RESTRUCTURING OF HUMAN RESOURCE MANAGEMENT

IN THE UNITED STATES

by

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95n

Change is endemic to market-based economies and consequently to the employment relationships embedded in them. Hence, it is yesterday's news that the terms and conditions under which people work in the United States are changing. Historically, the pace of this change has varied. But the restructuring of capital assets eventually affects the relations between employees and employers.

I believe that the changes currently underway in North America signal fundamental shifts in these relationships. Descriptions of these changes differ, much as the blind men described the elephant. Some claim the changes include shifts from adversarial to more cooperative union-management relations, from bureaucratically burdened employees working for hierarchical, control-oriented employers, to empowered employees with greater role flexibility working for more egalitarian employers; from earnings based on time and job to earnings based on profits, gainsharing, and so on. Others describe the change differently. They see not cooperation but cooptation and union avoidance, increased risk sharing and cost shifting to employees, rather than success sharing and diminished employment security rather than empowerment. Which view of the new, emerging employment relationship is accurate? Experience suggests that both are---cooperation, empowerment, flexibility and success sharing are emerging hand in glove with declining union membership, risk and cost shifting to employees, and diminishing employment security.

Almost daily, the press describes another employers' decisions to reduce its workforce and restructure incentive and benefit payments in response to competitive pressures. Simultaneously, these same employers adopt programs aimed at achieving high commitment and high performance among their work teams. This chapter examines some of these major changes and their implications from the perspective of human resource management. After examining these changes, a framework is offered for analyzing and interpreting them.

PERSPECTIVE MATTERS: FROM WELFARE TO INDUSTRIAL RELATIONS AND PERSONNEL ADMINISTRATION TO HUMAN RESOURCE MANAGEMENT

Similar to other aspects of management, human resource management evolved as a response to pragmatic pressures and problems rather than any logical imperative based on theory or ideology. The motives ascribed to these changes varied. At the beginning of the twentieth century, several employers started "welfare" departments with the express purpose of improving the "welfare" of employees. Case studies of these welfare departments in about 50 firms are reported in a U.S. Department of Labor Study.[1] In 1910, for example, the Cleveland Tool Company opened cafeterias for employees to obtain "wholesome food at cost, built washrooms, improved ventilation and lighting, and funded education programs to improve immigrants' abilities in English speaking and reading. Such welfare programs by employers were labeled paternalism by some. Many believed the programs fostered employee dependence on employers, and would eventually lead to an "industrial feudalism."

By the end of World War II, these welfare programs had evolved; most employers managed employment relations through two specialized departments: labor relations, which dealt with labor union relations, and personnel administration, which dealt with nonunionized employees.[2] For the next several decades, personnel and labor relations departments became increasingly specialized and served to design and administer the programs and procedures which made up the employment relationships. These consisted of collections of activities such as recruiting, hiring, training, wage and salary, union negotiation, grievance handling, contract administration, and so on. Each activity was designed to accomplish some objective or respond to some pressure or problem.

In the last quarter of the twentieth century the name of the function has changed again, this time to human resource management.[3] The premise underlying the human resource management view is that employees are resources or assets and, if the rhetoric is to be believed, they are critical to achieving competitive advantage for their employers. This notion is deceptively simple. For an enterprise to succeed, the capability, energies, and trust of employees must be recognized and rewarded. The activities emphasized included organizing employees into work teams, empowering employees to assume added responsibility for managing the work, implementing profit and gainsharing and emphasizing total quality of products and services as well as customer satisfaction. Fads and fashion to some, these changes in name signaled shifts in the nature of the employment relationship from the employers' perspective. Welfare departments perceived employees as dependents, labor relations shifted the view to dealing with employees as union members, personnel treated them as individuals, and human resources views them in terms of team members and resources.

Common to all four historical perspectives, employees are also treated as part of the operating costs of an enterprise. These costs can be simply modeled as a function of the number of employees, their average wages and benefits, and other programs, rules and conditions designed to facilitate the employment relationship.

Hence, the four historical perspectives can be seen as approaches to controlling these expenses plus efforts to obtain increased value added from employees. Simply stated, welfare programs were a form of return to employees, either substituting or adding to wages. These programs helped insure employers with a relatively stable healthy work force. Labor relations mechanism, after employers accepted them, also helped insure employers a stable, experienced workforce with approximately the same labor costs as their competitors. By negotiating similar terms and conditions for all firms within an industry, unions helped remove relative wages and benefits as a factor in competitive advantage. Contemporary human resource management approaches go beyond attempting to tailor various programs to fit the specific competitive pressures and opportunities facing an employer. Some of these approaches are examined later. The point is that in a very real sense these historical shifts in employers approaches to control costs and improve the value added contributed by employees.

The historic transformation from the welfare approach to human resource management is in large part attributable to varying external changes. As noted earlier, the restructuring of capital assets and increasing competitive pressure have a significant impact. Waves of immigrants in the early 1900s (and the late 1980s and 1990s), the passage of significant labor legislation in the 1930s and 1940s, the civil rights legislation and pension and benefits regulations have all had their effects, also.[4] As if adapting to environmental jolts, employers have restructured their approaches to the employment relationship.

From a Personnel Planning to a Strategic Perspective

What is known as strategic planning today evolved from personnel planning intended to provide answers to specific issues: How many employees with what competencies to employ? What is the breakeven point between working overtime hours versus employing more people? Forecasting and planning models, developed in operations research, were applied to employment forecasting and planning.[5] However, little attention was devoted to reconciling these forecasts beyond identifying possible options (adding to staff, layoffs, promotions, training, work redesign, changing work rules, and the like). Little theoretical or practical knowledge was available to help inform choices among these alternatives. While personnel planning emphasized the interdependencies among the options to reconcile the forecasts, it suffered from being unable to help direct the choices. It was clear that redesigning work rules, retraining employees and supporting the new behaviors with gainsharing were interrelated actions. What was not clear was whether one set of actions was in any way superior to another. For example, was redesigning the work and retraining employees a better option than replacing obsolete employees with more recently trained new hires at lower wage rates? Underlying models and research to help inform such choices were lacking.

More recently, a strategic perspective has evolved which focuses on the links between HR policies and an enterprise's overall strategy. Here the issue becomes: How do HR policies help the enterprise compete? What are the competitive advantages or value added of HR policies? A strategic perspective retains the planning focus on the interrelatedness of HR policies. But it goes beyond to direct the choice among alternative policy options which best contribute to the organization's ability to compete. Planning for the succession or replacement of the leadership of the enterprise is also a critical aspect of a strategic plan. While the focus of HR practices is increasingly on treating employees as resources critical to the success of the enterprise, the evolution of scholarly theory and research to inform and support this perspective lags behind practice.

From Human Relations to Financial Performance, Customer and Employee Satisfaction

Two decades ago, the human relations perspective of personnel held that employee morale and job satisfaction were the desirable features in employment relations.[6] Today, the employment relationship is focused on achieving financial performance, customer satisfaction, and employee satisfaction. Organization effectiveness is defined in financial and market performance terms. Employee satisfaction is defined through surveys of employee attitudes toward their employers' HR policies and their feelings of fair treatment under various procedures. Customer satisfaction is variously measured in terms of on-time deliveries, quality, and surveys of customers.

This change to emphasize financial performance, customer and employee satisfaction is woven into the strategic perspective. For example, the emphasis on total quality, team work, cooperative union-management relations, empowerment and gainsharing is based on the belief that these approaches will improve the organization's financial performance, improve customer and employee relations. This represents a shift in the mind set of decision makers. No longer is the employment relationship seen as an end in itself. Rather, the issue increasingly is becoming, how should the relationship be changed to improve competitive advantage?

From Labor Relations to Governance and Implicit Contracts

As noted earlier from the 1940s to the 1970s, the relationship between management and unions formed a core of industrial relations and employment relationships.[7] This relationship has been described as adversarial and lacking in trust, a zero sum game. This premise is increasingly being called into question due in large part to international competitive pressures which accelerated the decline of unionism in the U.S. Only about one of every eight private sector employees in the U.S. belongs to a labor organization. As has been widely documented, unions have not only been unsuccessful in organizing expanding sectors of the economy, they have also experienced sharp declined in membership in those industries where they held traditional strength. The 1980s and early 1990s bore witness to the major growth of nonunion business units in many employers.

Both conceptually and practically, the HRM orientation to employment relations focuses on workforce governance and employee relations rather than labor-management negotiations. Labor relations is no longer the primary mode of workforce participation in workplace governance. Collective bargaining is increasingly being perceived as merely one of several forums for employee empowerment.

Workplace governance exemplifies the transformation of the traditional notion of "web of rules" used by industrial relations scholars to describe the procedures which regulate the employment relationship. Governance includes participative management, worker councils, peer dispute resolution procedures, and quality of work life programs. Labor relations' traditional focus in the U.S. on contract negotiations, administration and dispute resolution has been supplanted. The notion of a contract between labor and management has evolved beyond legal attributes of a collectively bargained agreement to include implicit psychological, political and social dimensions. The implicit contract involves reciprocal obligations and returns between employers and employees. Thus, for example, when several computer firms such Digital Equipment Company, Hewlett-Packard and Compac recently laid off employees, some felt an "implicit contract" of employment security had been violated. Consequently, these firms faced problems reestablishing or repairing their implicit social contract with their remaining employees.

Managers, unions and employees are all becoming more aware of alternatives to collective bargaining. The dominant model of labor relations is shifting to models of implicit contracts involving political influence and participation in decision making.

From Training to Workforce Preparedness and Continuous Learning

Increasingly, HRM regards training expenditure as strategic investments similar to investments in new plant and equipment. Continuous training is seen as vital to achieving competitiveness. This concern for training is expanding into concerns about workforce preparedness and continuous learning. The perspective is shifting from individual and team level training to encompass concerns about the quality of the entire U.S. system of education. While Americans enjoy high levels of educational attainment, the Department of Education reports that 19 million adults cannot read well enough to cope with daily tasks at work. Many of these are recent immigrants unable to understand or speak English.[8] One only has to take a cab in New York City to hear the Russian language spoken or in Washington, D.C. to hear Iranian accents. But the problem is not limited to new immigrants. For example, Blue Cross of Massachusetts discovered that 50 percent of its clerical workers tested for promotion read below high school levels. Twenty-two percent of employees at a General Motors Division asked for training in reading simple words, signs and labels; thirty-one percent needed help to understand written directions, charts and instructions. More and more training classes inside organizations are forced to cover basic math, reading and computer literacy.

Many employers are trying to change this situation by getting directly involved in public education. Yet about 700,000 students are dropping out of high schools each year and another 700,000 are graduating with only eighth grade skills. At the same time, the skill requirements of U.S. employers appear to be escalating. For example, manufacturing workers may be assigned to teams or cells which require continuous learning and flexibility; each team member is expected to learn every job. Quality checking, statistical process control, resetting machines, workforce scheduling and other tasks that were formerly the domain of supervisors are now common fare for all workers.

In brief, the orientation in training is shifting toward improving workforce preparedness and continuous learning beyond focusing only on specific, job-oriented skills.

From Wages and Employment to Total Labor Costs and Performance

Historically, determining wage levels and structures (e.g., differentials among jobs) and the level of employment and employment security were viewed as crucial objectives in HRM. As a result, managers focused on practices such as job evaluation, market wage surveys, and negotiations. Textbooks and articles in scholarly journals were concerned with administrative aspects of wage determination and employment security (recruiting, hiring, promotions, bumping provisions and layoffs) and analyzed alternative approaches to making these decisions.[9] Increasingly, the focus has shifted to understanding the effects of wages and employment security on total labor costs and their links with productivity or organization effectiveness.

From this perspective, the objective is to better manage total labor costs. Simply conceived, three main factors influence total labor costs in U.S. firms: employment levels (both numbers of employees and hours worked), average compensation (wages, bonuses, etc.), and average benefit costs (health and life insurance, pensions, dependent care, etc.). The critical questions have become: What portion of wages and benefits should be fixed costs? Which should vary with financial performance? Who among the workforce should have relatively stable employment security? Whose employment security should vary with financial performance and employer requirements?

Answers to these questions involve changing the implicit understanding, the reciprocal obligations and returns between employees and employers. Reciprocal understandings about the nature of the risks involved in wages, benefits, and employability are being restructured. To illustrate, many employers are adopting different employment security terms with different employees. Their approach is to segment the employees into core (i.e., employees critical to the business), contract (i.e., those on specific short-term projects such as consultants, contract engineers, subcontractors, and strategic alliances) and contingent (i.e., part times, those with indeterminate employment). Employment security has become increasingly variable and risky for a larger segment of the workforce. Only core employees, those critical to the success of the organization, retain the more traditional employment security relationship.

Similarly, the increased use of the "new pay," such as profit sharing and gainsharing has had the effect of increasing the variability and risk in employees' earnings.[10] The use of incentive pay plans has increased dramatically in the past decade. Most surveys of employer practices report that over 40 percent of employers are using some form of variable pay scheme. And greater portions of the workforce are being covered by these plans.

From the employment relations perspective, variable pay incentives represent an explicit agreement or contract which clearly links the performance of the organization with specific payments to employees. Group incentive plans such as gainsharing and profit sharing can represent a form of success sharing with employees. And there is an increasing body of research that reports that under certain conditions, incentive pay plans do improve performance. Evidence suggests that gainsharing can result in productivity improvements of between 15 - 20 percent. Some studies report sustained improvements up to three years. Other studies report that firms that paid more in bonus relative to base pay performed better. Specifically, increasing the ratio of bonus over base by ten percent led to a 0.95 increase in return on assets. Further, those firms which had more employees eligible for long term incentives (e.g., stock options) also performed better. Specifically, a ten percent increase in eligibility yielded about a 0.17 percent improvement in return on assets.[11]

However, many gainsharing and profit sharing plans also involve shifting risk to employees. There is uncertainty over whether bonuses will be achieved. Often couched in terms of empowering employees, these pay programs are by definition variable---they vary based on the performance, however defined.

In sum, the change to a total cost and performance perspective has a profound effect on employment relationships. There is a change in the balance of the risks and returns in the relationship. More employees' earnings and employability are subjected to increased variability and uncertainty. The nature of the implicit understanding is changing, depending in large measure on whether employees are core, contract, or contingent workers.

From Individual Employee to Teams

Developed from the traditions of scientific management, industrial engineering and psychology, the notion of tasks grouped into jobs and individuals matched to appropriate jobs provided the cornerstone of personnel and industrial relations approaches. Job analysis was a core activity and formed the basis for selection, training, compensation---almost all personnel decisions. This model still tends to pervade much of the conceptualization of HR.

Concepts of groups and teams, along with more flexible concepts of work assignments, have emerged to contest the original job-individual model.[12] The concept of job is becoming less fixed and defined. Instead, work assignments are defined more by the skills of the employees than by rigid organization specifications. In addition, teamwork and cooperation among employees rather than competition to come out ahead of coworkers is being emphasized. "Nobody sings solo" is the refrain heard across U.S. firms today. The team rather than the individual has emerged as the basic building block in the design of organizations.

Yet not all scholars are ready to reject the importance of the individual.[13] Solutions that concentrate on groups fail to take into account the underlying nature of the employment relationship in the U.S. Teams are not hired, laid off, trained, and paid. Individuals are. People are employed individually and their employment contracts, real or implicit, remain individual. Nor do groups face the issue of accountability; it remains an individual phenomenon.

From Mechanical Bureaucracies to Networks and Alliances

Advanced economies, including those of North America, the European Community, and the Pacific Rim are witnessing dramatic restructuring of the design of organizations.[14] Of the 500 largest U.S. companies in the 1950s, fewer than 250 exist today. Traditional hierarchical bureaucratic design, developed during the mid-twentieth century to take advantage of centralized planning, functional integration and operating scale have given way to design best described as networks and strategic alliances. Organizations in all sectors of the economies are undergoing redesign with the possible exception of the public sector. Governmental agencies, educational institutions, and regulatory units seem to be the most resistant to these transformations.[15]

Networks are based on the flow of resources, information, and raw materials required to meet customer needs. Rather than designs based on functions, such as manufacturing, research and development, marketing and sales, and finance, networks focus on the processes and linkages required to produce products and services to satisfy customers. Specific networks seem to vary according to the products and services offered, the technologies employed and the customer segments served.

Accompanying this development of network designs is the widespread use of strategic alliances among suppliers, producers and customers as well as among former competitors. Further, competitors are forming joint ventures or equity sharing arrangements in which strategic assets such as technologies, capital, markets and human resources are shared. It is no longer unusual to find employees of one enterprise located within the facilities of consumers, suppliers and even competitors. The notion of boundaryless organizations, often used to describe these developments, focuses on insuring that the specifications and requirements of the suppliers, producers, and consumers are integrated.

These new organization designs have profound implication for employment relationships. Reduced hierarchies, broadened work roles and accountabilities, eliminated work roles and procedures are examples of these effects. Corporate staffs and centrally controlled bureaucracies are reduced; entire layers of administration and managerial roles are removed from the hierarchy; and bureaucratic rules regulating terms and conditions of employment are reduced and modified.

In general, most U.S. enterprises---General Electric, AT&T, 3M, and even IBM---have shifted away from centralized, highly bureaucratic controlled organizations to more unique, individualized organization design tailored to the consumer market segments, technologies employed, and capital markets in which they compete. General Electric, for example, has 13 strategic business units operating throughout the world. They range from the entertainment unit (NBC) to financial services (Kidder Peabody) to the locomotive and aircraft engine manufacturers (GE Aerospace and GE Locomotive). Each unit competes in different product and service markets, using different technologies with different capital requirements. The employment relationships within each of these units are tailored to fit each unique requirement to help each gain competitive advantage.

In a generic sense the HRM developments discussed in this paper are evidenced throughout GE business units (e.e., strategic orientation, customer centered, workforce preparedness, continuous learning, total costs and performance emphasis, and networks and strategic alliances). Nevertheless, the specific features of the employment relationships vary among these units. Many employees in both Kidder Peabody and GE Aerospace are on group-based incentive plans, but earnings opportunities and risks each employee faces varies considerably. Like the rings of Saturn, the more understanding we gain of these employment relationships, the more diversity we observe.

From Integrated Uniform Employment Relations to Strategic Diversity

The basic premise underlying the HRM approach is that the terms and conditions in an employment relationship should be designed to be contingent upon or "fit" the external and institutional conditions confronting an organization. The better this "fit" the more likely the organization will be successful. Decision makers faced with diverse policy options must tailor them to fit the particular circumstances of each business unit. Consequently, the opportunities and risks inherent in these uniquely tailored employment relations will vary among organizations and even within organizations among different subunits.

Conclusions

In the United States, changes in the employment relationship are inseparable from the continuous restructuring endemic to the American economy and society. Change is inevitable, experimentation and renewal is continuous. Some of the changes in the employment relationships such as from welfare to personnel/industrial relations, to human resource management are gradual and evolutionary, while changes in specific employers are more abrupt and revolutionary.

How one views this change depends on what ideological lens one uses. Galbraith, for example, saw large corporations and the state acting in concert to utilize technology, public policy, and capital to plan and regulate economic, social and political forces.[16] His "New Industrial State" would create competitive advantages for a society. He advocated organizations form large centralized planning units, . . . "the scale of operations of the largest should approximate those of government." (p. 87) "There is," he went on, "no natural presumption in favor of the market; given the growth of the industrial system the presumption is, if anything, the reverse. And to reply on the market where planning is required is to invite a nasty mess." (p. 368) Reich's advocacy of a new industrial policy is a recent manifestation of this perspective.

Another view was expressed by Schumpeter, who coined the phrase "creative destruction" to depict the process that market-based economies go through to reconfigure assets to more productive uses.[17] While the term may be overly dramatic, it does convey the cauldron of change which includes bankruptcies, plant closing, massive job losses as well as redesigned organizations, business alliances, flexibility, continuous learning, profit sharing, and risks and opportunities. The political and economic offspring of both these views offer similar prescriptions in this last decade of the century.

A generic pattern does emerge from the current restructuring of employment relationships in the U.S. They have become (1) increasingly strategic, (2) more sensitive to costs, quality, performance and customers, (3) offer greater earnings opportunities with less employment security and greater risk, (4) require continuous learning and emphasize accountability and teamwork.

The HRM approach, in contrast to the welfare, personnel, and industrial relations approaches, emphasizes treating employees as strategic resources and attempts to manage the strategic impact of the employment relationship. Within this strategic perspective decision makers focus on tailoring the terms and conditions of employment to fit the unique circumstances of each organization. Consequently, while a generic pattern of change can be described, systematic study reveals considerable diversity in employment relations.

Finally, the HRM approach appears to have a dark side. With its principal emphasis on managing the employment relationship to achieve competitive advantage, the very nature of the socio-economic contract among employees, employers, and governments has changed. Implicit understandings, reciprocal obligations, and returns among the stakeholders have shifted. Reciprocal understandings about the nature of wages, benefits and employability and the like are recast. It is my belief that impact of this changing social contract on employees and their dependents has been virtually ignored. Without concern for social justice and fair treatment of employees, sustained competitive advantage may well be impossible to achieve.

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