecht are truly under siege if we are to believe what we read in the popular press. Traditional managerial approaches based on rationality in organizational design, stockholder supremacy, enduring union-management relations, vertical modes of authority and long-term commitments to employees are being challenged by the practices of organizations desperately searching for new methods to gain a competitive advantage in the marketplace.

Yet delayering and lean management methods potentially expose companies to a new generation of organizational pathologies such as corporate anorexia, increased conflict between different types of organizational members, and decreased commitment to organizational objectives. Euphoria and enthusiasm over the latest management fad can quickly change to disappointment and disillusionment when introduced into a hostile and unreceptive organization culture. Hence managers face a difficult task in unraveling the complexities inherent in new approaches. How do managers know which set of methods seems to work? More importantly, there is a need for balanced theoretical understanding of these trends which will temper the enthusiastic search for panaceas with caution.

This book attempts to go behind these trends to search for theoretical understanding of why they are happening and to assess both the opportunities and difficulties involved in the introduction of such

techniques. In Part One we begin our analysis by focusing on the capabilities that must underpin competitive strategies designed to create truly world-class organizational forms. We argue that such organizational forms are characterized by the distinctive competence of the organization to simultaneously combine speed, dependability, quality, and cost-effectiveness. These capabilities seem to characterize those organizations that are most forward looking in their competitive strategy approaches.

We also advance the view that the new theoretical paradigm for integrating human capital perspectives with strategic management is to be found in the resource base view of the firm. According to this theory resources must be valuable, rare, inimitable, and non-substitutable if they are to provide a sustained source of competitive advantage to the firm. We also believe that if the management of human resources is to become a serious theoretically-based subject taught in mainstream strategy courses for future general managers, then the subject area needs to integrate the most powerful theoretical ideas to be found in the strategic management literature, including resource base theory of the firm, transaction costs theory and agency theory. All of these theories, which are primarily economic in orientation, have imparted a rigor to the strategic management literature that is often lacking in the human resource management field.

In Part Two we enumerate and analyze a series of innovations in human resource management which we have observed and which seem to have their origin in the need to create more agile and flexible organizational forms. Our innovations have one common characteristic, namely their focus on *managing without* traditional methods. The list includes managing without: centralized strategic planning, traditional structures, traditional owners, unions, personnel managers, supervisors, quality boundaries, and a complete, full-time workforce. These innovative methods can be contrasted with their more familiar and traditional counterparts: top down strategy formulation, hierarchical modes of governance, traditional stockholders, standardized collective bargaining arrangements, routine and perfunctory personnel management systems, authority-based supervisory and managerial systems, inspection-based quality routines, and permanent, pensionable employment relationships. We attempt to understand both the reasons for these innovations and their impact on the organization in terms of agency theory, transaction cost economics, and the resource base view of the firm. To our knowledge there have been very few attempts to understand strategic organizational innovations in human resource management using these three theories. It is our contention that these theories will become more widely adopted as explanations of such innovations. They focus upon the tensions inherent in the attempt to build strong and cohesive internal human resource capabilities in a business environment which by the very nature of its impermanence encourages the development of low-trust relations.

Thus in Chapter 1 the resource base theory (RBT) of the firm is used to explain how and under what conditions human resources constitute a sustainable competitive advantage. In that chapter transaction costs theory is also used to conceptualize human resource management delivery mechanisms using the make or buy analogy, that is, the firm can either make the product or contract out for it. Then we examine the cultural attributes accompanying two major forms of modern organization – the *Virtual Corporation* (VC) and the *Total Quality* (TQ) organization and the residual role of the human resource department in both cases.

In Chapter 2 the role of the top management team (TMT) is examined in the context of the creation of emergent strategy for capabilities-based or competencies-based competition. The TMT is responsible for crafting adaptive strategies to cope with the continuous changes taking place in the marketplace, which need to be reflected in a contingent internal organizational structure in which the fixed lattices of job positions and well-defined career paths are frequently eliminated in the adaptation process. As such, the TMT is proactive rather than reactive, and its activities are constantly occurring even when no formal meetings are called. Transaction costs or the costs of doing business are reduced, and the asset base of the firm is strengthened because a greater number of organizational members is involved in the planning process on an active and ongoing basis.

Agency theory (AT) and transaction costs theory (TCT) are both highlighted in Chapter 3 as explanations of the rationale for organizational restructurings which are taking place in numerous countries, many of which result in hybrid organizational forms including the much vaunted, if rarely defined, network organization. The impact of these restructurings both on individuals and the human resource support systems is also explored in that chapter.

Agency theory is the dominant explanatory theory used in Chapter 4 to explore the phenomenon of management buyouts (MBOs) and the role of human resource strategy in creating a successful buyout situation. Information asymmetries and associated motivational issues are also examined. It is argued that, on average, agency costs are reduced in MBO organizational forms.

In Chapter 5 we address the topic of managing without unions, particularly in the context of large high wage non-union companies. This chapter demonstrates that union avoidance by such organizations may represent a pyrrhic victory over trade unions, as the Catch-22 of union avoidance implies that such firms, fearful of union organization, are often unwilling to exercise the freedoms which non-unionism might be expected to confer.

The debate on outsourcing the specialist personnel function is explored in Chapter 6 using transaction costs and agency-based relationships. A typology involving a continuum of minor and major

changes and a continuum of internality (make the product in-house) to externality (buy the product) is developed to frame the major issues.

Chapter 7 then explores the issue of managing without supervision, that is, using self-managing teams as an alternative. Transaction costs are reduced when teams are employed, as the number of organizational levels decreases and organizational members are empowered to make their own decisions and carry them out. When operating effectively, such teams provide a strong framework for developing the skills and abilities of their members, thus increasing the asset base of the firm.

In Chapter 8 the focus is on eliminating boundaries separating organizational members, organizational levels, departments, and the customers. When such elimination occurs, the resources in the organization can be harnessed effectively. Not only are organizational members empowered, but also customers, as their opinion about the product and its delivery are actively sought in novel ways.

Chapter 9 examines the new employment relationships that organizations are implementing, particularly the core-and-ring strategy whereby a small group of regular, full-time organizational members is surrounded by different types of employment relationships such as subcontracting and the hiring of temporary workers. Under ideal conditions transaction costs are reduced and the firm concentrates on strengthening the skills and abilities of its core members who constitute its key assets. There is, however, some question as to whether such ideal conditions can be approximated in many situations.

In the final chapter of the book the three theoretical strands of agency theory, transaction costs economics, and the resource base view of the firm are brought together in an integrated model that we call the human resource base theory of the firm. It is our contention that organizational members represent the one asset that is most difficult to copy and that firms must mobilize and motivate them effectively if they hope to achieve world-class competitive capability. Thus, while we emphasize three economic-based theories throughout the book, we end our presentation by describing the dynamic relationships between organizational members that must take place if long-term survival is to occur. In this sense the field of human resource management represents a delicate balance between the technological and impersonal dictates of the marketplace and the all-too-human needs that organizational members seek to fulfill. And, while this book describes several approaches that managers can use to accomplish such balance, in the final analysis it is the responsibility of managers to ensure that organizational and personal goals of members are effectively integrated within specific organizational contexts.

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