WORKING PAPER
ALFRED P. SLOAN SCHOOL OF MANAGEMENT

The Transformation of the Industrial Relations and Personnel Function

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SSMWP#1372-82 November, 1982

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To Appear in: Paul Osterman (ed.)
Employment Policies of Large Firms, MIT Press, 1983

Partial support for this research was provided by the Alfred P. Sloan Foundation. The views expressed in this paper are those of the authors and do not represent those of the Sloan Foundation. Helpful comments on an earlier draft were received from Robert B. McKersie, Sara Rynes, Deborah Kolb, Audrey Freedman, and Paul Grehl.

The Transformation of the Industrial Relations and Personnel Function

Social scientists are becoming increasingly aware of the influence an organization's structure exerts on its decisions and strategy. The link between administrative structure and strategy and decision making, for example, is of longstanding interest to organizational theorists (Chandler, 1962; Simon, 1957; 1964, Thompson, 1967; Lawrence and Lorsch, 1967). Micro economists have also addressed the question of how internal structural variations influence the management of discretion and response to external pressures (Leibenstein, 1978; Slichter, 1941; Slichter, Healy, and Livernash, 1960; Freeman and Medoff, 1979). Industrial relations researchers in both Britain (Gospel, 1973; Thomson, 1981) and North America (Freedman, 1979; Kochan, 1980; Godard and Kochan, 1981) have shown renewed interest in the role and structure of industrial relations and personnel departments. This work is being driven by a view that management is now the dominant force for change in employment practices and that employee, union, and government behavior are largely reactions to management initiated events. Indeed, we will argue below that this proposition is more true now in large U.S. corporations than at any time since the 1930s.

Thus, to understand employment relations in modern firms we first need to understand the role and structure of the organizational units responsible for formulating and administering labor policies. This paper will review changes in the role of personnel/industrial relations units over time and will use an historical overview to explain variations in the structure and influence of these units as well as to predict changes in the future.

The first section of the paper introduces several key premises about the nature of the firm, about managerial decision-making, and about the development of specialized units within management. This background is necessary to understand the conditions under which organizations establish specialized units to manage their personnel/industrial relations policies and programs. This theoretical framework can then be applied to the key periods in the evolution of personnel/industrial relations to explain the changes in the function that have occured over time. A number of recent surveys of the role and functions of these departments conducted by the Conference Board (Janger, 1977; Freedman, 1979) and by O'Reilly and Anderson (1981) will provide an empirical foundation for describing current practices and explaining cross sectional variations in the roles of these units. Throughout the paper we will also draw on case study evidence being collected in a larger on-going analysis of the changing nature of U.S. industrial relations(hereafter referred to as the Sloan Project). These case study data will illustrate the transformation in the functions and characteristics of these units that have been underway in recent years and that continue to evolve at the present time.

Perspectives on Organizations and Managerial Behavior

The role of management is to allocate rationally resources in a manner that promotes the long run economic interests of the firm. Whether those interests are operationally defined in classical terms as profit maximization, growth, or some multiple sets of objectives (Cyert and March, 1963) the labor force serves as one key set of resources that must be managed efficiently. Since labor costs are an important component of total costs, one task of management is to minimize the costs of its human resources.

In addition to cost minimization, managers must deal with unpredictability in employment relations. The workforce is analogous to other sources of environmental uncertainty or unpredictability that firms seek to minimize (Thompson, 1967). Thus, another key objective of management in dealing with its human resources is to develop and maintain predictable and stable relations. While at times concern for costs and for stability will lead to the same strategies, at other times tradeoffs may exist between these objectives. It is important, therefore, to examine the interplay between these two objectives over time.

Finally, since the goals of employees and employers partially conflict, the relationship between the firm and its employees takes on the characteristics of an implicit or explicit bargaining relationship. The relationship is most explicit when employees are organized and formally represented in collective bargaining. An explicit exchange or bargaining relationship is also present in situations where individuals hold sufficient individual bargaining power based on their labor market alternatives to require the firm to negotiate. In situations where sufficient individual power is not present and employees are not formally represented by a union, the bargaining relationship is more implicit as the firm adjusts its employment policies and compensation system in response to labor market questions, employee expectations and motivational requirements, governmental regulations, threats of unionization, etc. Thus another objective of the firm in managing its human resources is to insure that the firm is an effective bargaining agent, i.e., it has sufficient power, control and discretion to achieve a bargain that protects its economic interests, organizational autonomy, and flexibility in its deployment of human resources (Fox, 1971). Indeed, concern for maintaining flexibility is an increasingly important benchmark against which managers assess their human resource management systems (Foulkes, 1980).

Three key sources of external pressure have influenced the content of employment policies for managing the workforce and the organizational structures used to implement them: (1) market pressures, (2) the threat or presence of a union, and (3) government regulations. Pressures from product markets, for example, lead management to attempt to maximize output in times of growth and to economize on the use and cost of labor in times of market decline or excess capacity. Scarcity in key labor markets, on the other hand, forces firms to maintain adequate compensation and working conditions and to attend to recruitment and development strategies to avoid manpower shortages. The threat or actual presence of a union is expected to not only increase costs but also to increase the pressures on management to develop policies to reduce the uncertainty and threats to stability that can come from bilateral negotiations. The presence of a union, therefore, requires management to make tradeoffs between stability and cost minimization objectives. Government regulations pose additional costs and, depending on the enforcement strategies, can threaten the stability of production. Analysis of the intensity and relative importance of these three sets of external pressures will help explain the evolution and current status of employment policies within firms and the organizational structures used to carry them out.

The effects of external market, union and government pressures cannot explain the entire range of variation in employer policies and practices in managing its workforce. Organizational theorists are increasingly documenting the effects of top managerial values, philosophies, and the "organizational culture" that evolves out of efforts to shape the organizational behavior of members in a way that is consistent with the perspectives of top executives (Van Maanen and Schein, 1979; Ouchi, 1981). The study of organizational cultures is gaining momentum within the field of organizational behavior largely in response to the interest in Japanese management and the policies of U.S. firms that use similar strategies to create all inclusive cultures to socialize employees and shape behavior. Part of this strategy includes the development of comprehensive human resource management policies. The ultimate objective is to develop ways of integrating the needs of employees with the objectives of the firm (McGregor, 1961; Argyris, 1964). Firms that have adopted this approach have clearly strengthened the role that personnel and human resource management plays in implementing, if not in shaping, the overall business strategy of the firm. While most of the analysis in this paper will focus on the effects of changing external pressures on the personnel/industrial relations function, we will return to a discussion of the role of top management values, strategies and organizational culture in a later section as these forces appear to be playing important roles in shaping the personnel and human resource management policies of some of the more prosperous U.S. firms.

The typical way a complex organization manages both environmental pressures and discretion is through a structural division of labor. Specialized units, referred to in the organizational literature as boundary spanning units, are assigned responsibility for managing the firm's relations with particular aspects of its environment (Thompson, 1967; Lawrence and Lorsch, 1967; Aldrich and Herker, 1977). This leads to a differentiation of management into separate decision-making centers or functional units, each of which tends to develop its own set of specialized goals and priorities (Kochan, Cummings, and Huber, 1976). Thus internal managerial decision-making also takes on a political character as specialized units compete for power and influence in the management structure. The power of a boundary unit and its influence within management in turn depends on the (1) importance of the environmental pressure that it is responsible for, i.e., the extent to which the attainment of cost, stability, or organizational autonomy/flexibility objectives can be influenced by that aspect of the environment within the boundary unit's responsibility, and (2) the effectiveness of the unit in achieving a favorable bargain in its dealing with this aspect of the environment.

In the case of industrial relations, a symbiotic relationship can develop between the management professionals in an industrial relations/personnel group and the employees, union, or government agencies with which they negotiate (Goldner, 1970). The greater the potential threat or cost to the organization posed by the workforce, union, or government agency, the more power the personnel/industrial relations group will be allocated by the organization. Kochan (1975), for example, found that the power of labor relations representatives in city management (relative to other city management officials) was largely a function of the power of the unions with which the city dealt. The growth of industrial relations specialists in private firms have been found to be related to similar pressures (Kochan, 1980, 194; Beaumont and Deaton, 1980). On the other hand, for it to maintain power over time, the personnel/industrial relations unit must manage these threats effectively and continue to perform well in achieving the firm's objectives. The symbiotic relationship also remains important to the maintenance of the boundary unit's power. If the external threat posed by the labor market, union movement, or government declines, the industrial relations unit's power is likely to decline.

How well the boundary unit is doing and the acceptability of the strategies used to manage relations with employees, unions, and the government are judgements that are ultimately made by executives outside of the personnel/industrial relations function. This adds another political dimension to the personnel/industrial relations role. It must adapt to or influence the perceptions, values, strategies, and judgements of top management and other competing organizational groups in order to preserve its power.

In summary, changes in the intensity of three sources of external pressure, both over time and across organizations, have had important effects on the power and functions of personnel/industrial relations units: (1) market pressures, (2) unions, and (3) government regulations. Each has posed threats to the labor cost, stability/predictability, and organizational control/autonomy objectives of employers. These threats have varied in degree over time. Understanding variations in the intensity of these pressures over time, along with the dynamics of internal management culture, politics, and strategy, will help explain the power that the overall personnel/industrial relations unit has in the firm. Understanding changes in the relative importance of the three sets of pressures and in top management strategy will also help explain shifts in the relative power of sub-units within the broad personnel/industrial relations function.

We will now use this broad conceptual framework to interpret the historical evolution and changing role and power of industrial/personnel units within large American firms. To do so, four key historical periods are noted: (1) the 1900-1935 period in which the industrial relations/personnel unit first began to emerge as a professional staff function within major firms; (2) the 1935-60 period in which the industrial relations (or more particularly the labor relations subgroup) rose to the dominant power position within industrial relations/personnel departments, (3) the 1960-80 period in which the industrial relations unit generally maintained its power or experienced a gradual but generally unnoticed decline in power while the personnel/human resource management specialists were regaining power and influence, and (4) the current period in which the role of both personnel and industrial relations appears to be undergoing fundamental restructuring and change. After this historical overview is presented, we return to the propositions outlined above to speculate on the future of industrial relations/personnel within American firms in the years ahead.

Origins of the Personnel Function

The Personnel/Industrial Relations function was in many ways a creation of the pressures brought by the first World War and the availability of human engineering and other management techniques emerging out of scientific management. Before that, decisions concerning hiring and employment were made entirely by line management, with each supervisor or foreman hiring and managing his own workforce. Most firms relied on newspaper ads and labor "scouts" to meet their manpower needs. Because immigration flows provided an abundant supply of labor, employment policies amounted to driving workers harder to increase output and adjusting jobs to the limited abilities of the workers. "With labor policies so crude and simple, industrial relations were not believed to require the attention of highly-paid experts" (Slichter, 1929). As Slichter (1919) noted, there were savings to be gained through more sophisticated practices, but for a number of reasons these were not pursued. First, it was difficult to identify just exactly what the problems were. As an intellectual concept, "employment management" began only with the discovery that the casual system of hiring and managing labor led to high turnover with considerable costs to the firm (Alexander, 1915) which a superior system might reduce. Second, because line managers made employment decisions, their production and cost concerns dominated decision making (Slichter, 1919). In short, the firms lacked specialized boundary units to address the problems of employment management, and without their specialized skills, analysis of these problems and discussion of alternatives for dealing with them played little role in managerial decision making. While some firms were pressed into creating employment departments because of the turnover problem, they were more or less novelties before the war. The main reason why firms were not pressed into creating employment departments and to reform their management practices was because, as Paul Douglas noted:

> "Prior to 1914 there had never been a pressing labor scarcity to necessitate a careful husbanding of human resources." (Douglas, 1919)

The war brought with it an entirely new set of environmental pressures. The increased demand for wartime production was accompanied by labor shortages produced by conscription and by a drop in immigration. Immigration fell from 815,000 in 1913 to 19,000 in 1916 (Slichter, 1929). Firms thus found it difficult to meet their manpower needs. They were also under pressure to get production levels up because tighter product markets meant they could sell whatever they produced: Inefficiencies and lost production caused by problems with labor productivity, for example, represented lost sales opportunities.

The pressure from markets -- shortages in the labor market and growing costs of production losses in the product market -- increased the importance of relations with the labor force to the firm. Management, therefore, began to respond by creating specialized employment departments to administer relations with the labor force. They were aided in this endeavor by the diffusion of ideas and techniques coming out of the scientific management movement (Locke, 1982). This response was also encouraged by pressures from wartime government agencies. The War Industries Board created a special Employment Management Section which established programs at universities to train employment managers (Douglas, 1919b). In addition to providing this training for established managers, the Board also placed new graduates of these programs in firms doing war-related work. Douglas (1919b) estimated that 200 employment management departments were created this way during the war.

Pressure to formalize employment policies during this period also came from government regulations. The Federal Employment Service was created to help strategic industries fill their manpower needs. Firms were required to survey the characteristics of their jobs, estimate their manpower needs, and report them to the Service.

To meet the pressures of the market and of the government, the new employment departments made several changes in existing management practices. First, as manpower estimates became centralized, hiring decisions were taken away from independent foremen and supervisors. Second, selection and placement decisions became based on tests similar to those used by the government to place conscripts into various skill and trade groups. The tests were used to reduce the inefficiencies associated with misplaced workers. These placement decisions and promotion policies were also centralized so that the reduced pool of skilled labor could be allocated in a manner that would serve the most pressing needs of the firm as a whole.

During the war, the field of personnel grew rapidly and personnel managers were struggling to gain influence and recognition within the firm (Donald and Donald, 1929). By the end of the war, personnel administration had become a full-fledged profession with a number of professional societies (the first being the National Association of Employment Managers in 1918) and two professional journals (<u>Personnel</u>, founded in 1919 and <u>Personnel Administrator</u>, in 1922). Continued pressure from labor and product markets and the ability of personnel departments to handle these pressures consolidated the position of personnel and its influence within the firm.

The demand for labor continued to grow through the 1920s (although not at wartime rates) while the end of mass immigration kept the supply of workers relatively scarce. Firms faced the same general market pressures as during the war. (The exception was the period of recession between 1920 and 1921 when these pressures rescinded; as a consequence, there was "some deflation in the personnel movement" in these years [Donald and Donald, 1929].) The influence of personnel administrators continued to grow largely because they were able to manage the workforce in a way that reduced labor costs and increased labor productivity, contributing to the goals of the firm. Specialists introduced principles of industrial psychology to labor relations, and management was highly receptive to these efforts (Bingham, 1931). Vitales (1932) described the role of industrial psychology as helping individuals "adjust to the industrial situation and to thereby advance the efficiency of industry." The famous human relations studies at Western Electric began then, and other studies based on Taylor's theories of scientific management tried to identify the most efficient ways to organize work. In addition, the growth of shop committees and centralized control over discharge and discipline helped improve worker morale. At least partly through these efforts, labor productivity rose 37% between 1919 and 1926, convincing top management that the personnel function made an important contribution to the firm's efficiency (Slichter, 1929).

These personnel departments also developed a new role that was a harbinger of things to come; they developed and administered the system of welfare capitalism that handled the pressure from growing labor unrest. The labor movement gained strength during the war.

Membership had doubled, and the number of strikes had increased from 1,420 in 1915 to 4,450 in 1917. After the war, new management labor relations techniques made it more difficult for unions to operate by meeting many of the workers' demands that would normally be addressed by independent trade unions and collective bargaining. The companies provided not only many of the goals of trade union activity -- fair wages, benefits, social activities, etc. -- but also aspects of the process of union representation by establishing company unions and employee representation plans. Millis and Montgomery (1945, p. 845) cite a survey by the National Industrial Conference Board (NICB) that found that the number of employee representation plans grew from 196 in 1919 covering 403,765 workers to 767 in 1932 covering 1,263,194 workers. Given that these programs provided most of the benefits associated with independent unions, one may wonder why management preferred the welfare capitalism associated with the human relations movement to union representation. While labor costs may have been roughly equal under the two systems, welfare capitalism spared management the uncertainty and lack of stability associated with collective bargaining under independent trade unions. With welfare capitalism, management retained authority and was never forced to bargain collectively with its workers.

In 1919, Paul Douglas had called upon management to give the personnel division the same importance associated with traditional "core" departments, such as production and finance (Douglas, 1919). By 1929, that process appeared to be well underway. Donald and Donald (1929) reported that management was centralizing the personnel function, bringing it up as a division of central management in larger firms, frequently making top personnel executives vice presidents of the firm.

Within personnel departments, power was clearly concentrated in the sections concerned with raising production (e.g., human engineering). What one would by contemporary standards consider the labor relations function -- dealing with problems associated with unions -- was a relatively unimportant concern in the personnel department since unions did not represent many workers (less than 5% of the labor force), and the range of issues over which they had influence was limited. This would change with the new circumstances of the Depression, as would the relative position of these units within the personnel department.

The Rise of Industrial Relations: 1935-1960

The tremendous economic decline associated with the Great Depression removed many of the pressures that had brought the personnel function to its position of influence. With the drop in demand, there was little pressure to increase production through productivity gains; with the increased unemployment, it was no longer as difficult to meet manpower needs. Pressure to cut labor costs could be met by simply cutting wages. Meanwhile, the firm faced more pressing problems from other aspects of the environment brought about by the collapse of product demand and prices. Interest in the personnel function therefore declined.

That decline was short-lived, however, and ended in 1933 with the rising challenge from the trade unions. The challenge came for several reasons. First, the system of welfare capitalism could no longer protect workers in these new economic circumstances, and they looked for an independent influence on the employment relationship. Second, the birth of the C.I.O. provided a new and more appropriate vehicle for organizing workers in the mass production industries that had become the backbone of the economy. Third, and most importantly, the New Deal encouraged the growth of unions by both the tone of the Roosevelt Administration and the legal requirements contained in the National Labor Relations Act (NLRA).

Millis and Montgomery (1945) found that trade union membership rose from less than 3 million in 1933 to 4.4 million in 1935 -- then on to 13 million by 1944. The concern to management, however, was not simply the increased probability of becoming organized. The new labor movement associated with the C.I.O. was also of a more militant type. They sought to extend union influence into a number of areas traditionally associated with management preogatives, and they were much more inclined -- and able -- to engage in effective industrial disputes (Taft, 1939).

The unions brought a new kind of environmental pressure to management. The payroll costs associated with union demands were an obvious pressure, but far more important was the potential instability that the labor movement brought to the operation of the firm. From the viewpoint of management, the problem was that disputes were unpredictable and could occur over practically any issue. With union influence exerted on virtually every aspect of the employment relationship, it was impossible for management to predict which issues might lead to disputes and how the terms and conditions of employment might be affected.

The personnel departments moved to combat the growing pressure from union organizing at first by pursuing aggressive anti-union tactics, including organized violence and industrial espionage. When the NLRA was upheld as constitutional in 1937, and as unions continued to win recognition, these efforts decreased.

Management then responded to the growing labor unrest in both organized and unorganized shops by adopting new policies and creating new departments to handle them. Dunlop (1955) pointed out that the unions' ability to turn grievances into organizing issues forced management to make all personnel policies explicit and to centralize policy-making to prevent unions from exploiting differences in treatment. With collective bargaining came the need for management specialists to interpret and administer the technical aspects of contracts and the growing number of rules concerning work (Slichter, Healy, Livernash, 1960). The N.I.C.B.'s 1940 survey found that over 80% of firms surveyed had a union function and that half these firms had separate divisions just to handle union problems. Union relations, they found, was already one of the most important personnel functions. Dietz (1940) argued that it was assuming a very important position with top management. By 1946, the NICB's new survey found that 7 of 8 personnel directors in major manufacturing firms reported directly to the company President. These departments were growing for another reason as well: to keep track of new legislative requirements associated with unionization. The additional wartime regulations further increased the responsibility of these departments.

These new departments sought to address the problem of labor unrest and to bring stability to labor relations. They did so by substantially altering management's approach to labor policies. Perhaps the most revealing insight into the management changes comes from the Parker and Golden study, <u>Causes of Industrial Peace under Collective Bargaining (1955)</u>. Their list of these changes in strategy included the following:

> There is full acceptance by management of the collective bargaining process and of unions as an institution.
>
> The company considers a strong union an asset to management. ...the company does not seek to alienate the workers' allegience to their union.
>
> There is widespread union-management consultation and highly developed information sharing.

These changes by management were based on the recognition that the problems of labor unrest stem from worker demands and that the union could be a stabilizing influence on these demands. Strong unions and union leaders can control their membership and bring the firm stability in industrial relations -- albeit for a price. Given that the existence of unions was seen as inevitable, management worked for stability in labor relations by cooperating with and stablizing the position of union leadership in hopes that stable labor relations would result. By taking this position, of course, the industrial relations specialists in management were also working to secure their own position within the management hierarchy. Stabilizing the unions meant that they were more likely to survive and to continue bringing the pressures on management that led to the rise of the labor relations staff in the first place (obviously, if the unions disappeared, so would the need for labor specialists in management). Further, by stabilizing the unions' functions and the position of its leaders, labor relations managers ensured that they would continue to be able to deal with union pressures in their own expert way; a manner that provided stability for the firm and enhanced the unit's position within management. Thus, the symbiotic knot was tightened.

In practice, this new relationship involved the creation of new institutions for handling conflict and new rules for governing employment policy. Slichter, Healy, and Livernash (1960) provide the most thorough guide to these arrangements. They emphasized the importance of grievance procedures and arbitration for resolving conflicts while maintaining stability and of collectively determined rules, such as seniority provisions, that help reduce the sources of conflict. Many of these arrangements help to consolidate the union's control over its members. The dues check-off and other forms of union security are perhaps the most notable examples, but union control over training programs and promotion through seniority arrangements gave the union power over its members, helping the leadership guarantee stability. In contract negotiations, new developments such as pattern bargaining protected the political interests of both the union leaders and the management negotiators by providing a settlement criterion that avoided strikes and a settlement level that allowed both sides to appear as though they had done a good job. The development of long term contracts, cost of living escalators, and other wage adjustment formulas were additional innovations that increased stability. Later, the development of productivity bargaining served much the same role, allowing management negotiators to win contract changes that the firm demanded while giving the unions something in return to take back to their members.

Management achieved the stability it sought in labor relations, but they did so at the cost of narrowing its prerogatives (Slichter, Healy, and Livernash, 1960). Within the personnel function, for example, there usually existed separate management divisions assigned to determine policy on manpower, safety and medical issues, training, wages and benefits, etc. Following the rise of collective bargaining, these issues were no longer set by management but were determined jointly with the union. One consequence of this development was that it tremendously increased the power of the labor relations sub-unit within the personnel function, for it now had an additional role in determining policies which in the past had been set unilaterally by other personnel sub-units.

The narrowing of management prerogatives had an adverse impact on firm's operating costs. Adapting to changes now became a more time-consuming and costly affair, as the union had to be consulted when new equipment was brought in or when jobs were changed, etc., and issues frequently went to arbitration. Union influence on work rules generally led to practices that reduced flexibility and productivity. Taking a harder line may have led to fewer restrictive rules, but it also would have increased the risk of industrial disputes. (Northwest Airlines, for example, has historically pursued such a policy and has experienced both a lower level of restrictive practices and a higher level of industrial disputes.) By contemporary standards, the years from 1940 through the 1960s have represented a period of comparative economic expansion, especially for the manufacturing sector. Industrial disputes in periods of expansion were very costly actions because the loss of production translated into lost sales opportunities (Hazard, 1957)(note the similarity with wartime periods). Slichter, Healy, and Livernash (1960; 946) concluded from their case studies that the costs of industrial disputes in that period led management to yield on many of these issues:

> The pressure for concessions (from management) was increased by the war and by large profits of the post-war boom, which made managements extremely reluctant to lose production.

They went on to argue that the goal of maintaining production and achieving stability in labor relations had in some ways supplanted the goal of winning contracts favorable to management:

> Company operating executives or industrial relations executives did not want their records marred and their chances for advancement jeopardized by labor trouble. A stoppage of production would look bad on their record...

Another cost associated with unionization is the higher wage and benefit costs represented by the union differential. There is evidence indicating that the union wage differential increased through the period of union growth, from the 1930s through the 1950s (Douglas, 1930; Lewis, 1963). (See Rees (1974) and Freeman and Medoff (1981) for later estimates of union wage differentials.) But the impact of the union differential on the firm's competitive position depended on how much of the associated costs could be passed on to consumers, and that in turn depended on whether competitors are also paying the union rate.

Commons (1919) noted the benefits that unions gained by being able to organize an entire product market, thereby taking wages out of competition. In the mass production industries -- even where the product markets were extremely competitive -- unions were able to organize virtually the entire industry and to enforce a common wage rate through pattern bargaining (Seltzer, 1951; Maher, 1961; Eckstein and Wilson, 1963; Levinson, 1964). Wages became a common cost for firms, and an increase in the union rates in the industry therefore did not increase the relative production costs in any given firm and threaten employment prospects. In the regulated transport industries, this process was formalized, and the Interstate Commerce

Commission and Civil Aeronatics Board adjusted prices to cover the higher labor costs associated with union settlements.

Even where the industry was not completely unionized, a number of factors kept the union differential from imposing a severe burden on organized firms. First, the U.S. economy had a much more regional character than it does today; industries tended to be concentrated geographically (in the North East and industrial Mid-West) making them easier to organize. The rise of the nonunion, industrial Sun Belt was yet to come, and most importantly, regional manufacturers tended to serve their own markets and not to compete with the larger, unionized firms. There were always nonunion, organized packers in the meat industry, for example, but until recently, they served small, regional markets. The economy was also relatively closed to lower-priced, nonunion competition in the form of foreign imports, a situation that would change with the development of exporting industries in Asia and with the various currency reform programs.

Finally, firms are thought to be more able to pass costs on when the demand for products is increasing. This was generally the case from the 1940s through the 1960s, and the belief that the inflation during this period was driven by demand contributes to this view (Samuelson and Solow, 1960).

As unions increased their influence, the power and position of management professionals dealing with unions also increased. A 1944 survey found that most firms were planning to strengthen their employee relations function after the war (Connecticut Life, 1944). By 1952, a Bureau of National Affairs (BNA) survey found that in about 70% of the large firms surveyed, the Personnel/Industrial Relations function was thought to be as important to the firm as production, marketing, or finance (BNA, 1952). In over 80% of the firms, contract negotiations were viewed as one of the most important personnel functions -- if not the most important (in contrast, the 1929 NICB survey found that only 5% of the firms surveyed even had labor contracts). A follow-up survey in 1959 found that the position of these departments had increased:

> it is difficult to avoid the conclusion that in prestige, acceptance, and authority, the Personnel/Industrial Relations department stands at a higher level today than it did at the beginning of the decade (BNA, 1959; 13).

Within the general field, the units handling union negotiations continued to rise in power and position. The annual surveys conducted by Yoder and Nelson (1950-59) found that even the titles were changing; from "Personnel Director" to "Industrial Relations Director", reflecting the new influence of union relations. Just as the rise of manpower issues in WW I brought forth personnel journals and training programs, the rise of union issues in the 1940s and 1950s led to the founding of schools or centers of industrial relations in the major industrial states and to journals of industrial relations (Industrial and Labor Relations Relations Review in 1946 and Industrial Relations in 1961).

Union growth in the private sector slowed and then stopped in the late 1950s, but the industrial relations groups had by then stabilized their relationship with the unions and strengthened their position within the firm. The movement toward greater predictability of relations and the maintanence of stability apparently continued as indicated by a survey of labor relations executives conducted by the Conference Board in 1978 (Freedman, 1979; Kochan, 1980). That survey found that the labor relations function had become highly centralized. Ninety-two percent of all firms placed primary responsibility for developing overall union policies at the corporate level -- in the hands of either the top labor relation executives (60%) or the Chief Executive Officer (32%). Indeed, most corporations had clearly established procedures and well-defined areas of responsibility for preparing for negotiations, establishing targets for agreements, coordinating strike plans, etc. These arrangements again helped reduce uncertainty and unpredictability of collective bargaining.

Further evidence of management's concern with stability in industrial relations can be seen from another aspect of the survey that asked these executives to assess the effectiveness of various aspects of the industrial relations function in their firm. The respondents gave the highest effectiveness ratings to the aspects of their work that reduced conflict; the ability to avoid "unnecessary" strikes, the avoidance of legal maneuvering, the ability to coordinate labor policies within management, and to cooperate with the union. They assigned lower effectiveness ratings to specific bargaining outcomes (such as the ability to achieve management goals) or to their ability to introduce changes. The lowest level of effectiveness was reported for aspects of the employment relationship that concern individual workers -- such as attitudes and productivity issues. (Not surprisingly, few efforts were reported underway to address problems associated with attitudes and productivity.)

Responses to questions about bargaining goals reinforced the view that management's primary concern in negotiations was to maintain the status quo; to secure the stability of their relationship with unions and to seek necessary changes in an incremental fashion. The wage criteria given the greatest weight in the survey was comparisons, either with industry patterns or other competitors. The predominant nonwage goal was to maintain their present relations with unions. This was given a higher priority than achieving substantive changes benefiting management. The only exception was in the area of employee job assignment where management sought to tighten their control over existing procedures.

Through the late 1970s, management continued to pursue stability in its relations with unions. It made further adaptations to unionization and collective bargaining by formalizing its internal procedures and decision-making structures and by pursued bargaining goals that minimized the chance of conflict. These arrangements contributed to the stability of the unions, their leaders, and to management's relationship with them. At least in the highly unionized firms, the labor relations function continued to enjoy considerable autonomy and influence. There were a number of important changes occurring in the firms' environment, however, that set the stage for a transformation in the personnel/industrial relations function and in the relative position of the labor relations group within it.

The Resurgence of Personnel: 1960-1980

While the industrial relations professionals were pursuing stability in collective bargaining, a gradual expansion and increase in the power and importance of the personnel functions outside of industrial relations occurred across most large corporations. The growth of personnel during this period is largely attributed to the increase in government regulations, the growth in demand for workers who were outside the traditional scope of collective bargaining (managers, professional, and technical employees) and the emergence of non-union options for new plants and firms. The latter development was both caused by and spurred on by the use of advanced personnel/behavioral science techniques to structure personnel systems in non-union plants. These developments will be reviewed in turn below.

Perhaps the most important force for change in the personnel/industrial relations function in the period since 1960 has been the rise of government regulations in the workplace. This view is confirmed by a 1977 Conference Board survey of personnel executives. Two-thirds of the 673 respondents cited government regulations as "a major or primary influence for change in their company's personnel management over the past ten years" (Janger, 1977, 2). Dunlop (1976) estimated that between 1960 and 1975, the number of regulations administered by the U.S. Department of Labor tripled -- from 43 to 134. The most important of these regulations were those dealing with employment discrimination. Although Title VII of the Civil Rights Act of 1964 was the basis of the employment discrimination legislation, the pressures on firms continued to increase through the 1960s and 1970s as the Equal Employment Opportunity Commission, the Office of Federal Contract Compliance (responsible for enforcing Executive Order 11246 governing affirmative action requirements of government contractors), and their state-level equivalents developed regulatory and enforcement procedures. Throughout this period, consent decrees concerning discrimination and the litigation that came with them increased both in number and complexity.

Virtually all employers were affected by some aspect of these laws and regulations. Failure to comply raised the possibility of costly litigation, potential penalties, and the loss of government contracts. Employers responded to these pressures by changing their organizations; in particular, establishing a unit or group with responsibility for monitoring compliance with these government regulations. Typically, this unit fell within the personnel function. The 1977 Conference Board survey found that 97% of the firms surveyed had an EEO unit and 95% of these firms assigned that unit to the personnel function (Janger, 1977; 38).

Meeting the government requirements and establishing programs of affirmative action required new levels of analytic sophistication. Employers had to survey the requirements of their jobs, identify the relevant characteristics of their labor force and of the outside labor pool, and establish a plan for meeting both the affirmative action plans and their own manpower needs. Research by the firm focused on rates of turnover and promotion, on recruitment procedures and success, and on forecasts of future manpower needs -- information that would later be useful for manpower planning. Furthermore, these programs had to be coordinated with general business plans (e.g., projected growth rates), a process that laid the foundation for the advanced forms of human resource planning currently used in many large corporations (Walker, 1980).

Legislation also appeared in other areas, especially occupational safety and health and pension reform. Again, these regulations raised the possibility of penalties and litigation for noncompliance. They also increased the need for substantial data collection. Once more, these responsibilities were allocated to the personnel function. 90% of the firms in the 1977 Conference Board survey reported that pension management fell within the responsibility of the personnel department while 72% indicated that health and safety programs were housed within the personnel function (Janger, 1977; 38).

The pressures on management from government regulations led first to the establishment of specialized boundary units to administer relations with the government and later to increased importance for these units as the regulations grew. The results from the Conference Board survey are supported by responses to another survey conducted by O'Reilly and Anderson (1981). They found that between 1973 and 1978, clerical staff increased by 114% and professional staff by 83% in the personnel departments of Fortune 500 firms, the additional employees coming largely to handle increased government regulations. Studies by Foulkes (1975) and Burack and Miller (1976) also found that the management units responsible for handling government regulations had increased in importance. Case studies from the Sloan Project suggest that these units were becoming more important than those concerned with labor relations. The Director of Industrial Relations for a major defense contractor noted that:

> It used to be that labor relations was the elite part of industrial relations. This was because it was the only aspect of the business that could shut down the operation. This is no longer so. With the growth of ERISA, EEO, and other government regulations, the rest of industrial relations has grown in importance so that now there is little innovation coming from labor relations.

The power and influence of personnel units grew during this period for another reason; they had the skills to meet a new set of manpower problems that developed first in the 1960s. The structure of U.S. economy began to shift away from the established manufacturing sector and toward more technical fields such as those associated with the space race, advanced communications and defense systems, etc., and toward service industries. With this change came an increase in demand for technical, managerial, and professional workers relative to the demand for unskilled workers. As skills became more differientiated, workers became less interchangeable and shortages in particular areas became more common. Furthermore, many of these jobs required firms to make substantial investments in individual workers who then became very costly to replace. In short, technical and professional manpower became a real problem for firms, and the skills needed to solve these problems were exactly those that personnel departments had developed to deal with government regulations, manpower planning, training and development, etc.

Because performance in these new jobs was more dependent on the individual worker, the previous systems of personnel administration based on a collective approach became less appropriate. Positions became more difficult to supervise and performance standards more difficult to establish as individual employee ability and motivation became more crucial to performance. A more useful approach to personnel was one oriented toward the interests and concerns of workers as individuals. Personnel executives with backgrounds in psychology and the behavioral sciences were more suited to these new approaches than were those with backgrounds in labor relations. Janger (1977; 13) notes that the problems of manpower and the individual orientation toward work increased the importance of the personnel units in the general employee management function:

> A possibly equally significant change [in addition to the effects of EEO legislation] in the corporate workforce has been generated by the growth, disposition, and the more sophisticated technological requirements of the company. The resultant mix of group perspectives, objectives, and again, expectations. Managing diversity -- especially diversity in people -- makes the personnel job significantly more complex and more critical.

While the other aspects of personnel/industrial relations were finding new responsibilities and influence, the labor relations function was undergoing a secular decline. The main reason for this change was that the pressure from unions had declined. By the late 1970s, union membership had fallen from a peak of 33% of the non-farm labor force in the mid 1950s to approximately 24%. This occured despite the rise of public sector unionism. Thus, the decline in private sector unionism is steeper than the aggregate union membership data suggest. On average, therefore, firms were less likely to have to deal with unions. More importantly, the industrial distribution of the organized sector was changing: the newest industries, the newest firms in existing markets, and the newest plants in existing firms all tended to be non-union. In other words, it was no longer the case that unions were an inevitable fact of life, and the call for management to accept their existance, as exemplified by The Causes of Industrial Peace in 1955, no longer seemed necessary. Firms were successfully pursuing nonunion options. Indeed, one-third of the partially unionized firms in the Conference Board survey of labor relations (mostly those with less than a majority of current employees unionized) indicated that preventing additional organizing ranked as a higher priority than achieving favorable results in collective bargaining (Freedman, 1979). As will be noted below, the incremental growth of the non-union sector throughout the 1960-80 period laid the foundation for the fundamental transformations in the personnel/industrial relations units that appear to be occuring in the early 1980s.

The Current Transformations

The possibility of maintaining non-union operations combined with the rise of psychology-based, individual-oriented personnel policies gave management a new method for avoiding unions, an alternative to the labor relations approach. Since the 1960s there has been an increase in the application of psychology-based organizational development (OD) programs (Beckhard, 1969; Schein, 1969), work organizational innovations (Walton, 1979; 1980), and comprehensive personnel policies (Foulkes, 1980). The adoption of these innovations has helped firms establish and/or maintain nonunion operations. In contrast to the labor relations approach of supporting the position of the union and stabilizing its relations with management, these new approaches seek to bypass or substitute for the union and establish direct communications between management and workers. In addition to matching the benefits secured by unions through collective bargaining, they are also concerned with the organization of work, the leadership style of supervisors, the involvement of individual employees or small groups in decision making, and other worker concerns. These techniques have grown to the point where they constitute a competing system of industrial relations (Business Week, 1981).

Given the fit between these new behavioral science strategies, the pressures from labor markets and government regulations and the union avoidance side "benefits" that they helped produced, it is not surprising that these new approaches gained increasing acceptance and approval among top executives. Indeed, these efforts began to develop an internal momentum of their own as top executives recognized their potential for developing an organizational climate or culture that both attracted the high level managerial and professional talent needed to prosper, and embedded a strong humanistic dimension to the firm's personnel policies. In short, top executives were given the technical tools needed to create an organizational culture which was congruent with the ideas being promoted by the leading management theorists of the time (McGregor, 1961; Argyris, 1964; Likert, 1967). By the end of the 1970s, the commitment of some of these firms had escalated to the point where some management researchers have argued that they are now permanently embedded within the culture of these firms (Foulkes, 1980; Ouchi, 1981). To the extent that this is true, the policies of these "strong culture firms" may be less responsive to short run changes in external environmental pressures than those firms in which top management has not fully internalized these values and diffused them throughout the organization. While no systematic data exist on the extent to which these innovations have diffused across firms and industries, there is sufficient case study (Foulkes, 1980) and casual data available to suggest that they are primarily concentrated in the same type of "cutting edge" firms that Millis and Montgomery (1945) noted were the heaviest users of the union substitution policies of the 1920s; namely, the largest, fastest growing, and most profitable firms and industries.

The spread of these programs has generally contributed to the decline in power of the traditional industrial relation unit, since typically this unit lacked the expertise to develop and the inclination to adopt these innovations within established bargaining units. Indeed, industrial relations managers were often cited as major opponents of work innovation programs in the 1970s because these efforts threatened to disrupt stable relationships that had been developed over the years between the industrial relations managers and the union representatives. Perhaps the best example of this internal conflict between industrial relations and personnel that occurred during the 1970s is found in the experience of General Motors in its efforts to develop a quality of working life program:

> GM's traditional-minded chief labor negotiator, George B. Morris, Vice President for Labor Relations, saw QWL as a surrender of management powers ... As a concession to both Bluestone [the union Vice President who supported the program] and Stephen Fuller [the Vice President of Personnel], Morris agreed to a letter of understanding with the UAW. In it, he recognized the 'desirability of mutual effort to improve the quality of work life,' and agreed to a joint Committee to Improve the Quality of Work Life with responsibility for reviewing and evaluating all QWL programs. The Committee ... met only occasionally in the first years of its existence. The failure of the Committee to pursue actively any QWL programs was due to the suspicion with which Morris viewed the notion of QWL. (Spector, 1981; 7)

By the early 1980s, this particular conflict had played itself out at General Motors. The Vice President of Labor Relations retired and was replaced by the former director of the quality of working life program for the corporation -- not by an individual whose career had been concentrated within the industrial relations function. In turn, the quality of working life program was then made part of the director of labor relations' responsibility in recognition of the close interdependence between union management relations and the quality of working life improvement efforts.

The pressure to develop new innovations such as QWL helped bring other aspects of the personnel function into areas traditionally the prerogative of the labor relations group. Continuing changes in the environment, however, were at the same time threatening the long-term prospects of the stable system of union relations that had become associated with the labor relations function. First, as noted above, the fundamental assumption of the system of stability -- that unionization should be accepted as inevitable -- was no longer valid. Even in the most organized industries, many multiplant firms were maintaining or developing some nonunion operations. The ability to develop and maintain unorganized plants had a great deal to do with the aggressive industrial development programs in the right-to-work states. Second, this nonunion presence contributed to a reduction in the cost that industrial disputes presented to firms. By maintaining some nonunion capacity, firms could maintain at least some production during strikes, a development that was accentuated in some cases by new technology that can be kept in operation by supervisory staff. Thus, firms may be able to maintain more capacity during industrial disputes than in the past. Because product markets have been considerably weaker in the recession-filled 1970s and 1980s, firms have not been under as much pressure to keep production up. Lost sales opportunities are not as great when production is halted because of industrial disputes, and therefore the losses and uncertainty associated with potential disputes is less of a burden to the firms. The benefits provided by the system of stability associated with the labor relations unit, therefore, are not as great as in the past.

Perhaps more importantly, the costs of the stable labor relations system have been increased by the more competitive economic environment of the 1980s. Firms now are less able to pass on to consumers the higher costs associated with this labor relations system. One reason is that product markets generally have been weaker, and with excess supply/capacity, price competition tends to increase. More importantly, however, labor costs are no longer "taken out of competition" because the unions have no longer "organized the entire product market." Part of the reason is, as noted earlier, that even unionized firms have successfully maintained nonunion plants. Yet, even where domestic industries remain substantially organized, such as rubber and autos, the product market may not be fully organized because low-wage foreign competition is taking an increasing share of the domestic product market. It is no longer possible, for example, for U.S. auto makers to pass on common labor costs to consumers when consumers can purchase lower-priced foriegn cars. And in the transport industry, deregulation efforts have produced a similar effect because prices no longer necessarily rise to cover higher labor costs. One result of this increased pressure on labor costs has been that operating management has focused its attention more directly on labor relations and human resource management issues.

In short, the environment associated with labor has changed. The pressure associated with unions and industrial disputes has declined and with it, the benefits associated with the system of stability. Changes in outside environmental factors, meanwhile, have vastly increased the costs associated with that system. In many cases, these costs led to pressure from top management to get out from under this system.

One option open to firms was to press for nonunion status through decertification or reorganization of facilities. Clearly, these were areas in which the labor relations unit has no expertise, nor, one might think, any inclination to participate. The human resource groups, on the other hand, have exactly the skills necessary to develop programs that keep unions out. The other option was to pursue changes through the collective bargaining system. Management needed to secure fundamental changes in existing relations. These changes are typlified by concession bargaining (Cappelli, 1982) that depart from the system of incremental adjustment associated with the labor relations approach of the 1960s and 1970s. They cut across the primary goal of labor relations staff because they are likely to cause instability.

The labor relations units were already suspect by top management for having helped produce the system perceived to be the cause of current problems. Further, their approach to labor relations was based on support of the union leaders and an incremental approach to changes. Information from the Sloan case studies indicates that in some firms the labor relations staff tended to argue initially that it was not possible to secure the changes that top management wanted. As a result, a number of firms have formed new management teams or task forces involving operating managers, financial and strategic planning experts, human resource staff, and in some cases top corporate executives to plan and oversee concession negotiations with the labor relations staff. These groups are, for example, more willing to communicate directly with workers, seeking to change the union's position from the membership up. In some cases they are willing to confront relatively weak unions with sets of "no win" options (e.g., concessions or massive unemployment). In other cases, where unions represent a higher proportion of current workers, management has offered, in return for contract concessions, a broader agenda for union and individual worker participation (Business Week, 1982).

Not surprisingly, the labor relations function is currently under a great deal of stress. In the airline industry, for example, where deregulation has forced these changes to occur rapidly, the top labor relations executives in six of the 26 major carriers were replaced in 1982. The situation varies according to the circumstances in each industry, of course, and in some industries the labor relations unit has been able to secure at least some of the changes that top management desired. In virtually every case, however, some aspects of the human resource management approach were introduced -- most often, direct communications with workers.

It may be too early to tell, but it would appear that these changes have fundamentally altered the position of the labor relations unit within the firm. Top management no longer shares the unit's concern with stability, and the costs associated with the unit's traditional approach no longer seem worth the benefits. The human resources management professionals and their individual-based planning and small group participation methods seems more in line with the preferences of top management's and can be more easily integrated with the firm's growing interest in strategic planning. One visible sign of this transformation is that the top executive in the firm responsible for personnel/industrial relations now tends to be given the title, Vice President of Human Resources. More importantly, Shaeffer (1982) reports that approximately 46% of her sample of large industrial and financial firms consider this executive to be part of "senior" management, a percentage expected to increase to 53% in the next five years. O'Reilly and Anderson's 1981 survey of Fortune 500 firms also found, for example, that between 1969 and 1979, 45% of responding firms elevated their top personnel position to the vice presidential level.

In short, human resource management is growing in importance within most firms, the skills and methods of human resource management professionals are increasingly being carried over to the management of unionized employees, and top executives and operating managers are becoming more involved in decisions involving employment policies. While it may be too early to say which of these management groups will emerge as the dominant force in personnel/industrial relations in the future, it is clear that the distinction between labor relations, human resource management, and operating management will become increasingly blurred as firms attempt to simultaneously control production costs, increase employee communications and involvement, maintain stable union-management relations where unions exist, and avoid new opportunities for union organizing.

While these are all signs that the personnel function is gaining power and status, its position relative to other functions should be not overstated. Despite these trends, in many organizations personnel still carries an image of lesser status, power and importance than do competing functional groups such as finance, marketing, operations, and strategic planning.

Summary

Throughout the historical periods reviewed in this paper, firms have faced a variety of environmental pressures and have responded by creating special boundary units to manage those pressures. The position and influence of these units within the firm has varied directly with the importance of the corresponding pressures and with the unit's success in handling them. Specifically, firms have faced pressures from three areas; markets, unions and government regulations. They responded by creating the personnel/industrial relations function and special units within it, such as labor relations and human resources management. The position of these functions within the management heirarchy has varied over time with the nature of the environmental pressures associated with them. Pressures from shortages in labor markets and the need to increase production led to the rise of a personnel function in WWI; the failure of the personnel response (welfare capitalism) in the new economic environment of the Depression and the rise of labor unrest led to the creation and growing influence of the labor relations unit. Other aspects of the personnel function developed and grew in importance with the tighter labor markets for technical and professional employees and the growing government regulations in the 1960's and 1970's. At the same time, the environment facing the labor relations unit began to change and the gradual decline in pressure from the labor movement led to a gradual decline in the influence of the labor relations unit. In the most recent period, a major transformation of power is underway within these units as firms cope with a confluence of environmental pressures. Growing competition and the inability of unions to organize product markets has greatly increased the costs of the system of stable labor management developed by the labor relations unit. Firms are turning to the human resources unit, to line executives, or to "new" labor relations professionals to develop a new set of relations with unions and individual employees. In addition, the new interest of firms in strategic planning has benefited human resources groups since they have the skills necessary to participate in the planning process.

Given the many changes in the relative position of these units over time, it would be difficult to imagine that the current balance of power within management will remain stable in the future. In order to understand the changes that are likely to occur within management, one must consider the changes in environmental pressures that the firms are likely to face as well as their current internally generated policies or "cultures" which may have a certain force of their own. In general, one might expect that in industries where the labor movement is growing weaker, the labor relations unit will continue to lose power. If government regulations continue to decline in importance (or government relations are stabilized and enter a maintenance stage similar to the labor relations of the 1970s), the corresponding management unit will also lose power. Where labor markets grow more slack and firms face more immediate pressures for survival from declining product markets, one may expect the personnel/industrial relations function in general to lose influence to operating, finance, and other functional units.

More specifically, one might wonder what influence the change in management's approach to unions may have in the long run. At least some firms have abandoned the approach associated with labor relations units which stressed stability. Another potential problem area is where firms are continuing to pursue policies consistant with their long-run organizational culture but inconsistent with current environmental pressures. Will firms that have traditionally been able to maintain employment and pursue innovative human resource management strategies be forced by tougher market circumstances to abandon that approach? Again, the answers depend on the nature and intensity of the future environmental pressures that firms will face and the ability of their organizational curture to withstand or adapt to these pressures.

Thus, in the next decade the durability of the human resource management systems and cultures associated with non-union growth firms in the 1960-80 period is likely to be challenged by environmental pressures while the unionized firms attempt to merge some of the innovations developed in these systems into their existing collective bargaining relations. Meanwhile, the labor movement will undergo a reappraisal of its traditional organizing and bargaining strategies in response to the management successes of the past two decades. The interaction of these employer and union strategies and the trends in the three sets of environmental pressures reviewed in this paper will shape the role of the personnel/industrial relations profession in the years ahead.

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