

# HUMAN RESOURCE MANAGEMENT

A General Manager's Perspective

Michael Beer  
Bert Spector  
Paul R. Lawrence  
D. Quinn Mills  
Richard E. Walton

Text and Cases

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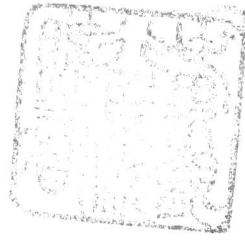
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# Human Resource Management





# Preface

This is not a traditional personnel textbook. We do not review theory, research, and practice in personnel administration, labor relations, and organization behavior and development, the three major research and practice traditions represented in many personnel functions and courses. It is a book for *any* manager or prospective manager, particularly general managers, who want to learn about the critical issues and the strategic questions they will have to consider in managing large aggregates of employees in the 1980s and beyond.

In response to a developing consensus among our alumni and faculty that there is a need in many corporations for better management of human resources, the Harvard Business School (HBS) launched a new required course in Human Resource Management (HRM) in 1981. This book and a supplementary readings book present the cases, text, and readings that comprise that course.

The last new required course, managerial economics, was introduced into the curriculum nearly 20 years ago. The introduction of a new course, therefore, communicates important changes in the knowledge and skills the school judges general managers will require in the future, just as it communicates important developments in the underlying building blocks of practice, research, and theory upon which a new course such as HRM must be built.

The development of the new HRM course was stimulated by practicing managers, graduates of HBS and other institutions, who were

telling us that human resource problems increasingly dominated their calendars and significantly influenced the effectiveness of their corporations. Competitive pressures, changing values in the work force and society, government legislation, slower growth or decline in mature industries, and rapid growth in high-technology firms are making human resources an increasingly important competitive factor. Despite HBS's leadership and strong tradition in the field of organizational behavior, with its emphasis on managing people, process, structures, and change in organizations, we felt that something more was needed in the knowledge and skills of our graduates. Graduates themselves also expressed a desire to learn more about the management of human resources in our executive programs.

We also learned, through our research, case development, and consulting, that changes were taking place in the practice of HRM. Old problems of productivity, employee commitment, employee development, fair employment practice, union-management relations, and compensation were taking on new urgency and importance in the wake of changes in the competitive environment and society. Furthermore, new developments in the field of organizational behavior and development, personnel administration, and labor relations cried out for representation in our curriculum. Moreover, developments in these three fields are increasingly becoming intertwined in their application by both general managers and personnel specialists. Line managers trying to improve organizational effectiveness perceive conflicting perspectives, directions, and values emanating from various specialists in the personnel function. Personnel specialists in one discipline are finding that their assumptions are being challenged by initiatives and developments in other personnel specialties. General managers, faced with an array of external and internal pressures, are beginning to demand that managing human resources be approached in an integrated, proactive, and strategic way, one relevant to their business and management problems.

The new HRM course is a response to these discontinuities. It is not surprising, therefore, that this book is significantly different from traditional textbooks in personnel. There are many excellent personnel textbooks that review theory, research, and practice in personnel administration, labor relations, and organizational behavior and development needed by the student who aspires to a career in personnel. But while these books, and the courses in which they are used, do an excellent job of presenting research findings and current practices in all three disciplines, they fall short, in our view, of presenting HRM in a way that will be experienced as relevant by practicing managers who are not personnel specialists, or by MBAs who do not aspire to become such specialists. At HBS, where the vast majority of MBAs and execu-

tives in residence fall into this category, we have had to search for an approach to teaching about important human resource issues that *all* managers need to understand without teaching about personnel practices, techniques and theory. In short, we have had to develop an HRM course and a book that provides a general management perspective.

The general management perspective places HRM in the context of business strategy and society. It attempts to stimulate students to ask important questions about managing human resources in a changing environment, while at the same time giving them sufficient information about existing institutional arrangements and known personnel practices to facilitate a realistic discussion. It asks them to grapple with the many dilemmas and problems managers encounter in fashioning short- and long-term solutions and taking action. There are several ways in which we have tried to operationalize the general management perspective in this book.

We have chosen the title human resource management because this newer term is being adopted by firms who are trying to do the same thing we are trying to do: integrate practice traditions and make the personnel function responsive to the needs of business, employees, and society. In doing this, we are mindful that the term human resource management communicates excessively instrumental values about people and insufficient human values. We do not wish to communicate this. We do, however, like the fact that HRM communicates the notion that people, no less than physical plant and financial resources, may be viewed and managed as assets and not merely as costs. The most important implication of this approach is that the development of trust between employees, management, and unions, for example, may be seen as a long-term investment, one that must, of course, be justified by the long-term benefits it produces. We chose several cases (Bethoney, Webster, Nippon Steel, and Hewlett-Packard, to name a few) that allow students to evaluate what pattern of HRM develops employees and employer-employee relationships.

We have chosen to write the text for this book in essay form, avoiding extensive review and citations of research, theory, and practice. There are two introductory chapters, one chapter for each of four major human resource policy areas, and a concluding chapter. Each chapter presents conceptual background as well as some knowledge about institutional arrangements and personnel practice which students must possess to tackle the cases. While we do not review research, theory, and practice in exhaustive detail, the text material is based on our knowledge of both research and practice. We have tried to synthesize that knowledge in the interest of articulating more general issues and questions of concern to general managers. We realize full well that in

doing this we are leaving unstated many important qualifications that a detailed review of research and theory would allow. We have tried to deal with this potential problem by only making assertions about general directions, considerations, and questions rather than about specific solutions. The issues and questions we raise can, of course, only provide a general framework for analysis and action. HRM problems and practices found in each situation require a situation specific analysis such as the one we require in a case discussion.

There are several reasons why we have taken this approach to the text material. First, it is our experience that general managers do not always want or need the expertise of a functional specialist to grapple with important human resource problems facing them. Indeed, getting into the details of personnel practice can sometimes preclude getting at the fundamental management problem or at the underlying implication of a human resource management policy or practice.

Second, by including knowledge relevant for the functional specialist (techniques, methods, procedures, and accepted practice), we would send the message that managing human resources wisely depends largely on that knowledge and/or the help of the personnel function that has it. We wish to communicate something different. The specialist's methods and approaches can be helpful, but they represent no permanent truths. They can be judged only by their capacity to solve relevant management problems within the realistic constraints of the situation. Thus, an approach that confronts students with human resource problems for which they must design relevant solutions and actions seem to us to be better suited for prospective line managers.

Third, consistent with the pedagogy of HBS, we teach HRM by the case method. The case method puts students in a real situation and forces them to diagnose that situation and take action. If the case presents a given company's approach to HRM, it offers students the opportunity to evaluate the effectiveness of that approach. The text which precedes each section is aimed at giving students the general background and perspective required to analyze and discuss the cases in that section. By asking students to diagnose, evaluate, and take action with classroom challenges from peers and faculty, we are helping students develop their own research findings, ones they are likely to remember because they come from their own experience. So long as the discussion is guided by someone who knows the research and understands the constraints of reality, this approach is, we believe, preferable to providing them with our own analysis of the cases or with comprehensive reviews of research studies which deal with the problem.

Naturally, instructors are an important part of this type of learning process. They guide the discussion by asking relevant questions, providing expertise and experience where needed and encouraging students to grapple with important questions. The teacher's manual



which accompanies this book provides our analysis of the cases and recommendations on how to teach them. It also suggests a number of audiovisual materials which we have found invaluable in stimulating excitement and interest when used with specific cases.

Though limited by the number of classes we can teach and the number of pages we can include in this book, we have included a range of cases that will acquaint students with the human resource management issues they need to understand in order to manage in the 1980s and beyond. In many instances these cases were developed explicitly for the HRM course and include up-to-date issues, practices, and problems. Naturally, we have made some judgments about the scope and content of human resource management by the choice of cases, but we believe these judgments are validated by our experience as researchers and practitioners.

Finally, we have limited our text to a more general treatment of human resource management, because we are supplying a companion book of supplementary readings. In several instances these readings were developed by us to provide the minimum knowledge of theory, institutional arrangements, or current law or practice needed by students as background for an informed discussion. The notes on Labor Relations in the United States, Why Employees Unionize, Japanese Management and Employment Systems, and Performance Appraisal are examples. In other instances we have included articles. In still other instances the cases themselves provide information about relevant methods or laws; for example, the Dana case explains the Scanlon plan and the Highland Products case provides information about equal employment legislation and litigation.

In most instances, however, the supplementary readings book is intended as a backdrop to the more fundamental questions the instructor raises about the cases. The questions that should dominate the discussion are "what is the problem here, and what short- and long-term action do you recommend?" Or if the case is descriptive of human resource policies and practices in a given company, the key questions are "how do you evaluate the company's approach and under what circumstances can it be applied elsewhere?" Given the varied experience and values of students, the class can arrive at a much more complete understanding of the situation and a more complete plan of action than any single individual. Of course, this complete understanding requires that the instructor bring out the different viewpoints in the class rather than lecture about the case or use it as an illustration. An alternative approach is to subdivide the class into small groups which are asked to present their analysis and recommendations for action.

In addition to their successful use in the MBA program at HBS, some of the cases and text in the book have been used successfully in various executive programs in and out of the school. Finally, one of the

authors has used virtually the whole HRM course as presented in this book in an MBA program at another school. Students were surprised not to get a standard personnel course, but they were delighted with the range and depth of the issues raised by the cases and notes.

The development of a new course and case textbook requires the help and cooperation of many people. We wish to acknowledge some of them here. The course required the approval of the whole HBS faculty which took risks in doing so. We thank them for their confidence in us. John McArthur, Dean of HBS, supported the idea of a new required HRM course and was instrumental in bringing two separate groups, production and operations management as well as organizational behavior, together to undertake the development of the new course. Wick Skinner was a member of the original teaching group which planned and taught this course for the first time. We appreciate his support and contributions. Richard von Werssowetz contributed significantly by writing several cases which appear in this book. His dedication to this task contributed to the success of the new course. Our thanks also go to Rita McSweeney, who typed some of the chapters. And special thanks should go to the dedicated people of the Word Processing Center at HBS, who typed the final version of all chapters. Finally, we wish to acknowledge the financial support of the Division of Research and its director, Raymond E. Corey. The division made it possible for Michael Beer and Bert Spector to dedicate a year to course development.

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## *Chapter 1*

# Introduction

IN ORDER FOR A CORPORATION to meet effectively its obligations to shareholders, employees, and society, its top managers must develop a relationship between the organization and employees that will fulfill the continually changing needs of both parties. At a minimum, the organization expects employees to perform reliably the tasks assigned to them and at the standards set for them, and to follow the rules that have been established to govern the workplace. Management often expects much more: that employees take initiative, supervise themselves, continue to learn new skills, and be responsive to business needs. At a minimum, employees expect the organization to provide fair pay, safe working conditions, and fair treatment. Like management, employees often expect more, depending on the strength of their needs for security, status, involvement, challenge, power, and responsibility. Just how ambitious the expectations of each party are will vary from organization to organization.

Human resource management (HRM) involves all management decisions and actions that affect the nature of the relationship between the organization and employees—its human resources. General managers make important decisions daily that affect this relationship, but that are not immediately thought of as HRM decisions: introducing new technology into the office place in a particular way, or approving a new plant with a certain arrangement of production operations, each involves important HRM decisions. In the long run, both the decisions

themselves and the manner in which those decisions are implemented have a profound impact on employees: how involved they will be in their work, how much they trust management, and how much they will grow and develop new competencies on the job. Deciding how fast a company should grow in response to market demand is another significant HRM decision made by general managers. A decision on growth affects the stress employees will experience as circumstances change, as well as the probabilities that employees will be able to avoid obsolescence and that the organization will have employees with the required talents and skills for the future. Deciding on whether investments are to be financed through internally generated funds or through debt or equity is yet another general management HRM decision. Such financing decisions can make the firm more or less dependent on external stockholders, bankers, and the investment community, thereby influencing a number of HRM policies, most notably, decisions of employment security and investments in employee development. Similarly, general management decisions concerning geographic location of facilities, diversification through acquisition, and business strategy all have, in our view, important implications for the human resources of the firm. Finally, the manner in which supervisors deal with their subordinates, particularly in the expectations they create, the feedback they provide, the trust they generate, and the responsibility they delegate, can do more than any personnel policy or system to shape and reshape the employee-organization relationship. Their actions can reinforce the effective utilization of human resources by the organization; they can also undermine that effectiveness.

None of the above decisions and actions reside in the personnel or labor relations function. Indeed, functional specialists are often not even involved in these or other decisions which affect in a profound way the relationship between the organization and its employees. Just as important, personnel and labor relations departments are sometimes engaged in the administration of policies and systems that have little relationship to the needs of line managers or to the central strategic thrust of the corporation or division. Furthermore, many of these personnel and labor relations activities and systems seem to have a life of their own, isolated from and independent of other personnel and labor relations activities and systems.

The general isolation of personnel decisions has taken place because general managers have counted upon the personnel department and its specialists to play a key role in the management of human resources. Our approach emphasizes two features which are appropriate to HRM. First, the general manager accepts more responsibility for ensuring the alignment of competitive strategy, personnel policies, and other policies impacting on people. Second, the personnel staff has the

mission of setting policies which govern how personnel activities are developed and implemented in ways that make them more mutually reinforcing. This is what we mean by a general manager's perspective. The reasons for this are best understood by reviewing the past development of personnel activities.

Ask managers what their personnel departments do or what their own personnel responsibilities are and they will list a series of seemingly disjointed activities such as labor relations, compensation, staffing (recruitment, placement, and promotion), performance appraisal, training, organization development, equal employment opportunity, and health and safety. Indeed, personnel or labor relations functions are generally composed of many separate departments each performing one or more of these activities. Historically, at least, each of these departments has developed a set of policies and systems which provide guidelines for personnel decisions by line managers. These personnel departments also provide a diverse set of services to line management that often bear little relationship to each other and sometimes conflict with each other. The policies, systems, and services developed by each personnel activity or department are generally determined by the tradition of that practice field. For example, compensation departments develop bonus pay plans, organization development departments engage in team building, and labor relations departments deal with grievances and union negotiations.

The disunity of the personnel and labor relations approaches is not surprising, given that personnel activities in corporations have been added in reaction to specific problems and needs rather than as a response to a stated purpose. Personnel departments originally emerged because as corporations grew in size and complexity, there was a need for a central administrative department to hire and pay people. Labor relations departments were added later to negotiate and administer increasingly complex contracts in those corporations organized by unions. Organization development departments were added to solve problems of conflict, motivation, communication, and coordination which emerged as corporations grew even larger, more diverse, and more complex. And equal employment opportunity departments were added to ensure corporate compliance with government legislation and policy in this area. As a result, HRM often emerged as a set of staff activities lacking a coherent structure or central purpose imprinted by general managers. It is also not surprising that, lacking a coherent structure for policy decisions, HRM tends to be reactive rather than proactive in shaping a relationship between the organization and its employees that is suitable to its long-term needs.

Such coherent structure and central purpose will be added only when HRM is seen as more than just the responsibility of a specific

functional department. This will occur only when general managers develop a viewpoint of how they wish to see employees involved in and developed by the enterprise, and of what HRM policies and practices might achieve these goals. Without either a central philosophy or a strategic view—which can be provided *only* by general managers—HRM is likely to remain a set of independent activities, each guided by its own practice tradition.

In our opinion, the ability to develop a coherent HRM policy that contributes to corporate performance, employee needs, and societal well-being does not require general managers to be experts in personnel and labor relations. Therefore, much of the theory and methodology of those two fields has not been included in this book. Developing an HRM strategy does require that general managers be able to ask the right questions when confronted with HRM problems, questions that will allow them to link alternative HRM approaches to business strategy, to assumptions about employee needs and values, to societal expectations and government regulations, and to their own management style and values. With the help of HRM specialists, general managers must then create the HRM policies and systems that will make it possible for managers at all levels of the organization to attract, select, promote, reward, motivate, utilize, develop, and keep and/or terminate employees consistent with business requirements, employee needs, and standards of fairness. In short, *HRM is the development of all aspects of an organizational context* so that they will encourage and even direct managerial behavior with regard to people.

## THE EMERGENCE OF HUMAN RESOURCE MANAGEMENT AS A CONCERN OF GENERAL MANAGEMENT

In the past, general managers were content to delegate rather narrowly defined personnel responsibilities to functional specialists. Today, however, a great many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organizations' human resources. A list of such pressures would include the following:

1. *Increasing international competition* is creating the need for dramatic improvements in human productivity. The competitive crises in the automobile and steel industries are two such examples. American executives look overseas, especially to Japan, and see employment and management practices that appear to