

# Human Resources from an Organizational Behavior Perspective: Some Paradoxes Explained

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**A**merican workplaces exhibit three facts which, taken together, could constitute anomalous or paradoxical organizational behavior, especially when seen through the lens of the rationality and competitive market efficiency concepts so often used in economic theory. First, workplaces in America and elsewhere show pervasive job dissatisfaction, distrust, and disengagement, with the evidence suggesting that these problems are getting worse and have a number of negative consequences for employers as well as employees. Second, how people are managed and their job satisfaction and job attitudes are both substantively and statistically significant predictors of a number of dimensions of organizational performance. Comprehensive evidence from studies in numerous industries and countries establishes this point and also helps us identify high-performance management practices. Third, in spite of the fact that much of what is required to build engaged and successful organizations is at once well known and not always costly to implement, many, maybe most, organizations have failed to take appropriate actions, thereby, in some sense, “leaving money on the table.”

Theories and empirical research in organizational behavior and social psychology offer insights and explanations about how these three facts can coexist and even persist. These explanations are built on the fundamental insights that both employees and organizations are embedded in a social context that provides taken-for-granted ways of thinking and doing things; social influence matters so

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that companies imitate others even if such imitation is maladaptive; and social relations in the workplace are important.

Because this is an enormous topic, the relevant literatures are extensive, and the implications for theory, research, and practice are vast. What follows is a necessarily selective exploration of human resource management in organizations, covering why it is often done so badly, what theory suggests about how to do it better, and why so little of what is known is actually implemented.

### **Many People in Many Organizations are Unhappy and Distrustful**

Job attitudes, employee engagement, and work behavior—for instance, absenteeism and turnover—are dismal in the United States and the United Kingdom, and possibly elsewhere as well. For instance, a Conference Board survey conducted in August 2004 of 5,000 U.S. households found that 67 percent of employees do not identify with or feel motivated to drive their employer's business goals, one quarter reported they were just showing up to collect a paycheck, and almost half said they felt disconnected from their employers (Conference Board, 2005). According to this Conference Board study, job satisfaction had declined over time. Nor are this study and its conclusions particularly unique. Cappelli (1999, pp. 122–3), summarizing numerous surveys of employee attitudes and commitment, including some conducted regularly since the 1950s, noted that since the 1980s the measures were “in a virtual free fall.” A survey of the U.S. workforce published in 1994 reported that about one in six employees said they had withheld a suggestion for improving work efficiency from their employer, and fewer than 40 percent trusted their company to keep its promises (Princeton Survey Research Associates, 1994). The Gallup organization “found that 80 percent of British workers lack commitment to their job, with a quarter of those being ‘actively disengaged’” (Deloitte Research, 2004, p. 4). “Active disengagement,” defined by Gallup as working to sabotage some aspect of the employer's business, was an attitude also held by about 20 percent of the U.S. workforce.

Distrust of management is pervasive. “Nearly 20 percent of workers say that their companies lie to them, Towers Perrin reports. About 44 percent say that top management lacks honesty and integrity, Watson Wyatt found” (King, 2004). (Towers Perrin and Watson Wyatt are among the preeminent global consulting firms for human resource management.) Another survey found that 52 percent of employees do not believe the information they get from their senior management (Katcher, 2004).

Not surprisingly, this pervasive distrust and dissatisfaction manifests itself in decreasing job tenure, increasing turnover and intentions to quit, and higher levels of voluntary absence. A MetLife survey of 1,200 employees and 1,500 company executives (Frauenheim, 2006) reported that 22 percent of all employees had changed jobs over the preceding 18 months, an increase from preceding years, and

the churn was even greater among young families with children. A 2003 survey conducted by Korn Ferry found that 62 percent of global executives were unhappy with their current position of employment (Korn Ferry International, 2003). Cappelli (2006) reported that average company tenure for men had dropped sharply between 1983 and 2000 and that company tenure for senior executives had also declined significantly (although average tenure for women in the workforce had not declined over this period).

The causes of these negative workplace attitudes are reasonably well known. One cause is job layoffs. Waves of downsizings and restructurings have made employees at almost all levels feel less secure (Osterman, 2006). Few employees are going to be willing to work harder voluntarily or provide ideas to enhance productivity if the consequence is that they or their coworkers will lose their jobs (for example, Locke, 1995). Cascio (2002) has extensively reviewed the evidence on the negative effects of layoffs and work intensification on outcomes ranging from physical and mental health to product quality to job attitudes.

A second cause of employee disengagement and diminished productivity is the pervasive and growing conflict between work and family. There are now more women college graduates than men, and more women in senior corporate ranks than 20 years ago (Cappelli, 2006). But work–family programs and policies have not kept pace with changing workplace demographics. Even where there are work–family policies, informal norms often exist against using these policies because “putting family first” is frequently taken as a negative signal of employee loyalty and commitment (Evans, Kunda, and Barley, 2004, p. 3; Perlow, 1997). Therefore, conflicts between work and family roles remain pervasive, with adverse implications for both employee attitudes and job stress (Bailyn, 1993; Higgins, Duxbury, and Irving, 1992).

A third cause of high and rising distrust in the workplace is that many companies have broken implicit or explicit promises made to their employees—for instance, assurances about pensions and about health insurance for both active and retired employees. According to the Employee Benefits Research Institute, the percentage of full-time employees participating in *any* retirement plan fell from 91 to 65 percent between 1985 and 2003, while the percentage covered by a defined benefit plan fell from 80 to just 33 percent as companies shifted financial risk to their staff. A Kaiser Foundation report noted that the share of employers offering retiree health benefits went from 66 percent in 1988 to 35 percent by 2006, while another Kaiser report found that the proportion of employees covered by employer-sponsored health insurance declined from 81.2 to 77.4 percent between 2001 and 2005. Meanwhile, ever-increasing cost sharing and copayments transfer health care costs to employees. Perhaps it was foolish for employers to make pension promises they would have to honor 40 years in the future and equally foolish for employees to rely on such assurances. Nonetheless, the perception of broken promises has increased the reluctance of employees to believe what companies say.

Fourth, job satisfaction is low and declining because the actual workplace is—even in the absence of some of the physical punishment and abuse of the past (for example, Jacoby, 2004, chap. 1)—still a place frequently characterized by verbal bullying and psychological harassment. For example, one study of 800 employees in the United States reported that 10 percent said they witnessed incivility daily within their workplaces, and 20 percent said that they personally were targets of incivility in the workplace at least once a week (Pearson and Porath, 2005). A study of more than 600 nurses found that one-third had experienced verbal abuse within the preceding five days (Graydon, Kasta, and Kahn, 1994). It is possible that, objectively, the typical workplace today is actually better than it was in the past. However, even if the data simply reflect rising expectations on the part of employees, it is nonetheless the case that these same studies show that perceptions of workplace bullying lead to consequences for job attitudes and turnover intentions. For example, because it is widely believed that the poor treatment of nurses has led to a nursing shortage as people voluntarily leave the occupation, the Kaiser-Permanente medical group in Colorado has adopted a “zero tolerance” policy for verbal abuse of nurses and has reported better nurse retention and attraction following its implementation.

Many observers see changes in the conditions of work, including reduced pensions and medical benefits and more layoffs, as an inevitable consequence of increasing competition and globalization with accompanying pressures for efficiency and productivity. But there is evidence of substantial variation in human resource management practices across companies within the same industry, with some companies choosing to use a “high road,” commitment-based strategy including higher wages and employment security, while other, seemingly similar companies pursue a “low road” approach (Appelbaum and Batt, 1994). More importantly, there is little evidence that firms that use a “low road” approach end up being more competitive or productive. For instance, Costco pays higher wages and offers a higher proportion of its workforce benefits, including health insurance, than does Sam’s Club, a division of Wal-Mart. But in 2003, Costco produced \$13,647 in operating profit per employee compared to \$11,039 at Sam’s Club and Costco’s labor costs were 9.8 percent of sales compared to 17 percent at Sam’s. Possibly because of its lower turnover and more satisfied workforce, Costco’s employees were more productive, selling \$795 per square foot compared to \$516 (Cascio, 2006, p. 243), which is why the operating profit per employee was higher and labor costs as a percentage of revenues lower, even though Costco’s hourly labor *rates* were almost 40 percent higher than Sam’s Club.

## **How People are Managed Matters for Organizational Performance**

Both human resource scholars like Becker, Huselid, and Ulrich (2001) and financial accountants like Lev (1989) have argued that in advanced industrialized

economies such as the United States, where employee skill and innovation are comparatively more important, much of a company's value resides in intangible assets. Becker, Huselid, and Ulrich noted that the ratio of enterprise market to book value had doubled between 1985 and 1999 for the Standard and Poor's 500, while Lev provided evidence showing that over the past 40 years, the amount of variation in stock price explained by earnings, book value, or by changes in either had declined significantly. Both interpret their findings as indicating a rise in the economic significance of intangibles. Although nonphysical assets include brand equity and patent portfolios, human assets and organizational culture are other intangibles that also can create value.

A truly enormous body of research from a number of countries shows that how people are managed affects quality, profitability, productivity, and total return to shareholders. There is no good current, complete summary of the many studies, but for partial summaries of the literature, good starting points include Becker and Huselid (1998), Pfeffer (1998), Appelbaum, Bailey, Berg, and Kalleberg (2000), Cascio (2006), and Shaw (2006). Although some of the studies are simple comparisons, a number use statistical techniques to disentangle causality in cross-sectional data. There are also a number of longitudinal studies that make inferring the causal relationship between human resource management practices and company performance more straightforward (for example, Baron and Hannan, 2002). Perhaps the simplest, albeit least elegant, demonstration of the effect of human resource management on performance is to go to the website for the Great Place to Work Institute (the organization that does the surveys and other analyses to produce the annual *Fortune* list of the best places to work). The site has a number of charts that show stock market returns of the companies on the list compared to various benchmarks *after* the companies had been listed, assuming a "buy-and-hold" strategy and also assuming that each year a new portfolio was constructed when a new list came out. In each instance, the public companies on the list (a significant fraction are privately held) outperformed the various benchmarks.

Although the various studies of the effects of human resource practices use somewhat different variables, a consensus has emerged about the elements of a high-commitment or high-performance set of management practices. "High-commitment" work arrangements include investment in training to develop skills and knowledge; a regime of mutual commitment and employment security with long-term expectations for the employment relationship; rewards contingent on individual but also group and organizational performance; decision-making structures such as decentralization and self-managed teams that permit trained and motivated employees to actually influence decisions about work; and the sharing of information so that people can understand the business and have the data to make better inferences about what to do and how to do it (Pfeffer, 1998; Shaw, 2006).

### **An Organizational Behavior Perspective**

An organizational behavior perspective helps explain *why* these various practices affect the productivity and discretionary effort of employees and also how to understand and predict the effects of various human resource management policies. There are many relevant components of an organizational behavior perspective—here we highlight three: First, people are social creatures and as such, are concerned with their relationships with others and influenced by what others say and do. As a result, perceptions, preferences, and attitudes are at least partly endogenous (Salancik and Pfeffer, 1978), and people derive an important part of their social identity through their affiliations. Second, people are concerned about fairness and justice, both distributive outcomes and also the processes through which those outcomes get determined. Because of this interest in both processes and outcomes being equitable, people will, as economists increasingly have recognized (Fehr and Gächter, 2000), actually expend resources to “punish” individuals who violate norms of fairness. And third, organizations as institutions in their own right are also embedded in a social context and are influenced by and imitate other organizations, in part to achieve legitimacy by acting like or looking like others and in part to conform to social expectations and norms (Scott, 1995).

There are a number of direct implications of these assumptions for understanding both the design and implementation of human resource policies and practices and their effects. In the rest of this section, I consider how the various high-performance work practices are logically consistent with the ideas from an organizational behavior perspective.

### **Rewards for Organizational and Group, Not Just Individual, Performance**

The ideas of fairness and equity imply that individuals expect to benefit when their efforts improve the economic performance of their employers. One of the current sources of dissatisfaction, as evidenced in union–management negotiations in the airline and automobile industries as well as in general public discourse, is that when employees have given up wages and benefits, in some instances company financial results have improved, but senior management and shareholders, rather than employees, have enjoyed virtually all of the benefits of the improved economic performance. At the same time, differentially rewarding *individuals* creates distinctions among people, thereby increasing social distance, and can, as typically administered, produce perceptions of unfair treatment. Thus, it is likely that rewarding group or organizational performance through schemes such as profit- or gain-sharing or through some form of equity ownership will create fewer problems than rewarding individuals. Collective rewards transfer some portion of the economic gains to employees, consistent with the idea of fairness, while doing so in ways that are less disruptive to valued social relations among employees.

Although some economists have noted that collective rewards run into the free-riding problem (Williamson, 1985, chap. 10), the evidence from numerous surveys, even by the compensation consulting firms that often administer performance-based

pay systems, typically show widespread dissatisfaction with individual pay for performance both on the part of those subjected to it and those administering the plans (Hewitt, 2004). Consistent with the idea that social relations are important and that people will choose to do things to maintain them, experimental research (Leventhal, Michaels, and Sanford, 1972) shows that people choose to allocate rewards more equally than would be expected on the basis of differences in performance and particularly make more equal distributions of rewards when those distributions are going to be public.

In work organizations, differentiated individual rewards can create feelings of inequity. That's because few organizations face conditions similar to those of Safelite Glass (Lazear, 2000), where work was independent, performance could be inexpensively and objectively assessed, and performance metrics were essentially unidimensional—how many windshields got installed. Employees often see differentiated rewards as the result of arbitrary management favoritism, in part because most people see themselves as being “above average.” The evidence supports employees' suspicions about performance ratings. One study found that individual performance ratings were more highly correlated with whether the person being rated had been hired by the person doing the rating—who is going to be more committed to the person whom he or she has chosen—than with the individual's objective performance (Schoorman, 1988).

Consistent with this argument about individual differentiation in rewards being perceived as unfair and disruptive of social relationships, field evidence suggests that pay dispersion has generally negative effects. Data from a survey of college and university faculty suggests that the greater the level of salary dispersion in academic departments, the lower the level of job satisfaction, the less likely faculty were to work collaboratively on research with others from the same department, and the lower the level of research productivity (Pfeffer and Langton, 1993). In top management teams whose technology involved interdependence, greater dispersion in rewards—either vertically or horizontally—was associated with lower levels of organizational performance, as measured by total shareholder return and the ratio of market to book value for two years following the pay data (Siegel and Hambrick, 2005). Larger differences in pay between senior management and the workforce are associated with lower quality (Cowherd and Levine, 1992). Even in baseball, a setting where individual performance is relatively “independent,” Bloom (1999) studying 29 teams and 1,500 players over an eight-year period found that teams with more dispersed salaries had lower win-loss records and gate receipts, while players on teams with more dispersed salaries performed more poorly, controlling for measures of their ability (as assessed by prior performance). More dispersed salary distributions have also been found to be associated with more turnover among academic administrators (Pfeffer and Davis-Blake, 1992), with those people lower in the salary distribution particularly likely to leave.

**Employment Security and Layoffs**

The employment relation today is more market-like than it was in the past, as Cappelli (1999) and many others have recognized. Not only are layoffs more frequent, layoffs occur not just in response to dire economic straits but as part of “restructuring” to further increase stock price and profits.

From an organizational behavior perspective, layoffs create several problems, which is why it is scarcely surprising that comprehensive reviews of the evidence find that layoffs frequently don’t increase stock price, productivity, profitability, innovation, quality, or other measures of company performance (Cascio, 2002). Layoffs disrupt social relations in the workplace. Evidence suggests that many “survivors” experience feelings of guilt and depression and reduced satisfaction and commitment to the job and the organization; are more likely to leave; and have lower levels of job performance (Brockner, Grover, Reed, DeWitt, and O’Malley, 1987; Brockner, Konovsky, Cooper-Schneider, Folger, Martin, and Bies, 1994). Consistent with the importance of equity and fairness perceptions, when people feel those laid off were not adequately compensated, these negative effects are larger. In fact, some evidence suggests that perceptions that procedures and outcomes were fair can virtually eliminate the negative psychological reactions to downsizings of both survivors and those laid off, although relatively few companies seem to have embraced the implications of these findings in their behavior. Absent real participation in corporate governance, employees believe they are being asked to “pay” for the decisions and mistakes of others. Moreover, given the retention bonuses offered to senior executives, even under conditions of bankruptcy, and the availability of golden parachutes and the fact that at least in some of the airlines, senior management used company assets to secure their own pension obligations while they were canceling the pensions of pilots and flight attendants, many employees don’t see restructuring outcomes as being particularly fair.

Second, the norm of reciprocity (Gouldner, 1960) is one of the most fundamental rules governing human behavior, having been found in every human culture studied and even among baboons. In the absence of companies making long-term commitments to their work force, that work force is not likely to take a long-term view of its attachment to their firms or feel much loyalty to them. And contrary to some discussion that current employees actually aren’t interested in employment stability or long-term bonds with their employers, survey evidence suggests the opposite—that there are people, albeit not everyone, who actually would prefer working in systems of mutual commitment and would prefer building long-term, more-committed relationships with their employing organizations (Princeton Survey Research Associates, 1994).

**Training, Information Sharing, and Decentralized, Team-based Decision Making**

These three high-commitment practices—training, information sharing, and decentralized, team-based decision making—have different technical bases for increasing performance. Training builds skills and competence. Information shar-



ing provides people the data necessary to make better work-related decisions. Decentralization permits people to use information and training to enhance the effectiveness of what they do by allowing them the necessary discretion to adapt their work processes. At the same time, each of these elements taps into similar organizational behavior processes that enhance their effectiveness.

Investments in training activate the norm of reciprocity. If an employer has invested in an employee, that employee will feel some obligation to reciprocate that investment with greater effort and commitment. In that sense, investments in employees' training induce the same sort of response that efficiency wage theory hypothesizes for the payment of above-market wages (Akerlof, 1982). This sense of obligation will be particularly strong when training is not expected because of industry custom or the level of the employee. So, for instance, the Men's Wearhouse, a very successful retailer of tailored off-price men's clothing, trains its wardrobe consultants—in an industry where employees are more typically seen as interchangeable and dispensable, and training is minimal—and has reaped benefits in terms of reduced turnover and less “shrink” (loss in inventory due to theft). Information sharing also activates reciprocity. Sharing information with another party signifies trust. That trust is likely to be reciprocated. Conversely, when a company keeps secrets from its employees it signals it does not trust its employees to keep secrets or to use the withheld information effectively. Those feelings of distrust and disdain are also likely to be reciprocated.

Decentralizing decision making also signals trust and a belief in employees' competence, again engaging the norm of reciprocity. Decentralizing decision making to teams further engages the power of social relations in the work place. People may disappoint their supervisor or “the company,” but they are much less likely to let down their fellow employees when they are working together as a team.

### **Hiring and Performance Evaluation**

Just as an organizational behavior perspective can help us understand how and why various high-performance work practices work, these ideas can also shed light on the likely effects of other human resource management policies. Consider, for instance, the current emphasis on hiring “talent” and on assessing that talent through individual performance evaluations carried out on an annual basis. The basic assumption of human capital models is that motivation as well as ability or aptitude and skills are properties of *individuals*. Companies are counseled to hire the best individuals (Michaels, Handfield-Jones, and Axelrod, 2001), at least given what they are willing and able to pay in a presumably competitive labor market for talent.

Organizational behavior argues that people are interdependent in their work and that social relations matter. For people to work effectively on interdependent tasks, it is helpful if they are able to communicate efficiently with each other. It is also useful, although not necessary, that they like each other. Social relations and people's satisfaction with their coworkers are enhanced to the extent values and

perspectives are shared. Consequently, basing hiring decisions on cultural fit—the extent to which the applicant shares fundamental values with others and with the company—may be as or even more important than hiring for skill. For instance, Chatman (1991) and her colleagues (O'Reilly, Chatman, and Caldwell, 1991) have shown that people hired into organizations, including accounting firms, where they shared more congruence in values tended to remain longer and had higher levels of career success.

These ideas carry yet another implication. An individual's performance and career success is not simply a consequence of that person's motivation and capabilities, but also is affected by the social resources, including advice and assistance as well as sponsorship, that the individual is able to access. In a play on the term "human capital," many authors call this source of variation in individual performance "social capital" (Coff and Rousseau, 2000). For instance, studying career success, Burt (1992) has shown that an individual's network structure is an important predictor of promotions and raises, net of measures of ability and experience.

The implications of this more "social" or systems perspective on hiring and performance evaluation cannot be overemphasized. Individuals not only vary in their social skills, a quality that will affect their ability to succeed in interdependent systems where they have to work with others, but the identical people will do better or worse depending on the particular social environment in which they find themselves, because of variation in their ability to fit in as well as interest in fitting in. Consequently, it is not just individual attributes that affect job performance and turnover, but also the relationship between those attributes and the social environment in which the person is working. So, as one example, research shows that relational demography—the similarity or difference between a given individual and others in that person's work environment on things such as tenure in the organization—predicts communication with colleagues, social integration, and as a consequence, turnover (O'Reilly, Caldwell, and Barnett, 1989). Conversely, poor job performance may not be just a consequence of someone's ability or willingness to expend effort, but can also be a function of the resources that person has been provided by the organization and also how the job has been organized. Therefore, individual job evaluations, as indicators of individual performance and ability as enduring traits, are likely flawed measures.

## **Why Organizations Don't Do What They Should**

Many economists have asserted that high-commitment management practices have actually been reasonably widely adopted (Osterman, 1994; Shaw, 2006). Although such practices are undoubtedly better known and more widely used than they were several decades ago, the extent to which organizations have fully adopted and adequately implemented systems of high-performance management arrangements is small relative to the apparent benefits from doing so. Shaw (2006, p. 230)

noted that by 1990 approximately half of all firms had some innovations in human resource management, but the proportion of firms that had implemented the full complement of high-commitment work arrangements was much lower. If a higher proportion of firms had implemented high-commitment work arrangements, the various survey data on employee engagement, trust in management, and turnover intentions would not be as bad as it is.

### **Are High-Commitment Work Practices Too Costly?**

The most common economic argument as to why there has been relatively little adoption of high-commitment work practices, at least compared to the potential gains, is that implementation of such systems of human resource management is costly. The costs identified include acquiring new skills on the part of both managers and workers and the need to implement high performance management practices as part of a system that exhibits complementarities (Shaw, 2006). For instance, investing in training probably won't deliver much benefit if the now-trained workers don't also get to use that training through enhanced decision-making responsibility and control over work processes.

The cost argument has two problems: First, many studies of the differences in performance between plants or companies that have implemented high-performance work arrangements and those that have not find economically substantial benefits of a size likely to outweigh any plausible estimate of costs. MacDuffie (1995), for instance, reported both productivity and quality differences of greater than 40 percent between automobile plants that had implemented flexible or lean manufacturing and those that had not. A study of steel minimills (Arthur, 1994) found that mills using a commitment-oriented management approach required 34 percent fewer labor hours to produce a ton of steel and had a 63 percent better scrap rate. Second, some of the most egregious management behaviors that cause job dissatisfaction, distrust, and disengagement should be almost costless to stop. For example, ending verbal abuse in the workplace and lying to employees need not be particularly expensive. Thus, the cost argument is largely unpersuasive and, at its limit, can become tautological because some sort of cost can always be adduced after the fact to explain the nonadoption of a particular management practice.

Moreover, the idea that good management practices aren't invariably implemented is not new in the economics literature. For instance, in a review of the literature on employee participation in decision making, Levine and Tyson (1990) first noted that participation was associated with higher performance and then adduced a number of environmental factors that might cause this innovation in workplace management to be implemented less frequently than might be expected given its positive consequences. For instance employment security is more difficult and more costly to implement when there are more, deeper, and longer recessions. Participatory firms are also disadvantaged by high unemployment, wide wage dispersion, and the absence of universal "just cause" dismissal policies. There is no

reason to believe that Levine and Tyson's analysis of the importance of external conditions would apply less strongly to other elements of high-commitment management approaches, nor that their analysis exhausts all the reasons why productivity-enhancing management innovations might not be adopted.

There are a number of theoretical perspectives from organization theory that can help us understand mechanisms and processes that can result in the persistence of arrangements that don't make much economic sense. I mention a few of them here.

### **Why Organizations Might Not Adopt Human Resource Management Innovations**

Companies (and individuals) tend to copy what others do, sometimes in an almost mindless fashion. In organization studies, the basic idea of companies copying what others do is predicted by institutional theory (Scott, 1995). Institutional theory argues that certain ways of doing things become taken for granted and companies, to achieve social legitimacy and to conform to social expectations for appropriate behavior, adopt these institutionalized practices (DiMaggio and Powell, 1983). The importance of social relations also predicts conformity behavior, since similarity is an important basis of attraction. Therefore, companies, or people, find it easier to build ties with others the more similar they are to the targets of their relationship building.

The evidence shows that behaviors ranging from adopting poison pill antitakeover defenses (Davis, 1991) to the initiation of merger activity and the size of the premiums paid for those acquisitions (Haunschild, 1993; Haunschild, 1994) to the adoption of particular organizational structures such as matrix forms (Burns and Wholey, 1993) are affected by what other companies are doing. Diffusion of particular organizational decisions or structures occurs through network ties, so that companies that are tied, for instance, through director interlocks, geographic proximity, or other social relationships are more likely to imitate each other.

These pressures for institutional conformity can override considerations of what might be more efficient. For example, a study of downsizing found that imitation of other companies' behavior explained the likelihood of a company laying people off better than economic measures such as profitability (Budros, 1997). The evidence on imitation implies that the diffusion or absence of the diffusion of management practices, including human resource practices, is to some extent independent of the value or worth of those practices.

Another process that affects the choices companies make, independent of considerations of efficiency or performance, is power. Organizational decisions are influenced by other powerful organizations, an idea at the core both of resource dependence (Pfeffer and Salancik, 1978) and institutional (DiMaggio and Powell, 1983) theories. In the current landscape, at least in the United States, organizations that either provide access to or represent the interests of

the capital markets and investors are among the most powerful organizations (Fligstein, 2001).

For reasons that are well outside the scope of this article, many investment analysts and others in the financial community do not appear particularly sympathetic to firms that adopt high-commitment work arrangements, possibly because these companies may be viewed as putting employees ahead of shareholders. When SAS Institute, the largest privately owned software company in the world, was considering going public, the head of human resources and the chief executive officer both told me that the company felt that its very generous employee benefits were at risk because the investment community considered such expenditures to be a waste of money, even though SAS Institute's low turnover (typically less than 5 percent) saved the company millions compared to a software-industry typical turnover rate of about 20 percent. Articles comparing Wal-Mart and Costco (Greenhouse, 2005) have noted how Costco's "high road" strategy has not garnered a lot of support from the investment community, in spite of the company's financial success. Thus, pressures from powerful external constituencies such as investment analysts and bankers may work against the adoption of high-performance human resource management practices.

Moreover, as the finance function inside companies and the investment community outside their boundaries have gained in power, two prominent entities that might be expected to foster employee well-being have lost power. The first is unions. It is scarcely news that union density has declined in virtually every industrialized country, and in the United States, unions now represent less than 10 percent of the private sector workforce (Blanchflower and Freeman, 1992). What is sometimes less well recognized is that some evidence suggests that unionization is *positively* associated with the adoption and persistence as well as the effective implementation of high-performance human resource management practices. For instance, Drago (1988), studying the survival of quality circles, found that unionization was positively related to this practice persisting. Another study of 325 manufacturing plants examining union effects on quality improvement and participation found that establishments with programs jointly administered by management and unions achieved much greater improvement than establishments with programs that were controlled just by management (Cooke, 1992).

The human resources department, which has traditionally been an advocate of employee well-being, has also lost power. Many human resource functions are being outsourced, with a corresponding loss in the size of the department and also the budget it controls. In the political dynamics that shape policies ranging from the adoption of internal labor market arrangements (Pfeffer and Cohen, 1984) to the use of certain organizational hiring standards (Cohen and Pfeffer, 1986), the rise in power of groups not particularly interested in people or human resources and the decline in power of employee advocates provides a reason why the adoption of high-performance work practices may be retarded.

A third mechanism that may plausibly account for suboptimal choices about

human resource policies and practices is the relative salience of different information. Information about costs—the costs of medical and retirement benefits, the costs of keeping employees employed, the costs of training—are routinely collected and reported in financial information systems. Indeed, accounting oversight bodies and auditors require that the expenditure of resources and the incurring of future obligations, for instance, by promising retirement or medical benefits, must be reflected on firms' income statements and balance sheets. Information about the possible offsetting benefits—reduced turnover, higher levels of trust and employee engagement, reduced absenteeism, more discretionary effort—is typically either not measured at all or not measured and presented in a way that benefits and costs can be readily compared. Social psychology has taught us that what is salient is focal. People and companies, if they use facts at all, decide on the basis of the facts at hand—as imperfect, imprecise, and even misleading as those facts might be. Consequently, the structure of organizational measurement and information systems virtually guarantees that human resource management practices will be undervalued and not much considered in decisions about people.

The salience of costs and the hidden value of benefits can help account for the persistence of downsizing. In cyclical industries such as oil drilling, virtually every company faces the same general conditions, so they tend to lay off and rehire at the same time. Cycles of layoffs have driven some experienced workers from the industry into other employment where their skills can be used on a more constant basis. These same cycles have discouraged new employees from entering the industry. With secular growth in demand for drilling-rig labor, there is increasing labor scarcity over time. Consequently, each new round of hiring is accompanied by escalating salaries and signing bonuses as companies compete for the same set of people, many of whom they had laid off in the past year or two. It is not clear that a decision to “inventory” (retain) skilled labor during temporary downturns would really be more costly than continually having to compete when the labor market is tight.

The importance of measurement and information systems, coupled with the realization that many of the most important assets are intangible, has prompted attempts to measure what matters (Eccles, Herz, Keegan, and Phillips, 2001) and has also led to calls for more disclosure about the management of intangibles on companies' balance sheets and income statements. But these changes have yet to become widespread.

A fourth perspective on how suboptimal human resource policies can be chosen and persist proceeds from the almost unarguable assumption that companies and their leaders decide what to do about managing people based on their implicit and explicit assumptions about people and organizations. As an example, Tetlock (2000) found that practicing managers' responses to scenarios involving various decision dilemmas could be predicted by their different assumptions about human nature, which, in turn, shaped their different philosophies of corporate

management and governance. Those assumptions were, in large measure consistent with economics language and assumptions—that is, the managers assumed that people are self interested (Miller, 1999), may engage in self-interest seeking with guile (Williamson, 1975), and are effort averse (Lazear, 1999) so that they require incentives and monitoring to ensure performance. These assumptions are largely inconsistent with the implementation of high-commitment policies based on mutual trust. Specifically, companies are less likely to share information with people who are presumed to be self-interested and to pursue their interests occasionally using some amount of deceit; are unlikely to allocate substantial decision rights and participation to individuals who are presumed to be mostly self-interested and consequently unconcerned about organizational well-being; and are less likely to invest in the training and development of people who are presumed to be effort averse and focused only on their own interests and so may leave at the prospect of a better job offer.

The obvious response is that if these assumptions are, in fact, incorrect and the resulting human resource practices inefficient, companies will learn this fact over time and adjust their decisions accordingly. But many theories of behavior are self-fulfilling, in that in acting as if they were true and setting up organizational arrangements accordingly, the norms, presumptions, and organizational arrangements create precisely the behaviors consistent with the theoretical suppositions that they imply. As Frank (1988, p. 237) noted, “Our beliefs about human nature help shape human nature itself.”

This argument, developed extensively elsewhere (Ferraro, Pfeffer, and Sutton, 2005), can be briefly illustrated with an example: Miller and Ratner (1998) demonstrated in a prisoner’s dilemma experimental context that participants systematically overestimated the power of self-interest to affect the attitudes and behavior of others. However, because subjects saw self-interest as a norm—a way they were *expected* to behave and a prediction of how others would behave—they tended to justify even altruistic actions in terms of self-interest. With expectations that others would behave in a self-interested fashion, people would naturally take those anticipated behaviors into account in planning their own behavioral strategies. As Miller (1999) noted, people could come to believe that they should behave in a self-interested fashion to avoid appearing foolish, gullible, or naive. Even simple language or labeling differences can cue such behavioral expectations. Liberman, Samuels, and Ross (2004) used the same prisoner’s dilemma payoff matrix in a set of experiments but in one instance called the game the Wall Street Game and in another, the Community Game. Mutual cooperation was the rule and defection the exception when the game was labeled as “Community,” while the opposite was true when the game was labeled “Wall Street.”

These four mechanisms—social influence and contagion, groups that don’t think about or value human assets holding substantial power in the company, measurement systems, and language and assumptions about human behavior—all help account for why high-commitment management practices may not be

implemented regardless of their efficiency properties. And they represent just a partial set of the theories from organizational behavior that might account for why companies persist in not doing things that would enhance their performance.

## **Conclusion**

Several conclusions can be drawn from this overview of organization theory perspectives on human resource management. First, just as economics has, at least to some extent, come to accept the findings of the literature on individual cognitive bias and its implications for human judgment and decision making (Kahneman and Tversky, 1979), it would be useful for economics to explore the extent to which more macro-level theories of organizational bias and irrationality can enrich our understanding of company behavior, including behavior with respect to the implementation of various human resource practices. Such a perspective would almost seem to be required to account for the facts that 1) employee attitudes and related behaviors are generally poor, 2) employees and how they are managed are important sources of company success and competitive advantage, 3) and methods for achieving a culture of high-performance are known, but apparently not implemented. Although one could dismiss the results of any single survey or study as possibly flawed or not representative, the overwhelming preponderance of evidence makes such a position virtually untenable.

Second, organization theory offers some views of both human motivation and organizations as social institutions that can provide not only assumptions from which to build theory but also perspectives to test empirically. Being open to both examining and accepting various alternative conceptions of individuals and organizations might be as productive in the domain of understanding human resource management as it has been for enriching our conceptualization and understanding of human judgment and choice.

Finally, one of the lessons of organizational behavior and the social psychological idea of the self-fulfilling prophecy (Merton, 1948) is that theories matter (Frank, 1988), in that what we believe about human behavior helps to create expectations, norms, and institutional arrangements that make those beliefs come true. This process is certainly true in the domain of human resource management. If companies rely primarily on financial incentives, people will become conditioned to expect such incentives for desired behavior and will come to see incentives as more important. If companies treat employees as if they can not be trusted, those employees will come to see themselves as untrustworthy and behave accordingly. This is true, if only for the reason that when cheating is expected, there will be more instances of entrapment (Lingle, Brock, and Cialdini, 1977).

Because theories apparently matter and because there are more perspectives on human behavior than are currently accommodated in traditional personnel



economics, it would seem that there are many opportunities for building more complex and multifaceted perspectives on human resource management. In addition, because theories do matter, it is important for both public policy and company performance to undertake this task.

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